

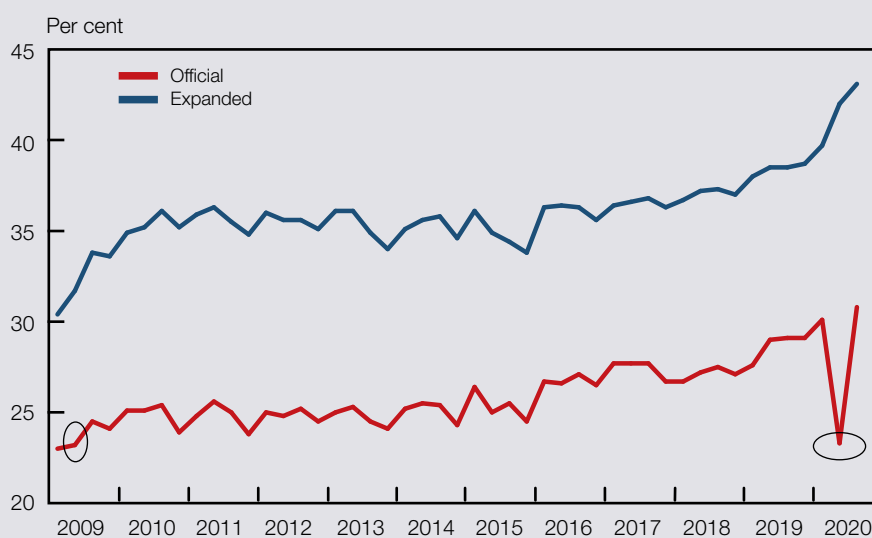
Box 2 Why did South Africa's unemployment rate decline sharply in the second quarter of 2020?

South Africa's official unemployment rate declined substantially to 23.3% in the second quarter of 2020 from a record high of 30.1% in the first quarter. The surprising second-quarter outcome represented the lowest unemployment rate since the second quarter of 2009 and was counter-intuitive, given the marked contraction in real economic activity on account of the coronavirus disease 2019 (COVID-19) outbreak and the subsequent decrease of 2.2 million employed persons. The official unemployment rate then increased sharply to 30.8% in the third quarter of 2020, above its pre-COVID level, as lockdown restrictions eased.

The sharp fall in the official unemployment rate in the second quarter was a temporary anomaly, reflective of the national lockdown that impeded people's ability to actively search for work, together with a number of classification and measurement challenges encountered by Statistics South Africa (Stats SA) when conducting the second-quarter 2020 Quarterly Labour Force Survey¹ (QLFS). International comparisons reveal similar movements in the official unemployment rate of most countries to that of South Africa during the second quarter of 2020, although the timing of the full impact differed.

South Africa's expanded unemployment rate, which includes discouraged work seekers and those who did not actively search for work, on the contrary increased from 39.7% in the first quarter of 2020 to 42.0% in the second quarter, indicating more accurately the level of unemployment at the time. The expanded unemployment rate then increased even further to a new high of 43.1% in the third quarter of 2020.

Unemployment rate



Source: Stats SA

Stats SA's methodology for the calculation of the official unemployment rate adheres to the International Labour Organization (ILO) guidelines² and measures the portion of the labour force³ that is unemployed. The unemployed portion is measured as all persons aged 15 to 64 years who were not employed in the reference week of the survey; who actively looked for work or tried to start a business in the four weeks preceding the survey interview; who were available to begin working or to start a business in the reference week; or who 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 for which they were available.⁴ The official unemployment rate is calculated as:

$$\text{Official unemployment rate} = \frac{\text{Total unemployment}}{\text{Total labour force}} \times 100$$

1 Stats SA noted that the response rate of the QLFS was 57.1% for the second quarter of 2020 compared with 87.7% for the first quarter. Furthermore, given the change in the survey mode of collection (telephonic instead of face to face) and with estimates not based on a full sample, a comparison with previous quarters should be made with caution. See page 20 in Stats SA's statistical release PO211 'Quarterly Labour Force Survey'. <http://www.statssa.gov.za/publications/PO211/PO2113rdQuarter2020.pdf>

2 See <https://ilostat.ilo.org/resources/concepts-and-definitions/#standards>

3 The labour force equals the total number of employed and unemployed persons.

4 See page 24 in Stats SA's statistical release PO211 'Quarterly Labour Force Survey Quarter 2: 2020'. <http://www.statssa.gov.za/publications/PO211/PO2112ndQuarter2020.pdf>





Quarterly Labour Force Survey statistics

	Number (thousands)				Quarter-to-quarter change			
					Number		Per cent	
	Sep 2019	Mar 2020	Jun 2020	Sep 2020	Jun 2020	Sep 2020	Jun 2020	Sep 2020
a. Total employed	16 375	16 383	14 148	14 691	-2 253	543	-13.6	3.8
b. Total unemployed (official definition).....	6 734	7 070	4 295	6 533	-2 775	2 238	-39.3	52.1
c. Total labour force (a+b).....	23 109	23 452	18 433	21 224	-5 019	2 791	-21.4	15.1
d. Total not economically active	15 474	15 422	20 578	17 944	5 156	-2 634	33.4	-12.8
e. Population 15–64 years (c+d)	38 582	38 874	39 021	39 167	147	146	0.4	0.4
f. Official unemployment rate ¹ (b/c)*100	29.1%	30.1%	23.3%	30.8%	–	–	–	–
g. Discouraged	2 855	2 918	2 471	2 696	-447	225	-15.3	9.1
h. Other reasons for not searching for work.....	820	929	6 041	2 995	5 112	-3 046	550.3	-50.4
i. Expanded unemployment rate ²	38.5%	39.7%	42.0%	43.1%	–	–	–	–

1 Stats SA follows the ILO definition of calculating the official unemployment rate, which is internationally comparable.

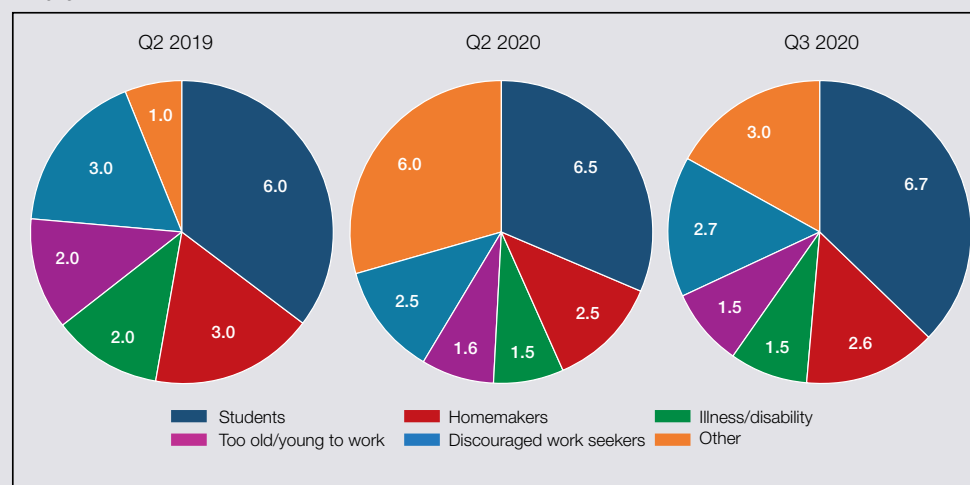
2 The expanded unemployment rate is calculated by Stats SA's own in-house formula and is not internationally comparable.

Source: Stats SA

From the first to the second quarter of 2020, both the number of employed and unemployed persons decreased markedly. The decline in the number of employed persons largely reflected job losses as a result of the sharp contraction in real economic activity, while the decline in the number of unemployed persons reflected the inability to actively search for employment due to the lockdown restrictions. With these people prevented from being active in the labour market, they were classified as not economically active due to 'other' reasons. Stats SA noted that almost all of these people indicated 'national lockdown' as their main reason for inactivity. Apart from the 'other' category, which was the major driver of inactivity in the second quarter of 2020, not economically active persons also include students, homemakers, ill or disabled people, those who are either too old or too young to work, as well as discouraged work seekers. The marked increase in the 'other' category in the second quarter of 2020 was partially reversed in the third quarter, as people were again able to search for jobs. This resulted in a sharp decline in the total not economically active category in the third quarter, with the majority of those people moving to the unemployed category.

Characteristics of the not economically active population

Millions



Source: Stats SA

Although lowering the official unemployment rate in the second quarter of 2020, the marked increase in the number of not economically active persons contributed to the increase in the expanded unemployment rate. Expanded unemployment⁵ is measured as all persons aged 15 to 64 years who were not employed in the reference week of the survey; and who were available to work but did not look for work either because they were discouraged from looking for work, or did not look for work for reasons other⁶ than discouragement.

$$\text{Expanded unemployment rate} = \frac{\text{Total unemployed} + \text{discouraged work seekers} + \text{other reasons for not searching}}{(\text{Total labour force} + \text{discouraged work seekers} + \text{other reasons for not searching})} \times 100$$

The phenomenon of a large increase in the not economically active population and a concomitant decrease in unemployment was not unique to South Africa, and was also observed globally, with the exception of Canada and the United States (US). The ILO⁷ noted that unemployment decreased as the lockdowns led to both a substantial increase in job losses and inactivity in searching for jobs. Similar to Stats SA, the ILO also cautioned that changes in unemployment in the second quarter of 2020 could be misleading. The ILO indicated that earlier crises show that reinstating or activating inactive people into employment is even more difficult than re-employing the unemployed, which suggests that the labour market recovery could be very slow and protracted.

The different outcome in the US and Canada is due to persons on temporary lay-off being considered as not attached to their job, and therefore classified as unemployed.⁸ According to the Organisation for Economic Co-operation and Development⁹ (OECD), people are classified as unemployed if they fulfil the criteria of being available and actively searching for a job, which is in line with the ILO definition. However, the OECD emphasised that, following COVID-19, many countries have somewhat adjusted their calculation of the unemployment rate.

The US Bureau of Labor Statistics¹⁰ (BLS) noted that in March 2020, people who were laid off due to pandemic-related closures were specifically classified as 'unemployed on temporary lay-off' without further testing for their return to their job. Moreover, people who were absent from work during the entire reference week were not included in this category but were misclassified¹¹ as 'employed but not at work'. In Canada, persons on temporary lay-off were also classified as unemployed if they had a date of return or provided an indication that they would be re-called by their employers. By contrast, Eurostat¹² indicated that in Europe, those temporarily laid off were still classified as employed but not at work if they had already worked at their current job before being laid off and were expected to return after the period of absence.

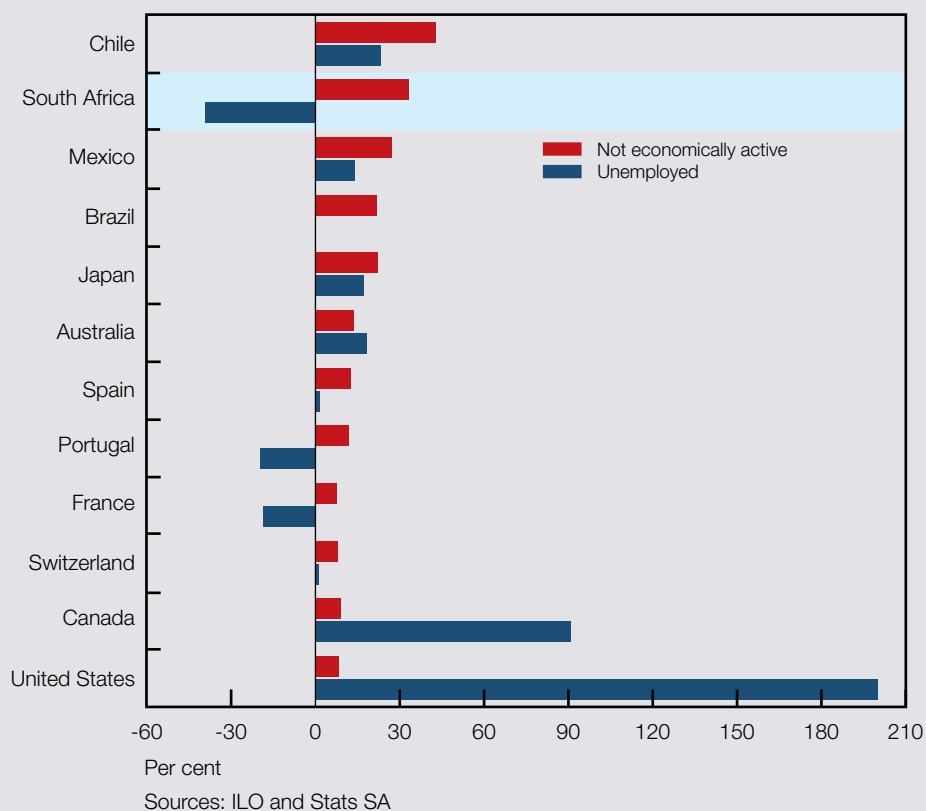
In the second quarter of 2020, the number of unemployed persons decreased and the number of not economically active persons increased substantially in many countries, although the timing of the full impact differed, based on similar methodological treatments of both unemployment and inactivity. This resulted in a decline in the official unemployment rate of most countries, with the US and Canada the notable exceptions.

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- 5 See page 12 in Stats SA's statistical release PO211 'Quarterly Labour Force Survey Quarter 3: 2020'. <http://www.statssa.gov.za/publications/P0211/P02113rdQuarter2020.pdf>
 - 6 The number of people indicating other reasons for not searching for employment is derived by Stats SA, and is calculated as expanded unemployment minus official unemployment minus discouraged work seekers.
 - 7 International Labour Organization, 'ILO Monitor: COVID-19 and the world of work', sixth edition, 23 September 2020. https://www.ilo.org/global/topics/coronavirus/impacts-and-responses/WCMS_755910/lang--en/index.htm
 - 8 In the US, those temporarily laid off are classified as unemployed, unless they have an expected future date to return to work or otherwise fulfil the active job-search criteria.
 - 9 OECD News Release, 'Unemployment rates', July 2020. <https://www.oecd.org/sdd/labour-stats/publicationsdocuments/newsrelease/>
 - 10 US Bureau of Labor Statistics, 'Frequently asked questions: The impact of the coronavirus (COVID-19) pandemic on the employment situation for March 2020', 3 April 2020. <https://www.bls.gov/cps/employment-situation-covid19-faq-march-2020.pdf>
 - 11 The BLS added that previous misclassifications in the US data occurred with federal workers in both the 2013 and 2019 partial federal government shutdowns.
 - 12 European Commission, Eurostat, 'EU Labour Force Survey Explanatory Notes (to be applied from 2016Q1 onwards)', March 2016. <https://ec.europa.eu/eurostat/documents/1978984/6037342/EU-LFS-explanatory-notes-from-2016-onwards.pdf>





Quarterly change in the unemployed and not economically active population in the second quarter of 2020 in selected countries



The expanded unemployment rate is probably a more realistic indicator of labour market conditions given the inactivity during the national lockdown. In South Africa, as well as in other countries, the official unemployment rate could rise sharply as survey collection methods are restored and as people are allowed to actively search for jobs following the lifting of the lockdown restrictions. This was already evident in the third quarter of 2020 with the substantial movement from inactivity to unemployment.