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SPOTLIGHT

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The **HR Think Tank** works to improve South Africa's talent competitiveness through targeted research and interventions in key areas. It aims to ultimately shift the country's trajectory by pursuing the conditions for people to reach their potential in the world of work. Members help to shape and influence policy and the broader challenges facing HR and labour.

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Possible employment trends in 2019

Introduction

2018 was an eventful year for South Africa. There have been a number of positive developments since Cyril Ramaphosa took over as president, including the progress of the commissions of inquiry instated on state capture and SARS, as well as some key measures to spur economic growth, such as the drive to secure $100 billion in new investments. At the same time, South African consumers have been hit hard by a VAT increase and successive fuel price increases. Markets have also been skittish around the progress of the 'expropriation without compensation' agenda for land redistribution.

Both economic growth and job growth have been muted compared to what was targeted by Ramaphosa when he took office, and economists and experts differ on their assessments of what 2019 holds. This paper explores the main factors that will influence economic growth and job creation in 2019.

2018 in review: slower change than anticipated

In June StatsSA released GDP figures for the first quarter of 2018, revealing the economy had contracted by 2.2% from the last quarter of 2017, the largest quarter-on-quarter decline since 2009. The second quarter was similarly bleak, with GDP contracting a further 0.7%. (These figures have since been revised to 2.6% and 0.4% respectively.) Two or more consecutive months of negative growth signaled South Africa had entered a recession. Treasury now expects annual growth of 0.7% in 2018, and the Reserve Bank expects 0.6%, both predictions a far cry from the 3% GDP growth Ramaphosa had targeted for 2018.

In September President Ramaphosa launched an economic stimulus plan in response to poor economic performance, which plans to shift R50 billion from other areas to "support emerging farmers and boost economic activity in townships and rural areas". Other aspects of the plan include allocating spectrum to telecommunications operators to make data more affordable, revising the mining charter and lessening visa regulations to make it easier for skilled foreigners to come to South Africa.[1] The president also announced an infrastructure fund, to which R400 billion government funds already earmarked for infrastructure spending would be allocated alongside contributions government would seek from the private sector.

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But the market response was muted, largely due to doubts that Ramaphosa's government would actually be able to implement the plan given the fractures in the ruling ANC, and continued existence of an extensive patronage network that has succeeded in diverting a large proportion of funds from their intended purpose. Many doubt the current government's ability to implement the changes outlined by the stimulus package, given that some members of the cabinet seem set on undermining President Ramaphosa.

Nonetheless, it is encouraging that the ANC has embarked on a project to "self-correct". The Judicial Commission of Inquiry into Allegations of State Capture (the Zondo Commission) headed by Deputy Chief Justice Raymond Zondo got underway in August, and the revelations have already caused major waves in South African politics. The commission's work, though it will only be completed in March 2020, will no doubt go a long way in exposing the nature and extent of government corruption and also provide material with which to remove at least some of the most serious offenders from positions of power. The commission of inquiry into SARS has also revealed wrongdoing at the revenue service and led to the removal of Tom Moyane, who oversaw the dismantling of many of the agency's vital capabilities.

In addition, President Ramaphosa's investment drive has so far secured commitments of R690 billion in investments over the coming years, R290 billion of these at the investment summit held in October and a further R400 billion from companies in countries visited by Ramaphosa and his investment envoys.[2] Critics have pointed out that much of what was pledged by companies operating locally was already planned regardless of the investment summit. But the summit nonetheless provided a vehicle for Ramaphosa to send an important message to local and foreign business, namely that it was safe to invest in South Africa, that property rights were protected by law, and that he intended to stop the practice of treating business as the enemy and instead build trust between business and government.[3]

Eskom has indicated that the power outages are expected to continue well into 2019, which will result in significant losses for South African businesses.

The most obvious challenge to this narrative is the drive toward expropriation without compensation (EWC) as a means to land redistribution. The president has sought to allay fears by consistently claiming that expropriation would be carried out in such a manner as to cause no harm to the economy, the agricultural sector or the country's food production. However, commitments such as these mean little without the rule of law to back them up.

Furthermore, the manner in which the agenda for EWC has been pursued leads one to believe that objections are not being taken seriously. The Joint Constitutional Review Committee mandated to investigate public opinion on possible amendments to section 25 of the constitution flouted its duty to carry out adequate public consultations (the committee only reviewed 400 of 449,500 written submissions).[4] Nonetheless, both houses of parliament recently voted to support the motion to amend the constitution to allow expropriation without compensation based on the committee's recommendation. This paves the way for a constitutional amendment bill to be tabled in 2019.

A further concern is the return of 'load-shedding' as Eskom struggles to meet demand due to poor maintenance, delays in bringing new capacity online (Kusile and Medupi are years behind schedule and billions of Rands over budget), and failure to maintain an adequate reserve margin. The power utility has indicated that the power outages are expected to continue well into 2019, which will result in significant losses for South African businesses. The situation is compounded by Eskom's massive debt burden and declining revenue despite a decade of above-inflation tariff hikes. The prospect that government could provide a further R100 billion to bail the utility out poses a threat to the already over-stretched fiscus.

The first year of Ramaphosa's presidency also saw a renewed commitment to job creation. In March, the government and business embarked on the 'YES' (Youth Employment Service) initiative. The initiative aims to create one million job internships over three years. To date, the YES website indicates 250 companies have registered and created 4,840 placements.[5]

Where most developed and developing economies hardest hit by the global financial crisis have undergone complete recoveries (in terms of employment), South Africa has not benefitted from this.

In October, government hosted the jobs summit aimed at creating an additional 275,000 jobs per year. As we have outlined elsewhere, the agreement reached at the summit falls short of addressing the structural causes of high unemployment, and entails further government intervention in a wide range of areas that will each create only a small number of new jobs if successful. We argued that what is needed is an urgent reform of the country's basic education system, a frank recognition on the part of government that many regulations and some legislation currently prevent businesses from growing and hiring more staff and the dismantling of such wherever possible, as well as short-term disproportionately large investment in areas with huge job creation potential, such as tourism. (Read the HR Think Tank's White Paper on the Jobs Summit here).

Unemployment over the last year

Investment bank UBS recently released a report indicating that global unemployment had fallen to its lowest rate in 40 years. Measuring 48 developed and developing countries that together account for 84% of global output, it found that in only four countries was the unemployment rate higher in 2018 than immediately preceding the financial crisis of 2008. In Italy, Greece and Spain unemployment was more than two percentage points higher than in late 2007, and in South Africa, it was 5.4 percentage points higher.[6] The study provides a useful indication that where most developed and developing economies hardest hit by the global financial crisis have undergone complete recoveries (in terms of employment figures), South Africa has not benefitted from this.

The past year was not encouraging in terms of South Africa's unemployment rate. Though the third quarter figure of 2018 is lower than one year ago in Q3 of 2018 (27.5% vs. 27.7%), the unemployment rate rose in each of the first three quarters of 2018. Under the expanded definition (which includes discouraged work seekers), the unemployment rate is 0.5 percentage points higher than at the same time one year ago.

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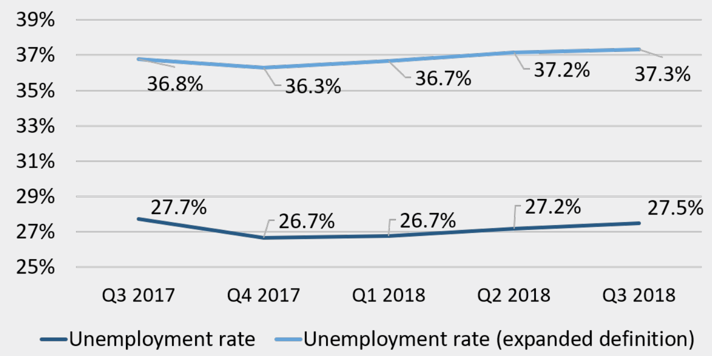
When one explores which sectors underwent job losses and which created jobs over the last year, the sector that shed the most jobs was private households (46,000), followed by mining (40,000) and manufacturing (30,000). The VAT increase, successive large petrol price increases and tough economic climate of 2018 have no doubt contributed significantly to the retrenchment of many employees in private households. The construction sector added the highest number of jobs (137,000), followed by community and social services (59,000), and the financial and business services industry (38,000).

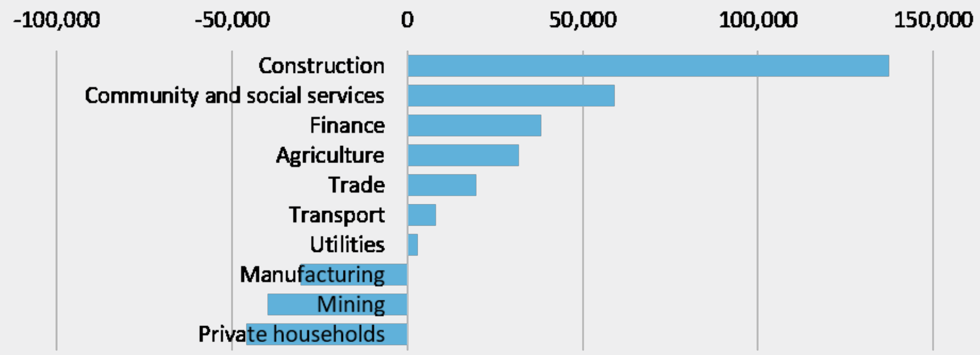
Unemployment rate, one year overview



Source: Stats SA, 2018

Overall, 188,000 people entered employment between the third quarters of 2017 and 2018. Over this period, the number of those entering the labour market actively looking for work was 187,000, resulting in decrease of 1,000 in the number of officially unemployed since 2017. However, the number of people that joined the ranks of discouraged work seekers rose by 337,000 over the same period.

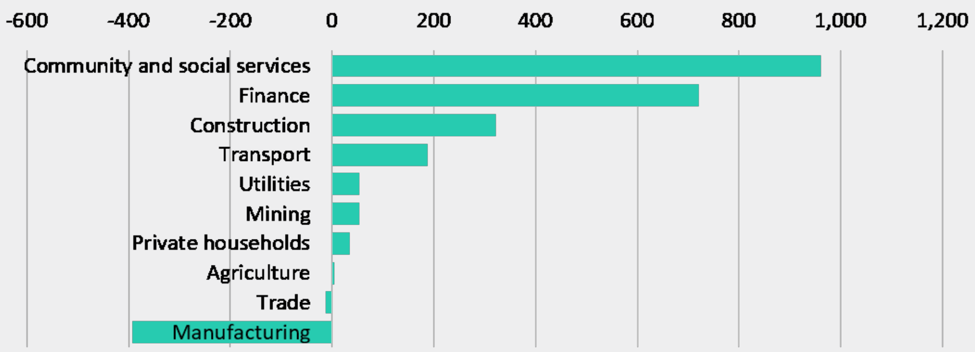
Changes in employment, Q3 2017 to Q3 2018



Source: Stats SA, 2018

When one takes a long-term view over the past 10 years, employment growth has been strongest in the community and social services sector (78% of employment in this sector is public sector employment[7]), followed by the finance and business services sector and the construction sector. There has been virtually no change in employment in agriculture over the last ten years. The wholesale and retail trade industry has lost just over 13,000 jobs, but the largest losses were in the manufacturing sector, which has shed a massive 393,000 jobs over 10 years.

Changes in employment, thousands, 2008-2018



Source: Stats SA, 2018

Major factors affecting GDP and job growth in 2019

Growth forecast and investor sentiment

The medium-term budget policy statement delivered in October 2018 revealed that the budget deficit would reach 4% in the 2018/2019 fiscal year rather than the expected 3.6%, and overall debt would continue to rise until 2022 before decreasing. However, treasury also committed to eliminating the backlog in VAT refunds in the region of R20 billion. While this is bad news for the fiscus, it will inject some cash into the economy. Furthermore, no tax increases were on the cards for 2019, which will give consumers a respite.

Due to the slower than expected economic growth in 2018, the IMF reduced its GDP growth forecast for South Africa for 2019 from 1.7% in April to 1.4% in October.[8] The World Bank expects growth to reach 1.3% in 2019. The institution advises that "strengthening investment, including foreign direct investment, will be critical to propel growth and create jobs".[9]

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If the president's investment drive continues to attract large-scale investment and reaches its target, this could boost GDP growth significantly in the short term, but this is unlikely to happen without increased clarity and certainty around policy. Only in this manner would such investment be sustained into the future. However, survey results released in September showed that business confidence was the lowest yet in 2018 due to policy uncertainty.[10]

Another major concern is that South Africa's credit rating remains under threat from being further downgraded. Moody's is the only one of the big three ratings agencies that has not graded the country's sovereign credit as sub-investment grade, and did not publish a review in October as expected. The agencies will re-evaluate their stance after the budget is delivered in February. However, Fitch, while acknowledging progress in the form of the stimulus package and reprioritisation of government spending, warned that these "measures will take time to implement and are not sufficiently far-reaching to raise medium-term potential growth significantly".[11]

The budget, which is already stretched, will face further demands from the various mismanaged state-owned enterprises, whose combined debt is R1.6 trillion, almost half of which is government guaranteed. Eskom has already announced it requires R20.1 billion to meet power requirements for 2019, and R14.2 billion of SAA's debt is due in March. Similarly, the SABC has asked for R3 billion from treasury in order to pay staff.[12]

The new finance minister Tito Mboweni has made avoiding a further downgrade his priority. He has expressed that Eskom should turn to bond markets to raise the necessary funds rather than to the fiscus, and that government needed to be conservative in fiscal support for ailing state-owned companies.[13] This stance is reassuring, as a further state guarantee of a large portion of Eskom's debt would almost certainly cause Moody's to downgrade the country's credit rating.

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There have also been positive developments around the reform of the country's state-owned companies. The new public enterprises minister Pravin Gordhan has expressed his intent to reverse large-scale corruption and maladministration in these companies, and within the first three months in office replaced the boards of Eskom, SA Express and Transnet, as well as placing executives with anti-corruption track records in these firms. Denel and Prasa, the Passenger Rail Agency, also received new boards. Most recently, the presidency is taking a hands-on approach to dealing with Eskom's operational struggles, appointing a task team of experts to advise government on how to resolve the power utilities operational struggles in January.

The 2019 national general election

The results of the 2019 election will provide an indication of the direction government will take thereafter, and whether the president will be able to deliver on his promises. Different polls (by Ipsos and the Institute for Race Relations) have the ANC winning between 56% and 60% of the votes in 2019's election, depending on turnout. The ANC won 62.15% in the last general election in 2014, but only achieved 55.68% in the local government election of 2016. If the party could achieve 60% in the 2019 national election this would signify a slowdown in its electoral decline (the party's share of the vote declined by 3.75 percentage points between the national elections of 2009 and 2014, and by 3.8 percentage points between 2004 and 2009). If Ramaphosa can deliver a convincing election victory, this will give him more authority to root out those in his cabinet that seek to undermine his aims and would make government more likely to deliver on its stimulus package and other much needed economic reforms.

The perceived cleanup of the ANC and publicly expressed commitment to economic growth and job creation will almost certainly have contributed to a renewal of confidence in the ANC among some disillusioned supporters. Opposition parties have floundered somewhat since their common enemy, Jacob Zuma, was removed. The DA in particular miscalculated by placing all the blame for the ANC's mistakes on Zuma, making many of its criticisms ring hollow after his removal.

There are also a number of new parties entering the fray, possibly the most important bring trade union Numsa's party, registered in November.

The DA has also lacked clarity on its policies, and critics point out that they are similar to those of the ANC in many instances, giving the party the nickname of 'ANC-lite'. Furthermore, the DA's fumbling of the removal of Patricia De Lille in Cape Town and the VBS bank scandal involving senior members of the EFF may have cost those parties some support. Ramaphosa has also pursued the expropriation without compensation agenda uncompromisingly, partly in a bid to unify factions within his party, but also no doubt to route some support from the EFF, who championed this cause among its supporters.

There are also a number of new parties entering the fray, possibly the most important bring trade union Numsa's (National Union of Metalworkers of SA) party, registered in November. The Socialist Revolutionary Workers Party (SRWP), contrary to previous breakaways from the ANC, is already backed by Numsa's membership of 300,000.[14] The party may also attract workers in other unions still affiliated Cosatu if they similarly fed up with the ANC.

Moreover, as the name suggests, the party occupies the far-left spectrum up to now dominated by the EFF. Its rhetoric will appeal to those frustrated with persistent economic inequality and doubtful of the EFF's sincerity. Nonetheless, the SRWP's success in the 2019 election will depend on how quickly it can mobilise to campaign in the few months remaining before the election.

Expropriation of land without compensation

As mentioned above, both houses of parliament supported the motion to amend the constitution to allow for expropriation of land without compensation in late 2018. The constitutional review committee originally stipulated that a bill to amend the constitution should be passed before the 2019 election. However, it is extremely unlikely that this will happen, as there is neither the time nor the capacity to appoint a body to draft a bill, draft it, table it, have a 30-day period for public comment before voting on the bill. There is also the likelihood that the bill will be sent back for revisions and could face court challenges (already the Institute for Race Relations is taking the constitutional review committee on review due to its failure to adequately carry out public consultations, thereby challenging the means by which the committee reached its recommendation to parliament).

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The fact that the bill will only be tabled after the election may be excellent news for the ANC, which will only have to grapple with how much it actually delivers on expropriation without compensation after the election, and not face judgement on this as voters make their decisions at the polls. Some observers believe the bill will fall far short of what the EFF (who originally called for nationalisation of land) is demanding, and will not threaten ownership of commercial farms, but merely clarify what is already implicit in the constitution, namely that in very specific circumstances (set out in other legislation) zero compensation is acceptable.

If this, the best-case scenario of a constitutional amendment, comes about, the ANC will have unnecessarily caused over a year of turmoil in the agriculture sector and no doubt scared off many potential investors for nothing.[15] However, this may be an optimistic view, as the ANC has let the radical views of the EFF dominate the land debate to date, and may struggle to regain control of the debate.

Expected employment trends in 2019

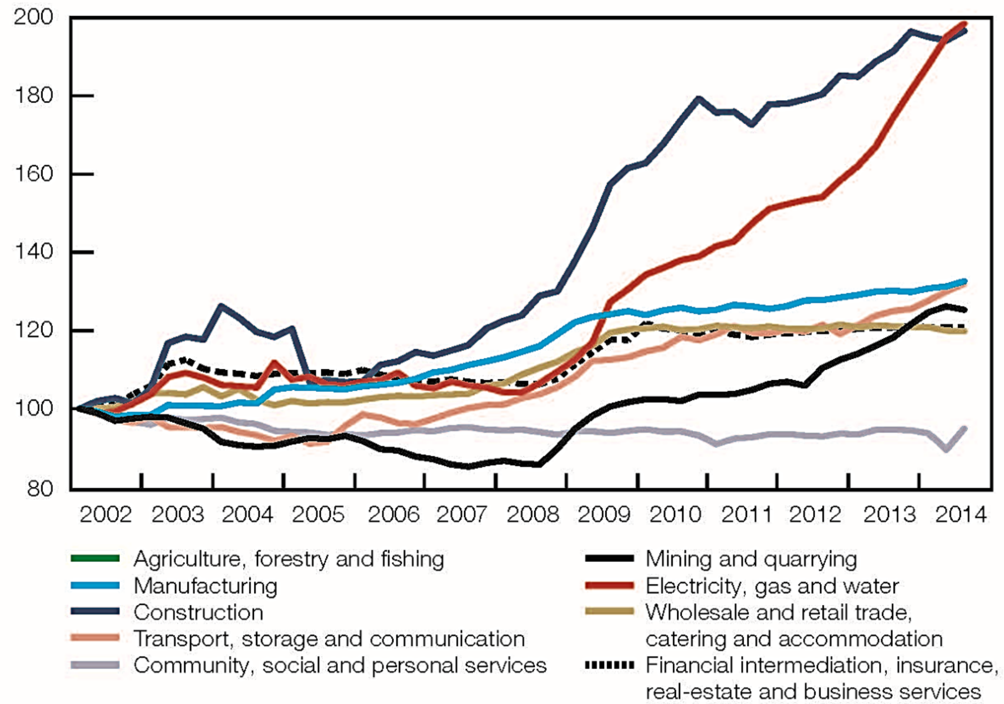
2019 will bring about the usual uptick in temporary employment resulting from the national election, which will push down the unemployment rate slightly on a temporary basis. Some initiatives resulting from the jobs summit may also exercise much needed upward pressure on employment, but we believe the effect of these will be staggered and fractured. One of government's commitments at the jobs summit was to refrain from retrenchments in the public sector, and to fill all vacancies in critical posts, though the staff contingent would be shrunk by other means, such as early retirement and voluntary severance packages. Ratings agencies have advised government to be more prudent in its spending, and shrinking the wage bill, which currently amounts to 35.2% of government spending[16], would go a long way in assisting with this. With renewed demands for government bailouts from state-owned enterprises, it is likely that government will embark on some type of hiring freeze. This coincides with indications that the size of cabinet could be reduced after the 2019 national election.

Manufacturing has been hit by low domestic demand and low business confidence, and whatever growth we can expect will be progressively less labour intensive.

At the same time, the country's national minimum wage, after slowly making its way through the legistlative process in 2018, was signed into law in late November and will take effect on January 1st 2019. We have outlined elsewhere the very high possibility that the minimum wage will have a negative effect on employment. This is more so the case given low business confidence and extremely tough economic conditions that are likely to persist at least into the first half of 2019. Added to this is the likelihood of further power outages in the new year that will hurt especially small and medium businesses.

The manufacturing industry will likely not recover to create the kind of large-scale employment it did in the past in already fully developed countries. The sector has been hit by low domestic demand and low business confidence, and whatever growth we can expect will be progressively less labour intensive. We can also expect growth in the construction industry to be less labour intensive in future, as capital is increasingly being substituted for labour, demonstrated by the growing capital-labour ratio in the chart below.

Capital-labour ratio, 2014



Source: SA Reserve Bank, 2015[17]

The agriculture sector can also not be expected to generate significant employment in the immediate future, partly due to the uncertainty around land expropriation that has rocked the industry. Below average rainfall conditions have also hindered planting, especially of maize, in the central and western parts of the country. If expected above-average rainfall does not materialize soon, the planting season for maize and other summer crops will be missed, further depressing the industry.[18]

There remains considerable potential to boost employment in several sectors in 2019. One focus area where the returns on investment could be particularly large in a short period of time is tourism.

However, there remains considerable potential to boost employment in several sectors in 2019. One focus area where the returns on investment could be particularly large in a short period of time is tourism. In 2017, 722,013 people, or 4.5% of all those employed in South Africa, were directly engaged in producing goods and services purchased by visitors. That is already more than employment in utilities and mining combined. But when the additional business that tourists bring to other sectors is added, tourism's contribution to employment is actually significantly higher. Tourism contributes to transport, accommodation, food and beverage services, recreation and entertainment and travel services, among other industries. When all the contributions to these industries resulting from tourism are teased out, the sum of employment directly and indirectly resulting from tourism was roughly 2.8 million in 2017, closer to 17% of total employment.

Employment in the tourism industries, 2017

Industry	*Employees*
Retail trade (of tourism connected goods)	*1,333,742*
Road passenger transport	*613,731*
Food and beverage serving industry	*386,760*
Accommodation for visitors	*170,540*
Cultural industries	*92,227*
Sports and recreational industry	*74,340*
Railway passenger transport	*73,881*
Travel agencies and other reservation services industries	*31,592*
Air passenger transport	*29,742*
Transport equipment rental	*14,900*
Water passenger transport	*6,567*
Total	***2,828,023***

Source: StatsSA, 2018[19]

In 2017, 10.3 million international tourists visited South Africa, up 15.5% from 2015.

An increase in tourism could see significant job growth in many of these industries. One positive development that will aid in this was the scrapping in December of the requirement for foreign minors to present unabridged birth certificates to enter the country. This requirement, introduced in 2015, cost the tourism industry as much as R7.5 billion in lost revenue according to a report released by the DA.[20]

However, more could be done to raise the number of tourists visiting South Africa. The government should initiate and support a major global marketing campaign advertising South Africa as a tourist destination. An increase in tourism could have an almost proportional impact on employment in the tourism-related industries and would yield high returns on the initial investment.

In 2017, 10.3 million international tourists visited South Africa (excluding 4.7 million that were same-day visitors), up 15.5% from 2015. If the number could be increased by 10% each year for the next ten years through marketing and other measures, this would have a significant impact on the related industries and their employment capacity. If, for argument's sake, one assumes that the number of employees in the tourism sector increased proportionately to the number of visitors, this would see employment directly as a result of tourism rise from 722,013 in 2017 to 1.16 million in 2022 and just under 1.9 million in 2027. Jobs indirectly created by tourism in related industries would rise to 4.6 million in 2022 and 7.3 million in 2027. Moreover, the increased number of visitors would necessitate new infrastructure, which would boost business in other sectors, such as construction, and could also lead to further job creation in these industries.

It is doubtful that the over 70 initiatives agreed on at the jobs summit will be able to achieve even half of the 275,000 annual jobs target in 2019.

Conclusions

This paper has sought to outline the major factors that will impact on economic growth and job creation in South Africa in 2019. The picture that has emerged is an exceedingly complicated one. The majority of factors that will impact the pace of economic and employment growth in 2019 hinge on political decisions and developments.

It is our assessment that the new government under President Ramaphosa shares our perception of what must be done to stimulate the economy. The commissions of inquiry into state capture and the revenue service are the first step in ending the vast misappropriation of public funds. The investment drive indicates that he recognises the importance of both local and foreign business buy-in. The jobs summit, while it signified his government is willing to engage with business at least up to a point, fell short on addressing the key causes of unemployment. It is doubtful that the over 70 initiatives agreed on at the jobs summit will be able to achieve even half of the 275,000 annual jobs target in 2019.

Furthermore, there are a number of risks in 2019 that could easily cause further economic decline and job losses. Power outages represent a significant risk. Eskom insists it requires further funding to meet power demands in 2019. Government will need to come up with some creative solutions to avoid forking out more money while still keeping the lights on. Keeping the lights on is vital, as widespread and frequent power outages in 2019 would also exert downward pressure on employment.

Increasing pressure on the fiscus will likely result in renewed efforts to diminish the public wage bill, and could result in a drop in public employment. This would push unemployment up. In the long-term it would be positive for government to recognize it should not carry the responsibility for job creation itself, but that the private sector is best-placed to do this. However, a drop in public employment should be accompanied by measures that create the conditions necessary for businesses to absorb unemployed South Africans, including those losing their jobs in the public sector.

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Though the date for its tabling has not been set, a draft amendment to the constitution to allow expropriation of land without compensation could have the same effect if it is not adequately limited to very specific cases. A bill framed too broadly would scare new investors away, and could even bring about a reversal of some of the investment commitments achieved in 2018. Even if the bill is only tabled after the election, the uncertainty around it will not only continue to depress growth and employment in the agricultural sector, but will also deter investors who otherwise would have provided much needed inflows of funds into the economy. Growth will not be what it could have been, and the unemployment rate will remain within a percentage point of its current position.

The result of the 2019 elections will provide a clearer picture of what trajectory the economy will take. A convincing win for the ANC will strengthen President Ramaphosa's hand within his party and give him more authority to implement economic reforms further reaching than those embarked on in the stimulus plan. It would also allow those officials who have been implicated in corruption and other wrongdoing in the state capture project to be removed from positions of power.

It is clear that a number of political decisions and events must play out before meaningful, labour-intensive economic growth can take place. In the meantime, we suggest that analysis of the labour intensity of economic sectors informs policy on job creation going forward. Manufacturing and agriculture will not create the kind of jobs South Africa needs, at least not in the short-term. Instead, the focus of time, energy and resources should be in assisting those industries that can deliver jobs. Interventions such as those in the tourism sector outlined in this paper should be replicated to achieve job growth fast. Otherwise 2019 is unlikely to see any meaningful reduction in the unemployment rate.

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