

1 Unless stated to the contrary, all the statistics analysed in this note have been sourced from Statistics South Africa's *Quarterly Labour Force Survey*, available at <http://www.statssa.gov.za/publications/P0211/P02113rdQuarter2019.pdf>

2 The views expressed in this note are those of the authors and do not necessarily reflect those of the SARB.

Note on the recent sharp increase in the unemployment rate¹

By A Bosch and J C Venter²

Introduction

South Africa's official unemployment rate increased notably to 29.0% in the second quarter of 2019 and further to 29.1% in the third quarter. These all-time highs since the inception of the *Quarterly Labour Force Survey (QLFS)* by Statistics South Africa (Stats SA) in 2008 attracted attention due to their magnitude and also because significant increases historically have tended to be a first-quarter phenomenon, such as in 2009, 2015 and 2016. First-quarter increases in the unemployment rate are not unusual, as many school leavers enter the labour market (i.e. start looking for employment for the first time) at the beginning of the year, unlike in the second quarter when less seasonality is present.

In the case of the three previous first-quarter examples and in the second quarter of 2019, the notable increase in the number of unemployed people was accompanied by a decrease in the not economically active population. However, the composition of the recent second-quarter decrease in the not economically active population differs as the decreases in the previous periods resulted mostly from a decline in the student category while the decrease in the second quarter of 2019 was mostly due to a decline in the number of discouraged work seekers. In the third quarter of 2019, the number of unemployed persons increased further while the number of discouraged work seekers increased only slightly, leading to a further marginal increase in the unemployment rate.

This analysis will show that this anomaly could be ascribed to various developments. In the case of possible data and sampling methodology issues, an analysis of the *QLFS* micro-data shows that the characteristics of the sampled survey participants remained stable and, together with Stats SA's rotating panel methodology, ruled out obvious sampling or methodological changes.

A plausible explanation for the sudden and sharp increase in the unemployment rate could also be the national elections that took place in the second quarter of 2019 (8 May). Temporary jobs at the Electoral Commission of South Africa (IEC), together with election campaign-related promises of job creation, could have created optimism which enticed discouraged work seekers to actively search for work. Should this have been the case, the unemployment rate might recede somewhat during the remainder of 2019 when the unemployed again become discouraged work seekers.

However, it could also be that the substantial increase in the unemployment rate, as surveyed in the second quarter of 2019, reflects the continuation of an upward trajectory over the past few years consistent with weak economic growth, subdued fixed investment and employment creation, as well as the prolonged downward phase of the business cycle.

The accuracy of the official unemployment rate is corroborated by the absence of material differences when it is compared with a counterfactual unemployment rate that hypothetically assumed no increases in the new entrants, re-entrants or 'other' unemployed categories while retaining the observed increases in the job losers and job leavers categories in the second and third quarters of 2019.

Labour market movements

Labour market movements between the economically active and the not economically active populations are illustrated in the accompanying diagram. The economically active population consists of the employed and unemployed, while the not economically active population consists of those who were neither employed nor unemployed in the reference week (Stats SA, 2019). The not economically active population includes students, homemakers, those with an



illness or disability, those too old or too young to work, discouraged work seekers and 'other'. The unemployed category consists of those who have lost their job (job losers), job leavers, new entrants, re-entrants and 'other' (Stats SA, 2019). The official definition of 'unemployed persons' is:

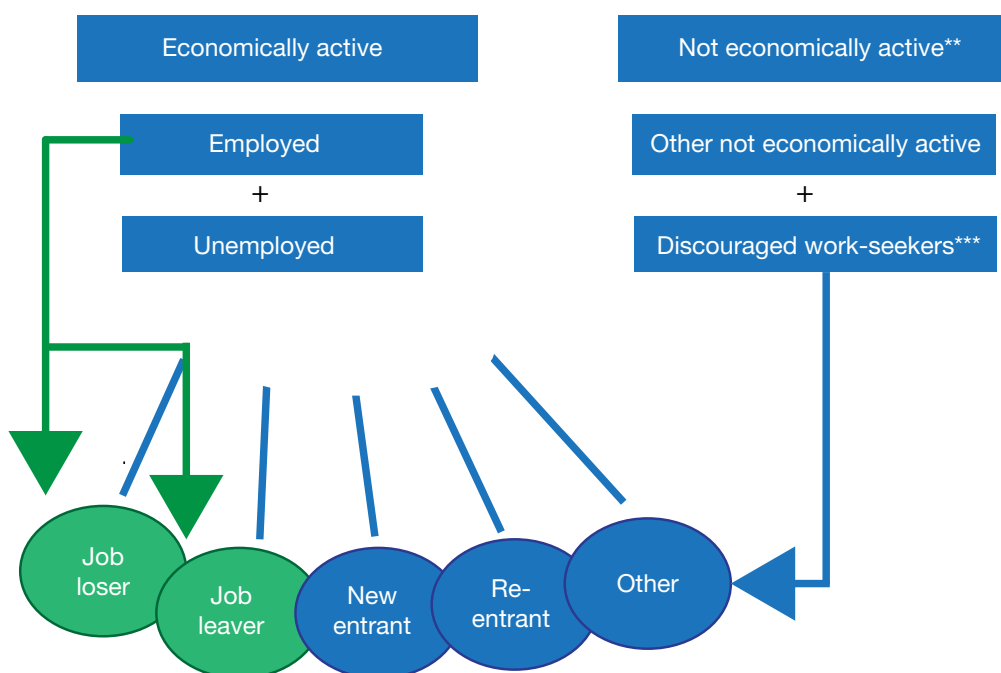
... those (aged 15–64 years) who: a) Were not employed in the reference week; and b) Actively looked for work or tried to start a business in the four weeks preceding the survey interview; and c) Were available for work, i.e. would have been able to start work or a business in the reference week; or d) Had not actively looked for work in the past four weeks, but had a job or business to start at a definite date in the future and were available. (Stats SA, 2019)

The unemployment rate increases when people either lose or leave their jobs, or when people move from being discouraged or not economically active to being unemployed when starting to actively search for work.

This note attempts to explain the loss of jobs and the sudden increase in discouraged people searching for work in the second quarter of 2019, with the situation only partially reversing in the third quarter.

Discouraged work seekers, or other not economically active persons, become employed when they find a job or unemployed (according to the official definition) if they actively start searching for work in the four weeks preceding the survey interview, and are categorised as new entrants, re-entrants or 'other'.

Figure 1 Economically active versus not economically active population*



* The arrows illustrate the directional change in the second quarter of 2019, but the flows can also occur in the opposite direction.

** These are persons aged 15–64 years who are neither employed nor unemployed in the reference week.

*** A discouraged work seeker is a person who was not employed during the reference period, wanted to work, was available to work/start a business but did not take active steps to find work during the last four weeks, provided that the main reason given for not seeking work was any of the following: no jobs available in the area; unable to find work requiring his/her skills; lost hope of finding any kind of work.

Source: Stats SA



Data and sampling methodology issues

The *QLFS* micro-data analysis showed that the characteristics of the survey participants had remained in the same range (both weighted and unweighted) over time, without any sudden changes in the characteristics of those sampled. Furthermore, Stats SA uses a rotating panel where, for each successive quarter of the *QLFS*, a quarter of the sampled dwellings is rotated out of the sample (Stats SA, 2019). Therefore, for example, between the second and third quarter of 2019, about 75% of the people interviewed remained unchanged. This suggests the likely absence of data or sampling methodology changes.

Unpacking the increase in the number of unemployed people

The official unemployment rate increased from 27.6% in the first quarter of 2019 to 29.0% in the second quarter, and further to 29.1% in the third quarter (not seasonally adjusted).³ This reflected an increase in the total number of unemployed people in South Africa of 455 000 between the first and the second quarter of 2019 to 6.6 million and a further 78 000 in the third quarter. Simultaneously, the number of discouraged work seekers declined markedly by 248 000 from the first to the second quarter of 2019 while increasing by only 44 000 from the second to the third quarter.

From the first to the second quarter of 2019, the unemployed category 'other' increased the most (181 000),⁴ followed by new entrants (138 000) and job losers (105 000), as shown in Figure 2. From the second to the third quarter of 2019, the unemployed category 'other' again showed the largest increase (72 000), followed by job losers (57 000), while new entrants decreased by 63 000. The drivers of these unemployment categories and the underlying dynamics are very different.

Job losers are people who were previously employed (at any time during the past five years) and are captured in this survey round as having lost their job at some point during this period. This is not an ideal measure as it does not give a clear indication of exactly when these jobs were lost. *New entrants* are people who are entering the unemployed category for the first time, while 'other' comprises people who last worked more than five years ago. The total number of unemployed people according to unemployment status in the first three quarters of 2018 and 2019 is shown in Figure 2.

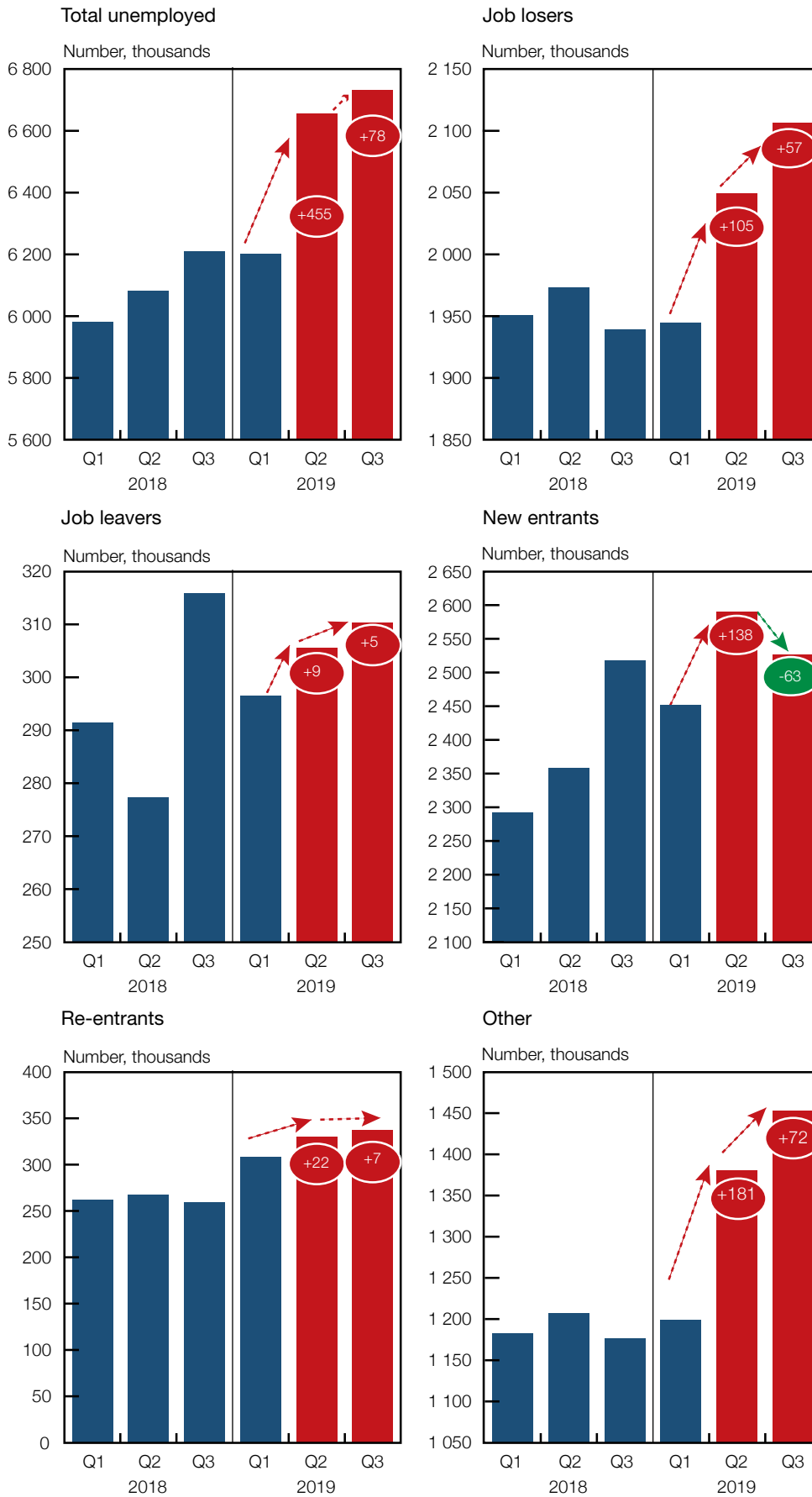
In the third quarter of 2019, 67.0% of new entrants into the labour market that were classified as unemployed had not worked before because they were students or scholars. Re-entrants into the unemployment category were mostly those who had not worked because they were managing a home or going to school. Those in the 'other' category were either employed at some point (more than five years ago) or managing a home.

The focus now shifts to an analysis of *job losers*, *new entrants* and 'other', who together were the main drivers of the increase in the number of unemployed people in the second and third quarter of 2019, with the exception of the new entrants category which declined marginally in the third quarter of 2019. The categories are profiled in terms of age group, province, education level, when last they were employed, in which industry and occupation they were last employed, as well as the duration of their unemployment.

3 On a seasonally adjusted basis, the unemployment rate rose from 27.4% to 28.8% and further to 28.9% over the same period.

4 This was the largest increase recorded in the 'other' category since 2008.

Figure 2 The unemployed



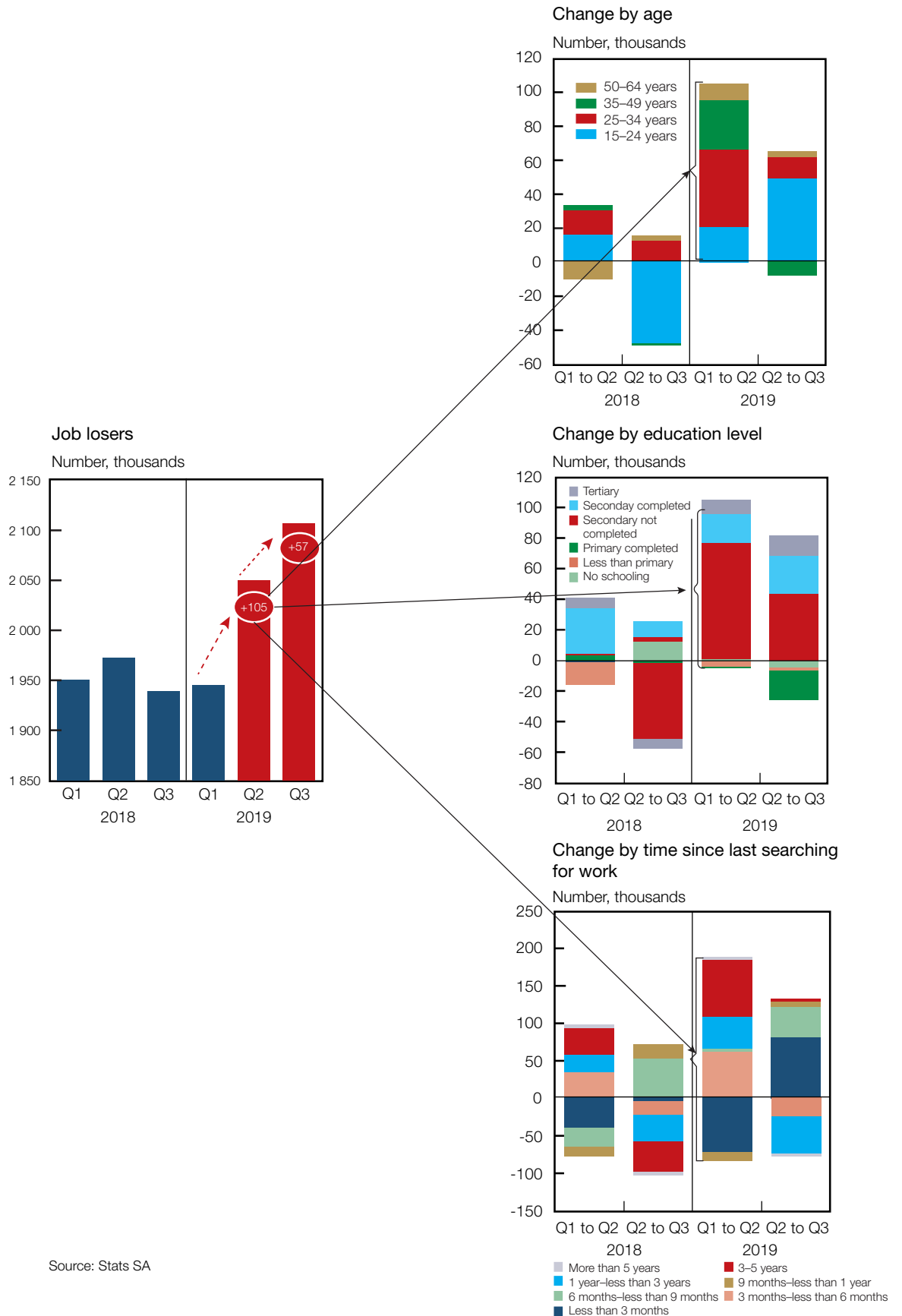
Source: Stats SA



Job losers

The profile of job losers during the first three quarters of 2018 and 2019 is shown in Figure 3.

Figure 3 Job losers



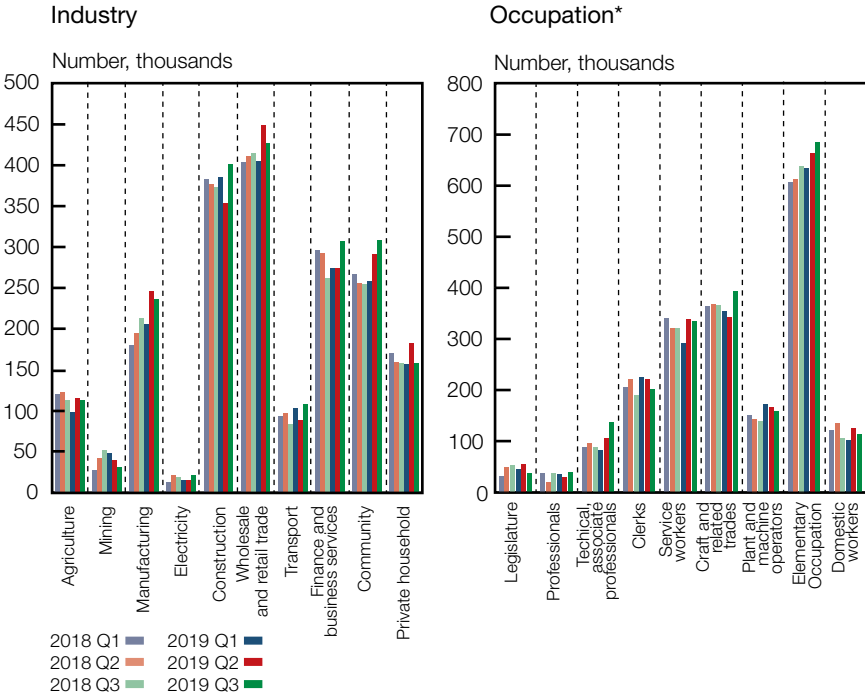
Source: Stats SA



The number of job losers increased by 105 000 between the first and the second quarter of 2019, and by a further 57 000 between the second and the third quarter. In terms of age group, the increases in both quarters were driven by the age group of 15–34 years. This suggests that more young people lost their jobs in the second and third quarter of 2019, which added to the already high youth unemployment rate in both quarters. Between the first and second quarter, there was also a sizable increase in job losers in the age group of 35–64 years (although the 35–49 years category decreased marginally again between the second and the third quarter). Across provinces, the number of job losers increased the most in KwaZulu-Natal in the second quarter of 2019 (66 000), followed by Gauteng (26 700) and the Western Cape (12 000). Further job losses were recorded in KwaZulu-Natal (30 800) and the Western Cape (19 900) in the third quarter of 2019, while the number of job losers also increased in the Eastern Cape (36 000) but decreased in Gauteng (-41 800). In terms of education level, the increase in job losers in both the second and the third quarter of 2019 was driven by job losers with less than a secondary education, a secondary education completed and, to a lesser extent, a tertiary education.

In terms of time since last searching for work, more people who were interviewed in the second quarter of 2019 relative to the first quarter reported that they last searched for work three to nine months ago (increasing by 69 500), as well as those last searching between one and three years ago (increasing by 41 900). In addition, a sharp increase of 91 500 occurred among people who had lost their jobs and last searched for work between three and five years ago (long-term unemployment). This category remained at this high level in the third quarter of 2019, increasing marginally further to 284 000 from 282 900 in the second quarter. These are usually the people less likely to find employment as they have been out of the labour market for an extended period of time (Anand, Kothari and Kumar, 2016; Nonyana and Njuho, 2018). The large number of people who have not worked for between one and five years, and have now suddenly been enticed to start searching for a job, could be related to either the May 2019 elections or the impact of the prolonged period of weak economic activity on household income.

Figure 4 Job losers by previous industry and occupation



* The category Skilled agricultural and fishery worker, was excluded due to too small values.
Source: Stats SA

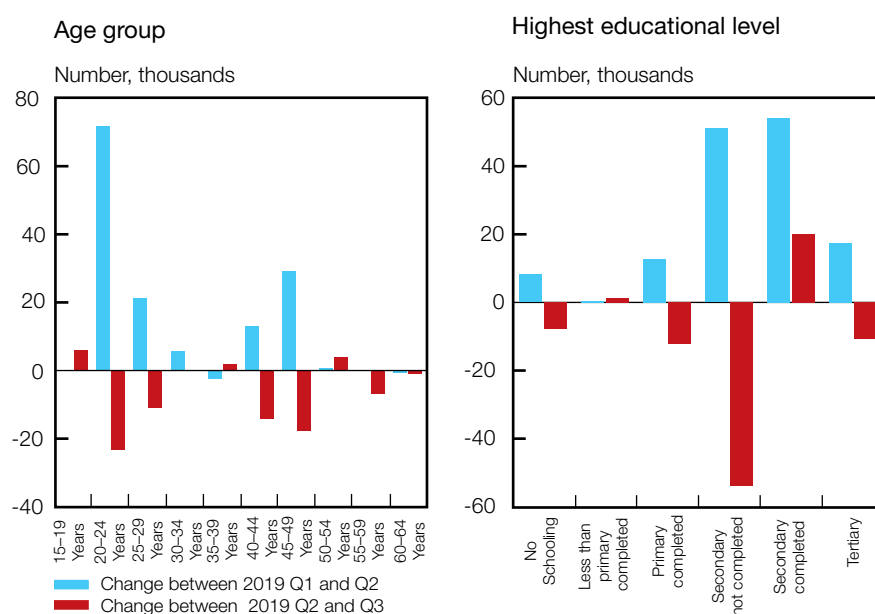
Among the job losers, most reported that their previous industry of employment was wholesale and retail trade, followed by construction. In addition, increased job losses were recorded in manufacturing (especially in the second quarter of 2019), finance and business services (especially in the third quarter of 2019), and the community and personal services industry (in both the second and third quarter of 2019).

In terms of previous occupations, most job losses in 2019 were recorded in the elementary occupation category, which mostly comprises semi-skilled and unskilled workers (see Festus et al. (2015) for a breakdown of skills by occupation level), followed by craft and related trade workers and services workers. Increased job losses also occurred in the category for technical and associate professionals in the second and third quarter of 2019.

New entrants

New entrants usually comprise those that were scholars or students before entering the labour force and, more specifically, the unemployed. There was a sharp increase of new entrants who were scholars or students into the unemployed category between the first and the second quarter of 2019, although it was similar in magnitude to 2018. However, unlike in 2018, there was also a sharp increase in those who reported that they were managing a home before starting to look for work.

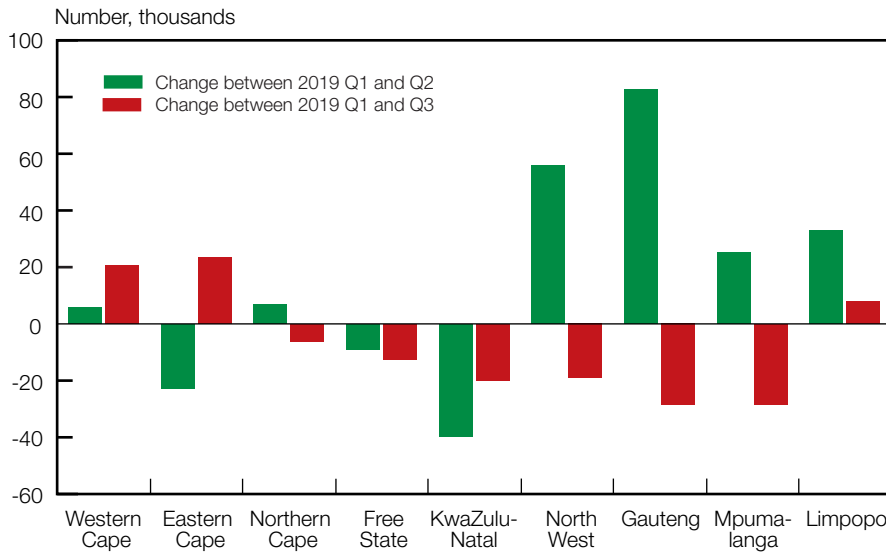
Figure 5 Changes in new entrants by age group and education level



By age group, the increase in the number of new entrants in the second quarter of 2019 was largely driven by those aged 20–34 years old (youth) and, somewhat surprisingly, also by those that are 40–49 years old. The number of new entrants in these age groups fell back slightly in the third quarter, suggesting either that these people found jobs or that their optimism waned in the third quarter, resulting in them becoming discouraged or not economically active again.

According to educational attainment, the increase in the number of new entrants into unemployment was mostly driven by increases in the groups who had less than a secondary education and those who had completed a secondary education, followed by those with a tertiary education. These groups all receded again in the third quarter.

Figure 6 Change in new entrants by province



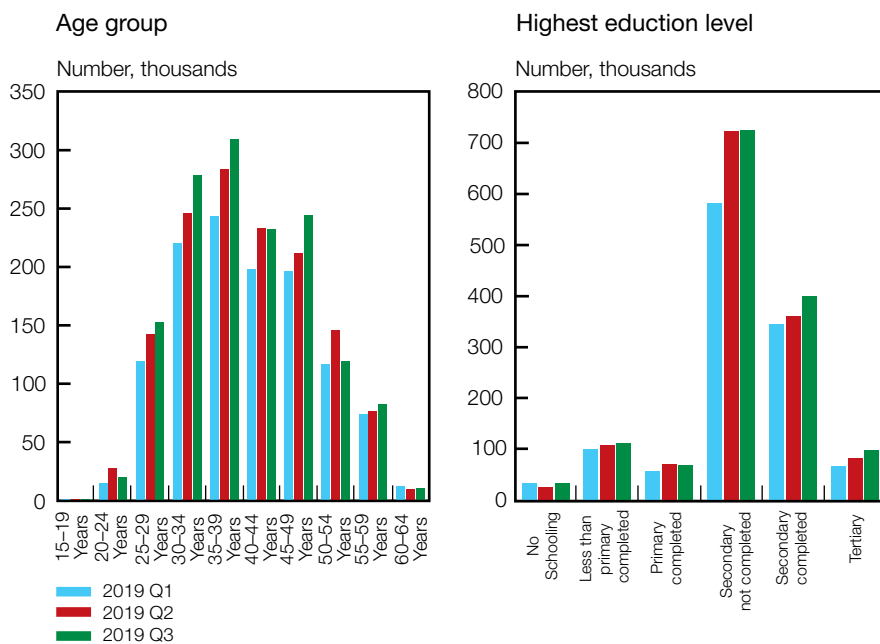
Source: Stats SA

The increase in the number of new entrants in the second quarter of 2019 was driven by Gauteng (82 600), the North West province (55 900), Limpopo (32 900) and Mpumalanga (25 200). This suggests that new entrants thought they could find work in these provinces. The subsequent decrease in the number of new entrants in these provinces in the third quarter suggests either that they found work (which is unlikely in the current economic environment) or that they realised that their optimism around the time of the election was misplaced and they became discouraged or not economically active again.

The 'other' unemployment category

The category 'other' under unemployment only consists of people who have been unemployed for five years or longer. In the second quarter of 2019, large increases occurred in almost all the age groups, especially for those 35–44 years old. In the third quarter of 2019, there was also a large increase in the number of unemployed in this category for those 45–49 years old.

Figure 7 'Other' unemployment by age group and education level

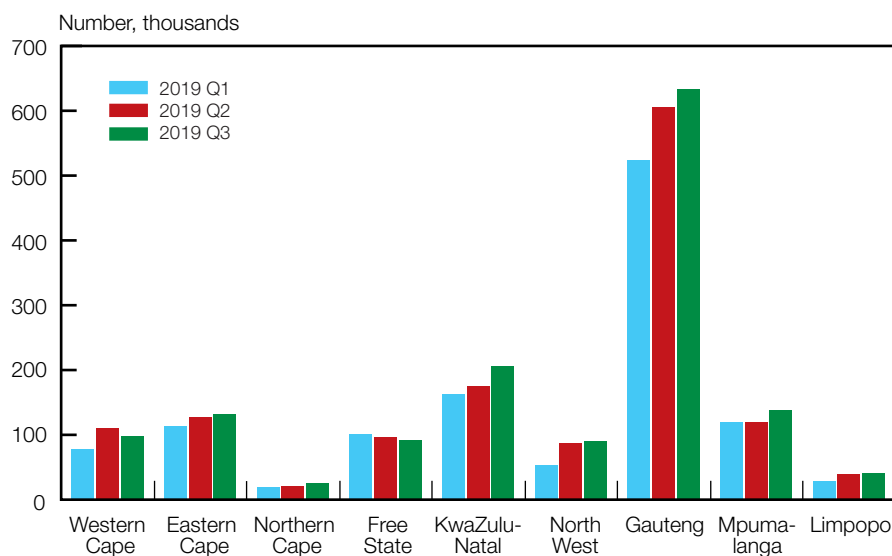


Source: Stats SA

The increase in the 'other' category in the second quarter of 2019 occurred mostly among those with less than a secondary education, a secondary education completed and, to some extent, a tertiary education. In the third quarter, the number of those who were unemployed in these education categories either remained at these high levels or increased further.

The increase in the number of 'other' unemployed was fairly widespread across the different provinces but most pronounced in Gauteng.

Figure 8 'Other' unemployment by province

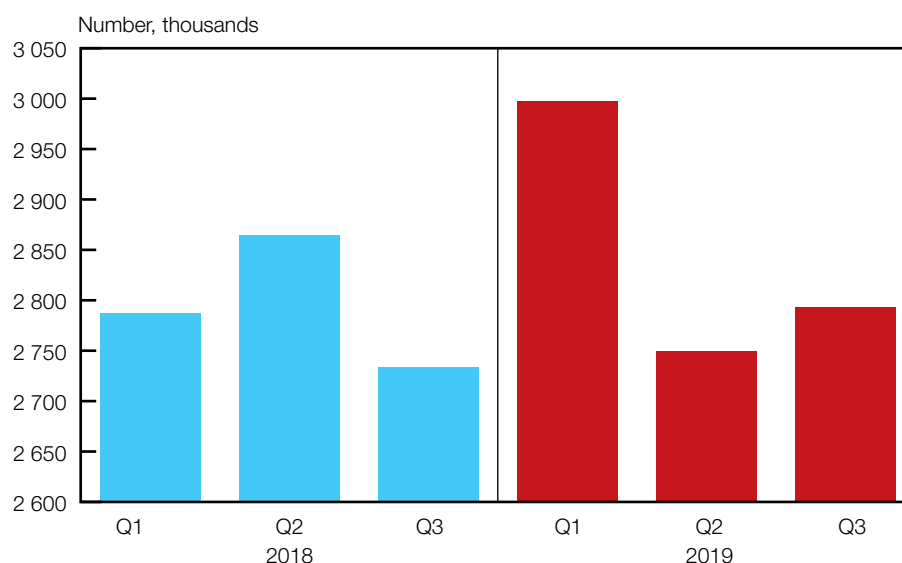


Source: Stats SA

Discouraged work seekers

The number of discouraged work seekers declined sharply by 248 000 from the first to the second quarter of 2019 – the largest quarterly decrease since the inception of the QLFS in 2008. A large part of this drop in discouraged work seekers can possibly be ascribed to optimism linked to the May 2019 elections. However, in the aftermath of the elections, the number of discouraged work seekers increased by only 44 000 in the third quarter of 2019.

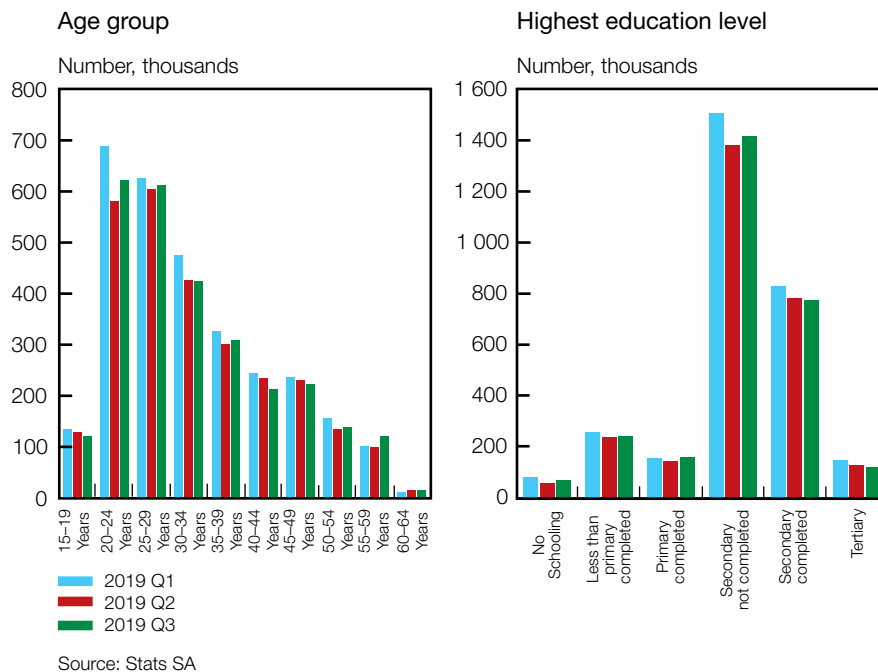
Figure 9 Number of discouraged work seekers



Source: Stats SA

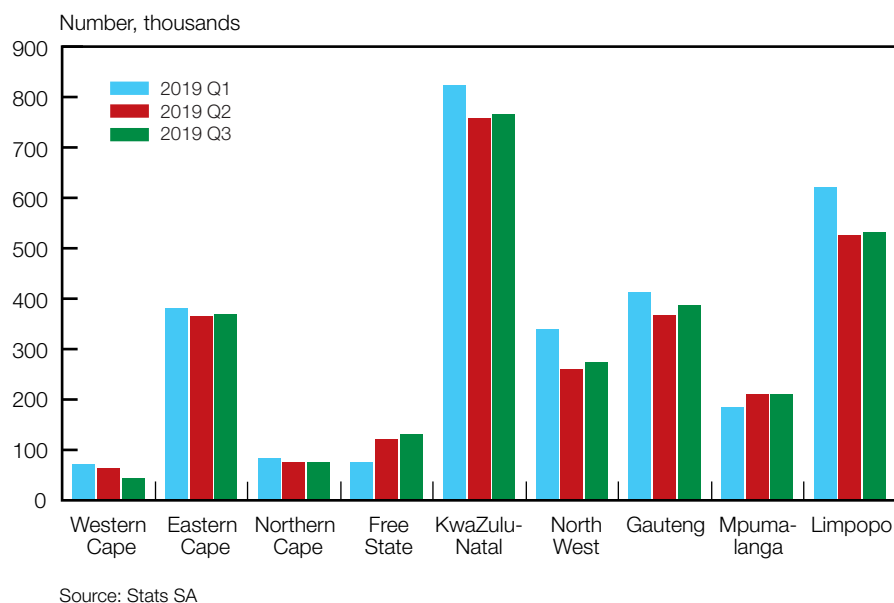
The decrease in the number of discouraged work seekers in the second quarter of 2019 occurred across most of the age groups, but primarily among the 20–24-year-olds who thought it was an opportune time to start searching for work. In the third quarter, the number of discouraged work seekers either remained unchanged or increased in most of the age groups (except for those aged 15–19 years and 40–49 years).

Figure 10 Discouraged work seekers by age group and education level



The decrease in the number of discouraged work seekers in the second quarter of 2019 was most pronounced for those with an uncompleted secondary education, followed by a marginal increase in the third quarter.

Figure 11 Discouraged work seekers by province



The second-quarter decline in the number of discouraged work seekers was predominantly in Limpopo, the North West, KwaZulu-Natal and Gauteng, followed by a marginal increase in the same provinces in the third quarter of 2019.

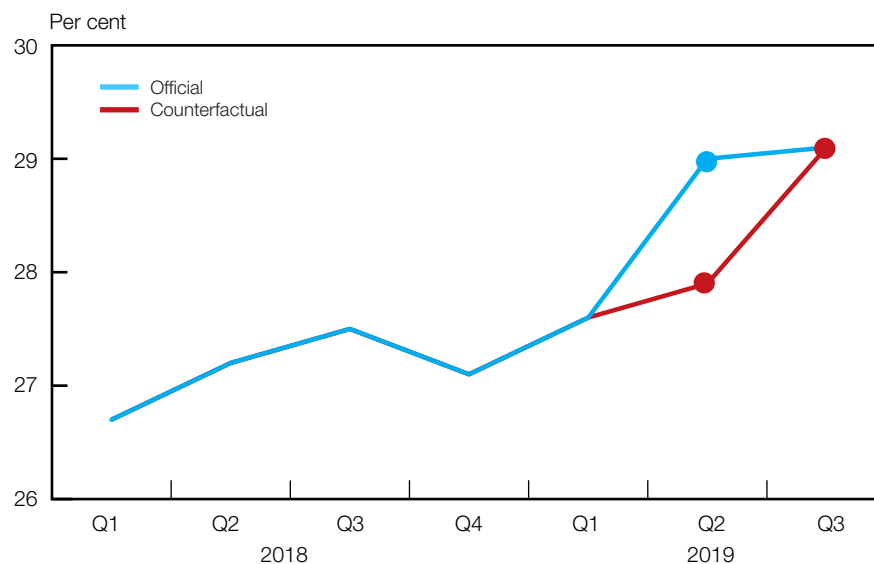
In the second quarter of 2019, there was also a decrease in the number of people who had not searched for work previously because they had believed that there were no jobs available in their area. This category subsequently increased again somewhat in the third quarter. This suggests that there was an increase in the number of people actively searching for work in the second quarter of 2019 (who joined the unemployed from the discouraged) who had not searched for a job previously because they had been of the opinion that there were no jobs available in their area.

Counterfactual unemployment rate

A hypothetical unemployment rate was calculated based on the official definition of unemployment to assess whether the second quarter's official unemployment rate was a true reflection of unemployment. The counterfactual unemployment rate assumed that the new entrants, re-entrants and 'other' categories of unemployment remained unchanged from the first to the second quarter of 2019, while the increase in the number of both job losers and job leavers in the second and third quarters of 2019 was retained.

The counterfactual unemployment rate in the second quarter of 2019 would have been 27.9% (compared with the official rate of 29.0%) – at the time still the highest rate since the inception of the QLFS in 2008. The same methodology for the third quarter of 2019 rendered a counterfactual unemployment rate that was the same as the official unemployment rate of 29.1%, as there were further job losses and job leavers, and slightly more people who had become discouraged again. The accuracy of the official unemployment rate is corroborated by the absence of material differences when it is compared with the counterfactual unemployment rate.

Figure 12 Official and counterfactual unemployment rate



Sources: Stats SA and SARB

Conclusion

Recently, South Africa's official unemployment rate increased significantly from 27.6% in the first quarter of 2019 to an all-time high of 29.0% in the second quarter, and further to 29.1% in the third quarter. This was mostly driven by increases in the number of job losers, new entrants and the 'other' category of unemployed people as well as a marked decrease in the number of discouraged work seekers as people started to actively search for work, which increased the number of unemployed.

Considering the soundness of the methodology underlying the *QLFS* and the related micro-data ruling out obvious sampling or methodological changes, and with the counterfactual unemployment rate also confirming the accuracy of the official unemployment rate in the second and third quarter of 2019, other explanations were sought. A partial plausible explanation for the sudden increase in the unemployment rate could be related to people searching for work given the possibility of obtaining temporary IEC jobs, together with election-related expectations of job creation.

Nevertheless, the high level of unemployment in South Africa requires urgent economic and labour market policy reforms.

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