COVID-19: Labour implications
Economics | South Africa

The South African economy is likely to shed up to 1.6 million jobs in 2020

- Our latest forecasts show that approximately 1.6 million jobs will be shed in the country this year. This compares with approximately 900 000 jobs that were lost after the global financial recession. The ‘wholesale and retail trade; repair of motor vehicles, motor cycles and personal and household goods; hotels and restaurant’ industries – named ‘retail’ in this report – will incur the most losses at 1.4 million, with the bulk of the jobs lost in the first half of the year.

- Other industries that will shed jobs this year are manufacturing (-149 000), ‘transport storage and communication’ (-124 000) as well as construction (-109 000). The ‘mining and quarrying’ and ‘financial intermediation, insurance, real estate and business services’ industries are estimated to add 7 500 and 24 000 jobs respectively, while employment in the ‘electricity, gas and water’ industry is forecasted to remain virtually unchanged.

- The forecasts are based on our GDP calculations (GDP tends to lead employment growth in the South African context), past employment behaviour in the respective industries under various scenarios as well as government information on which sectors will be allowed to operate when.

- The methodology used relied heavily on past employment growth behaviour, which shows that in periods, such as immediately after the global financial crisis, GDP growth tends to recover much faster than employment does. While it took GDP growth approximately a year to reach its pre-crisis peak after the global recession, employment reached its pre-crisis peak four and a half years later. This underscores the fact GDP growth leads employment growth in South Africa and that growth would have to recover significantly for employment to improve.

- Our forecasts for GDP recovery in the current pandemic take on an inverted J-shape and so do our forecasts for employment, which is different from 2009 due to the nature of a 35-day lockdown followed by a gradual re-opening of the economy. What is, however, significantly different between this employment cycle and the one in 2009 is that even three years after the trough in job losses, employment still does not reach its pre-crisis peak. The 35-day lockdown has severely negative consequences for employment, which will take more than three years to neutralise.

- Given the anticipated loss of jobs, there will be very little demand and so equally little price pressure in this economy. This means that our inflation forecasts will probably come in lower than we currently expect. This suggests that there is scope for further interest rates cuts, we expect another 25 to 50 basis points reduction in the repo rate in May. The implications of the anticipated job losses for household income and spending also suggest that interest rates are likely to remain steady at lower levels for an extended period of time.

Chart 1: Change in number of employess in 2020

Source: NGEU calculations

Chart 2: Forecast employment growth

Source: NGEU calculations
It will take much longer in this cycle for both employment and economic growth to reach their pre-crisis peak. This is owing to the depth of the 2020 contraction in GDP. We are forecasting a 7% contraction compared with the 1.5% decline that was recorded in 2009. While the contraction in growth is much deeper in 2020, the number of lost jobs, while large are not as severe as the rate of GDP contraction. This could be the nature of the current lockdown where it was closed in an abrupt fashion and then gradually opened again and in the absence of the external sector.
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