



Economic Commentary: Issue No. 5

5 December 2016

Directorate: Statistics & Economic Analysis

Sub-directorate: Economic Analysis

Purpose of the Economic commentary

This publication is meant to inform internal stakeholders of the department about the impact of the macro economic indicators and related issues on the overall performance of the Agriculture, Forestry and Fisheries (AFF) sector. National announcements are frequently pronounced on macro economic issues; therefore the intension of the economic commentary is to digest the implication of the indicators and recommend actions that could be taken into account to cushion the performance and image of the AFF sector.

EMPLOYMENT IN THE AGRICULTURE SECTOR

Unemployment in South Africa is rising faster than the rate at which the economy is creating jobs, suggesting a serious lack of economic growth and fixed investment spending by the government and the private sector. The unemployment rate rose to 27.1% in the third quarter of 2016 from 26.6% in the second quarter of 2016 the highest since 2003. This is 0.5 of a percentage point higher than the second quarter of 2016 and 1.6% higher compared to the same period in 2015. The biggest contributors to employment growth were in the agricultural (56 000) and informal sectors (135 000), while 15 000 jobs were shed in private sector households compared to the second quarter in 2016. The decline in jobs was also seen in manufacturing, which laid off 28,000 workers during the quarter. The QLFS shows 9,000 mining positions were also lost. These sectors remained under a considerable amount of strain due to lower commodity prices and global demand. Mining has been a bedrock for the economy, contributing 8.2% to GDP.

Figure 1 : Total number of people employed in the agriculture sector

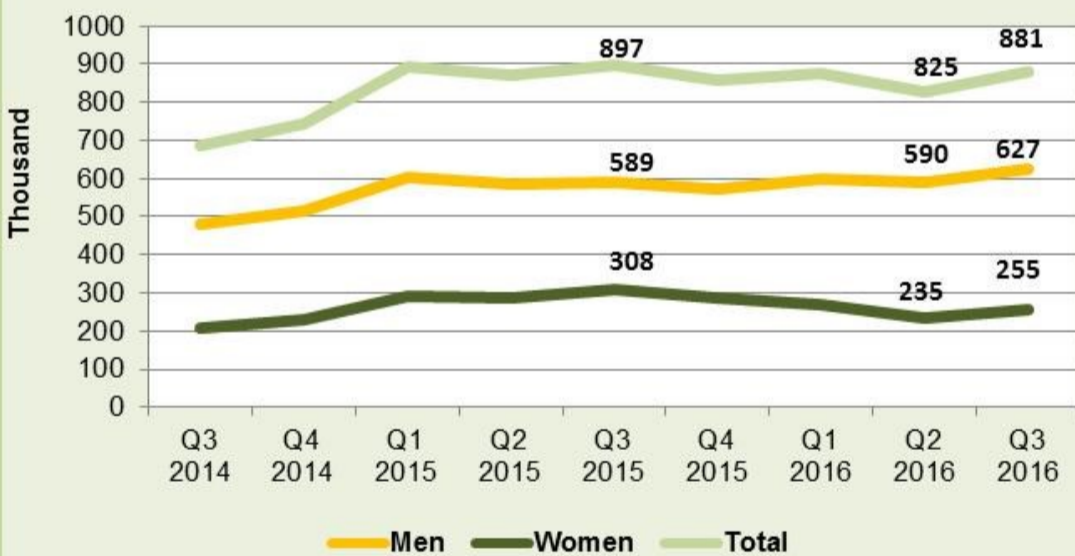


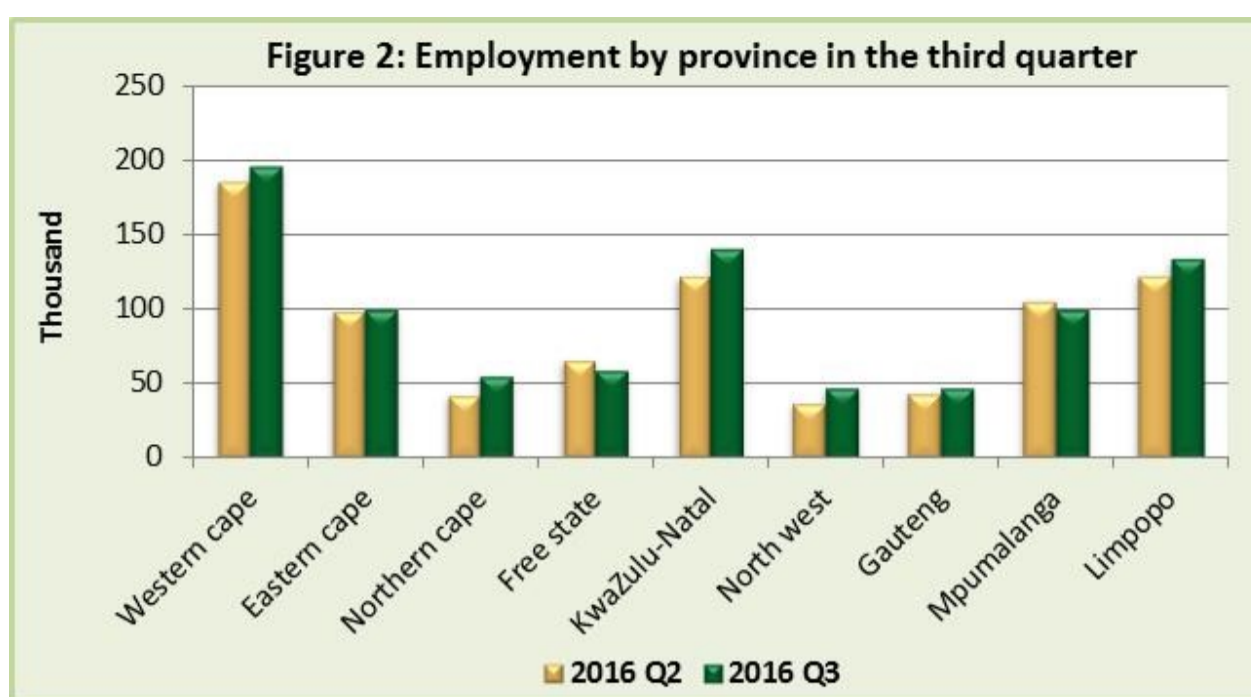
Figure 1 shows that the number of people employed in agriculture sector increased by 7% in the third quarter from the second quarter, which is increased by 56 000 additional jobs. When Comparing similar quarters, jobs decline by 1.8% in the third quarter of 2016 from 897 000 persons in the third quarter of 2015 to 881000 persons in the third quarter of 2016. Of the 16 000 jobs lost in the sector in the third quarter of 2016 compared to the third quarter of 2015, 53 000 jobs were lost by women while 38 000 jobs were created for men. In total, the agricultural sector comprised of 255 000 women and 627 000 men in the third quarter of 2016 compared to 235 000 women and 590 000 men the Third quarter of 2015.

SOURCE: STATISTICS SA, 2016

The absorption rate (the proportion of the working-age population between 15 to 64 years that is currently employed) has not recovered to pre-recession levels of 45.5% in 2008. While the official unemployment rate stood at 5.9 million in the third quarter of 2016, the expanded unemployment rate increased by 136 000 since the second quarter, which amounted to 9 million. Expanded unemployment includes people of working age who did not have a job and were available for employment.

According to the Quarterly Labour Force Survey, the number of employed people grew by only 5,000 year-on-year to 15.8-million people during the third quarter. The expanded unemployment rate, which includes those who wanted work but did not look for work, dropped 0.1 percentage point quarter-on-quarter to 36.3%. This reflects the lack of economic growth, especially the lack of fixed investment spending by both government and the private sector, as well as the sustained low business confidence. On a quarterly basis employment rose in the formal and informal sectors including agriculture, which created 56,000 jobs during the third quarter, increasing employment in the sector to 881,000.

However the outlook for jobs in agriculture sector remained weak. Due to the farmers' cash flows that have been negatively affected by the 2015/16 drought. However, more concerned about the outlook for employment that is not expected to improve soon. Government sector employment has fallen for the past two consecutive quarters. Due to tighter controls on public sector spending announced by the Treasury, going forward public sector employment is expected to decline. Public service remuneration accounts for 36% of government expenditure and has been a key risk to the fiscal outlook. Lower employment levels in industry and the consumptive sectors are reflective of the subdued economic growth climate, with GDP growth forecast at 0.3% year on year in 2016. Labour market conditions are likely to remain poor in the period ahead, with GDP growth projected to rise only to 2.2% year on year by 2020.



Source: Statistics SA, 2016

Figure 2 shows that employment increased in seven provinces and decreased in other two provinces in the third quarter of 2016 compared to the previous quarter. Agriculture employment in Northern Cape, North West and KwaZulu Natal increased by 31.6%, 31.5%, and 15.1% respectively. In Limpopo, Gauteng, Western Cape and Eastern Cape agriculture employment also increased by 9.2%, 6.0%, 5.5% and 0.6% respectively between the two quarters. While the agriculture employment in Free State and Mpumalanga decreased by 9.4% and 5.7% respectively. Western Cape remained with the highest agriculture employment compared to other provinces .

National Minimum Wage proposal

Deputy President Cyril Ramaphosa announced that the proposed new minimum wage will be R3 500 per month. A panel of experts tasked with determining South Africa's proposed National Minimum Wage (NMW) came to a figure of R3 500 because they believed that this would not lead to job losses. This is according to Wits University's Dean of Commerce Law and Management, Imraan Valodia, who led government's research into a proposed minimum wage. The panel on South Africa's minimum wage discussions ranged from academics to economists. It would have been ideal to propose a higher wage, but job destruction had to be considered. The panel looked at supporting evidence for the R3 500 figure. Valodia said that three branches of evidence were considered: Data on South Africa's labour market, international research and the impact on growth.

However, the announcement received mixed reaction, with one political party calling on Ramaphosa to see how little that is. It has sparked debate and raised concerns about the impact on job losses. The impact of a NMW may not be felt on the economy immediately. However businesses may have to cut profit margins to accommodate labour costs. A NMW will get passed on to investors through lower dividends. South African pension funds will also feel the impact. Government could further feel the pinch through lower tax collections or through higher prices to consumers. South Africa does not have a flexible labour market or the productivity growth to support a NMW. An economy with weak private investment growth on such weak sentiment will not be able to support a NMW without adverse effects.

The policy proposed has only really worked in higher-income countries or ones who have benefitted from a commodity boom. A NMW can only work where there is decent national productivity growth, flexible labour markets, a low share of non-wage compensation by employers and low unemployment. South Africa has not yet succeeded in meeting the above factors. Introducing a NMW in a low productivity growth economy will make future employment growth harder. South Africa needs labour-intensive growth in order to develop, so a NMW makes that harder. A NMW may result in households being worse off, working fewer hours with poorer terms of employment. Evidence shows that with the introduction of sectorial minimum wages in the past, employers often cut back on non-wage benefits and this is likely to happen for a NMW too.

REFERENCES :

- Statistics South Africa (Stats SA), (2016): Quarterly Labour Force Survey, Quarter 3, 2016 Available at <http://www.statssa.gov.za>
- <http://buzzsouthafrica.com/ramaphosa-charged-to-try-living-by-the-r3500-national-minimum-wage/>

FREQUENCY

The publication will be released on the 1st and the 15th of every month covering events taking place on the period concerned. The dissemination will take place through emails to all SMS and professionals in the Department including provinces.

For more information contact: Directorate Statistics & Economic Analysis (SEA) Ms Ellen Matsei at Das@daff.gov.za or 0123198454.