

Adcorp Employment Index, January 2014

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Salient features

- The economy shed 36,290 jobs during January. The biggest losses occurred in permanent work, which lost 22,224 jobs during the month, and temporary work, which lost 3,168 jobs during the month.
- Significant job losses were observed in manufacturing (-4.7%) and construction (-9.9%). All economic sectors shed jobs during the month.
- Only high-skilled jobs were created during the month, being professionals (+4.7%) and management (+2.1%).
- This month we take a closer look at South Africa's skills shortage and new government proposals to address the shortage.

Adcorp Employment Index



Source: Adcorp (2014)

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Analysis: Skills development moving in the wrong direction

South Africa is characterised by a marked skills shortage. At present, there are an estimated 470 000 vacancies in the private sector which are positions that could be filled almost immediately if the skills were available. More than half (52%) of these positions are in management, and the remainder are largely (37%) professional positions in accounting, law, medicine, engineering and finance. The vast majority of these vacancies (86%) are for highly-skilled individuals, i.e. individuals earning above R400 000 per annum in the current market. The unemployment rate for highly-skilled individuals is just 0.4%, which indicates that practically all job-seekers with high skills are able to find work.

Yet South Africa simultaneously possesses a surplus of unemployed graduates. At present, there are an estimated 344 000 unemployed people with degrees, diplomas and certificates. Although a tertiary qualification remains the most successful indicator of finding employment (90% of graduates are employed), the remainder fail to find employment because their qualifications do not match those sought by employers. Tertiary institutions continue to produce arts, humanities, social science and mid-level professional graduates (i.e. teachers and nurses), whereas employers seek managers and high-level professional graduates (i.e. accountants, lawyers, doctors and engineers).

South Africa's key skills-related indicators from the World Economic Forum's 2013 Global Competitiveness Report are given in the table:

<i>Indicator</i>	<i>Rank (out of 144 countries)</i>	<i>Percentile rank (higher numbers are worse)</i>
Quality of primary education	132	91.7%
Primary education enrolment	115	80.0%
Secondary education enrolment	53	36.8%
Tertiary education enrolment	101	70.1%
Quality of the education system	140	97.2%
Quality of math and science education	143	99.3%
Brain drain	47	32.6%
Availability of scientists and engineers	122	84.7%

Source: Global Competitiveness Report (2013)

The skills shortage is a function of both demand and supply factors. Demand factors relate to the quantity of jobs available, whereas supply factors relate to the quantity of suitable applicants.

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As far as the supply of skills is concerned, the skills shortage is a function of three main things:

- **Emigration of high-skilled workers:** Since 1994, an estimated 655 000 South Africans (on a net basis – emigration less immigration) have left the country to pursue work opportunities abroad. Younger emigrants aged 19-35 cite job reservation for affirmative action candidates and the ability to gain work experience abroad, whereas older emigrants aged cite high levels of violent crime and poor and/or costly local education options as their primary reasons for leaving the country. However, emigration has not been a one-way street. Since the onset of the global financial crisis in 2008, an estimated 359 000 South Africans have returned from abroad, for reasons that include weak labour markets in English-speaking developed countries and comparatively high living standards in South Africa.
- **Immigration restrictions for high-skilled foreigners:** Since the promulgation of the Immigrations Act (2002), it has become exceedingly difficult for South African firms to employ foreign high-skilled workers. Quota work permits (i.e. work permits permitting a firm to hire numerous skilled workers at a time) have been abolished, and the use of immigration agents (i.e. specialised practitioners in the field of immigration) has been sharply curtailed and heavily regulated. The political rationale behind limiting the immigration of high-skilled foreigners has been to reserve vacancies for South Africans, at least partly in an attempt to fill affirmative action quotas. In addition to strict regulations on immigration, the waiting period for work permit applications of high-skilled foreigners generally exceeds five years.
- **Dysfunctional education system:** Although South Africa spends a higher fraction of national income on education than many developed countries (6.2%), educational outcomes are terribly poor. According to the Global Competitiveness Report (2013), the single most problematic factor for doing business in South Africa is the country's inadequately educated workforce. The broad unemployment rate (i.e. including discouraged work-seekers) is 37%; 69% of the unemployed are youth under the age of 35, and 60% of the unemployed have not completed secondary education. 81% of teachers are unionised, and the leading teachers' union has succeeded in banishing quality inspectors from classrooms and prevented the government from introducing performance standards (such as examination outcomes) for teachers. Poor teacher quality has dramatically curtailed South Africa's overall supply of skills.

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As far as the demand for skills is concerned, skills development is ultimately a function of the growth rate of the South African economy, which is generally recognized to be below its potential. The economy creates sufficient jobs to absorb school-leavers at about 4% GDP growth, and the economy creates sufficient jobs to reduce the country's formal sector unemployment rate only at about 8% GDP growth. The South African Reserve Bank's inflation-targeting policy has been implicated in the country's low rate of economic growth. Specifically, most changes in the inflation rate are (through import prices of food and fuel) determined by the exchange rate, over which the Reserve Bank has limited control since the exchange rate of the Rand is primarily influenced by global commodity prices, since more than 60% of merchandise exports are commodity-related. In other words, the Reserve Bank's inflation-targeting policy is a de facto exchange rate targeting regime over which the Reserve Bank has almost no control. Whatever the cause, the country's current low rate of GDP growth (1.9%) is widely seen to be problematic for the South African government's plan to create 6 million jobs over the current electoral horizon.

The South African government has, since 1996, attempted to improve skills development, with the broad objective being to increase employment through better education and training. Each attempt has involved bolder State intervention in the education system and labour market.

For example, the current plan announced by the Minister of Higher Education and Training in January 2013 is to sideline the universities (with enrolments rising from 1.0 million in 2013 to 1.6 million in 2030, or an annual growth rate of 2.8%) and to boldly increase the number of students enrolled in technical, vocational and community colleges (from 0.6 million in 2013 to 3.5 million in 2030, or an annual growth rate of 10.9%). This is highly problematic, since the university system is the only part of the public education system that is functioning. The technical, vocational and community colleges are such a comprehensive failure that students are less likely to obtain a job with a qualification from one of these tertiary colleges than with secondary education alone. The government's plans therefore involve side-lining the effective part, and boosting funding to the ineffective part of the education system. Part of this plan is to divert funds from the National Skills Fund (NSF), which had previously been set up to fund private sector employers' training requirements using employer contributions in the form of a payroll tax, into the tertiary colleges. It seems highly unlikely that the highly dysfunctional tertiary colleges will be able to boost their capacity and quality in quite the way the government intends.

There is a significant missed opportunity in South Africa to support the emerging private education sector. As a result of failures in public primary and secondary schools, a new phenomenon of low-fee private schools has emerged. These schools are run by 'edupreneurs' and generally charge parents less than R450 per month, receiving little or no support from the State. In 2013, enrolments at government schools declined by 6% whereas enrolments at low-fee private schools increased by 25%. At a tertiary level, private colleges have had very good results but the sector is currently small.

In summary, the South African government has found it exceedingly difficult to deliver education and training outcomes that are appropriate to the South African economy's requirements. South Africa ranks consistently poorly in terms not only of maths and science scores but also of education scores generally. There is a critical shortage of university capacity for needed managers and professionals. The NSF accumulated a surplus of R5.6 billion which the government's industry bodies were unable to spend, at the expense of hundreds of thousands of work opportunities. Unfortunately the pervasive ideology of the South African government is to increase government-provided education and training options and restrict private education and training. Until the government can curb wasteful public expenditure in education, loosen the teaching unions' stranglehold over the education system, and reform its poorly functioning industry training bodies, South Africa's skills shortage is likely to grow.

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Additional Data

Employment by Type

Type	Employment Jan 2014	Percentage change vs. Dec 2013*
Unofficial sector	6,462,314	-2.02
Official sector	12,765,041	-2.38
Typical (permanent, full-time)	8,813,908	-3.02
Atypical (temporary, part-time)	3,951,133	-0.96
- of which agencies	1,001,341	0.53
Total	19,227,355	-2.26

* Annualized

Employment by Sector

Sector	Employment Jan 2014 (000s)	Percentage change vs. Dec 2013*
Mining	238	-10.0
Manufacturing	1,272	-4.70
Electricity, gas and water supply	102	11.88
Construction	483	-9.86
Wholesale and retail trade	1,746	-1.37
Transport, storage and communication	554	-4.32
Financial intermediation, insurance, etc.	1,645	-1.46
Community, social and personal services	2,755	-0.44

* Annualized

Employment by Occupation

Occupation	Employment Jan 2014 (000s)	Percentage change vs. Dec 2013*
Legislators, senior officials and managers	1,132	2.12
Professionals	776	4.66
Technical and associate professionals	1,653	0.73
Clerks	1,514	-1.58
Service workers and shop and market sales workers	1,860	-5.78
Skilled agricultural and fishery workers	88	-13.48
Craft and related trades workers	1,349	-5.31
Plant and machine operators and assemblers	974	-6.13
Elementary occupation	2,301	-2.60
Domestic workers	819	-2.92

* Annualized

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