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Youth employment, unemployment, skills and economic growth

1994–2014

Youth employment, unemployment, skills and economic growth, 1994–2014

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Foreword

The Quarterly Labour Force Survey (QLFS) published by Statistics South Africa provides a rich source of data for the analysis of the South African labour market. This note is based on comparisons between 1994 and 2014. The 2014 employment data are from the QLFS; the 1994 data are from the 1994 October Household Survey.

Further analysis of this reveals the complex set of issues underpinning labour markets by age and race. Importantly it provides a sharper pencil for policy to devise strategies both long term and tactical in addressing the scourge of unemployment.



Pali Lehohla
Statistician-General

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“The single most important investment any country can make is in its people” (National Development Plan: 296).

1. Introduction

The Quarterly Labour Force Survey (QLFS) published by Statistics South Africa provides a rich source of data for the analysis of the South African labour market. This note is based on comparisons between 1994 and 2014. The 2014 employment data are from the QLFS; while the 1994 data are from the 1994 October Household Survey.

Employment statistics may be analysed according to several classifications, such as population group, province, and age group. Section 2 of this report deals with the breakdown of employment according to skills level (based on types of occupations) and population groups; Section 3 examines population profiles within skills levels; section 4 examines skills profiles within population groups. Section 5 builds on section 4 by considering age groups as well; Section 6 discusses skills development and economic growth; Section 7 deals with unemployment; and Section 8 concludes with the findings and offers some areas that need urgent interventions.

2. Employment by skills level and population group

Although skills levels are not available from the QLFS directly, data relating to skills may be estimated from employees’ types of occupations. QLFS occupation types are shown in the first column of Table 1. For the purpose of this note the occupations have been grouped according to skill, shown in the second column of Table 1.

Table 2 shows the growth in each of the skills groups between 1994 and 2014. In terms of absolute numbers, the semi-skilled group experienced the most growth, but that was partly the consequence of it being the largest group in terms of workforce during both periods. In relative terms, the skilled group experienced by far the fastest growth, namely 107,6% (over the period as a whole) compared with 66,3% for semi-skilled and 49,1% for low-skilled.

Table 1 – Grouping of QLFS occupations according to skills level

Occupation (from QLFS)	Grouping according to skills level
Manager Professional Technician	Skilled
Clerk Sales and services Skilled agriculture Craft and related trade Plant and machine operator	Semi-skilled
Elementary Domestic worker	Low-skilled

Table 2 – Employment by skills level

Skill level	1994 (000)	2014 (000)	Change (000)	Change (%)
Skilled	1 831	3 801	+1 970	107,6
Semi-skilled	4 184	6 957	+2 773	66,3
Low-skilled	2 882	4 296	+1 414	49,1
Total	8 896	15 054	+6 158	69,2

The evidence presented in Table 2 points to a change in the skills profile of the South African workforce between 1994 and 2014. The change in the composition of the workforce, by level of skill, is shown in Table 3. For the population as a whole, there was a shift in composition towards skilled labour (+4,6 percentage points) and away from low-skilled labour (-3,9 percentage points).

Table 3 – Composition of employment by skills level

Skill level	1994 (% of total)	2014 (% of total)	Change (% points)
Skilled	20,6	25,2	+4,6
Semi-skilled	47,0	46,2	-0,8
Low-skilled	32,4	28,5	-3,9
Total	100,0	100,0	-

Tables 4 and 5 show the breakdown of employment by population group.

Table 4 – Employment by population group

Population group	1994 (‘000)	2014 (‘000)	Change (‘000)	Change (%)
Black African	5 620	10 955	+5 335	94,9
Coloured	1 118	1 622	+504	45,1
Indian / Asian	336	493	+157	46,7
White	1 823	1 985	+162	8,9
Total	8 896	15 054	+6 158	69,2

Table 5 – Composition of employment by population group

Population group	1994 (% of total)	2014 (% of total)	Change (% points)
Black African	63,2	72,8	+9,6
Coloured	12,6	10,8	-1,8
Indian / Asian	3,8	3,3	-0,5
White	20,5	13,2	-7,3
Total	100,0	100,0	-

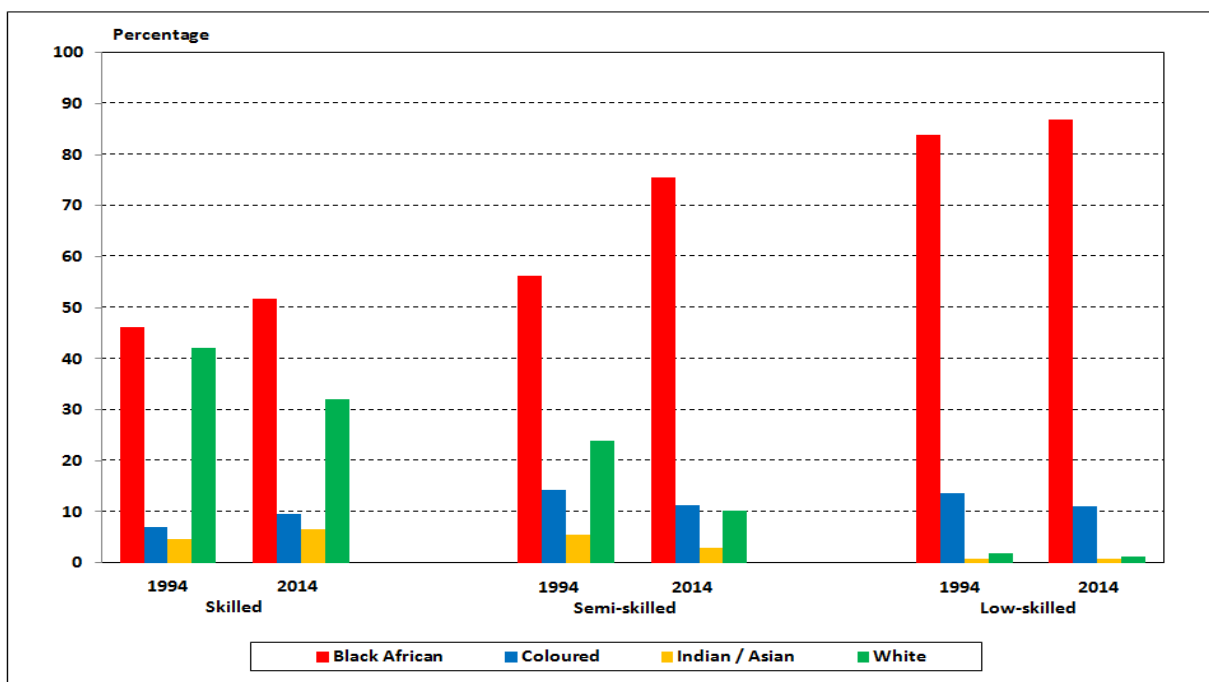
Table 4 shows that by far the fastest-growing group in total employment was the black African population, both in absolute and relative terms. Table 5 shows that the black African population made up 63,2% of total employment in 1994 and 72,8% in 2014, an increase of 9,6 percentage points. All other population groups declined as a proportion of total employment, with the largest decline evident in the white population (-7,3 percentage points).

3. Population profiles with skills levels

Tables 2 and 3 illustrated the growth in skilled labour relative to semi-skilled and low-skilled labour, while Tables 4 and 5 illustrated the growth in employment in the black African population relative to the other population groups. Figure 1 shows the composition of each skills level in terms of the population groups. Briefly:

- By weight of numbers, the black African population (red bars) dominated all skills levels in both periods, and their dominance increased across all three skills groups between 1994 and 2014;
- Skilled: all population groups increased their proportion except the white population (which declined);
- Semi-skilled: there was a large increase for black African (+19,2 percentage points) and a large decline for white (-13,7 percentage points);
- Low-skilled: black African increased (+3,1 percentage points), whereas the other groups declined or were unchanged.

Figure 1: Employment composition of skills groups by population group



The decrease in the proportion of white employment within skilled employment, and the corresponding increase in the proportion of the other population groups within skilled employment gives some indication of the transformation in the South African labour market that took place during the first 20 years of democracy. It is, however, only a part of the story, and misleading if not examined further, because the breakdown of skills levels by population group (Figure 1) fails to show the highly skewed nature of employment in terms of these two categories. To convey the extent of the imbalances it is necessary to analyse employment in terms of the breakdown of each population group by skills level.

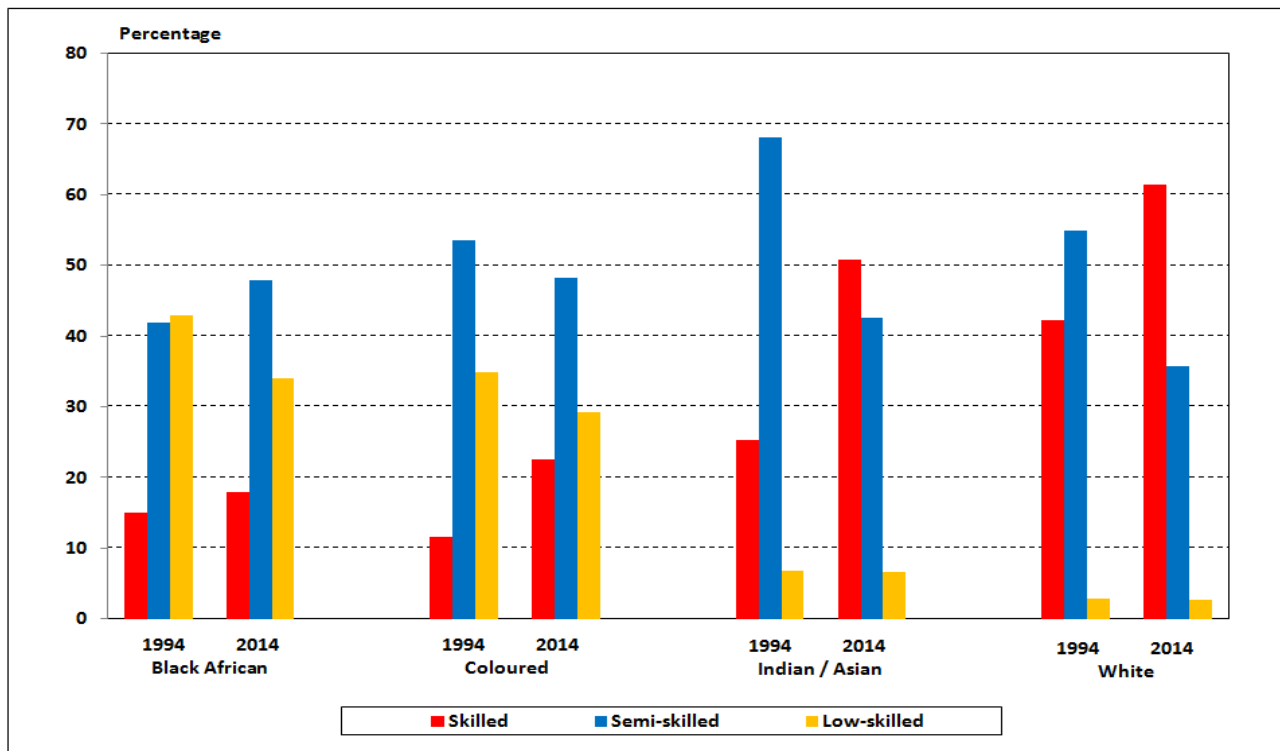
4. Skills profiles within population groups

Section 2 showed a trend in favour of skilled employment and away from low-skilled employment, in relative terms (Table 3). This section investigates whether these changes were uniform or different within the different population groups.

Figure 2 illustrates that within population groups, the white population had the highest proportion of skilled employment in 1994: 42,2% compared with 15,1% in the black African population. Such was the legacy of lingering apartheid employment practices.

Between 1994 and 2014 there was a general increase in the proportion of skilled employment (see red bars in Figure 2) for all population groups. The extent of the increase, however, was vastly different. The lowest increase took place within the black African population, from 15,1% to 17,9%, an increase of 2,8 percentage points. The highest increase occurred within the Indian / Asian population, namely 25,5 percentage points. There were increases of 10,9 percentage points within the coloured population and 19,3 percentage points within the white population group employees.

Figure 2: Employment composition of population groups by skills group



The outcome was that skilled employment within white employment reached 61,5% in 2014, compared with 50,7% within Indian / Asian employment, 22,5% within the coloured population employed, and just 17,9% within black African employment. If transformation through reversing the patterns of apartheid is evident as a theme in Figure 1, it is not a theme that resonates in Figure 2.

Box 1

“Economic transformation is about broadening opportunities for all South Africans, but particularly for the historically disadvantaged. It is about raising employment, reducing poverty and inequality, and raising standards of living and education. It includes broadening ownership and control of capital accumulation. In addition, it is about broadening access to services such as banking services, mortgage loans, telecoms and broadband services, and reasonably priced retail services. It is also about equity in life chances and encompasses an ethos of inclusiveness that is presently missing. This includes equity in ownership of assets, income distribution and access to management, professions and skilled jobs.”

National Development Plan: 138

The lack of progress in building the skills profile within the black African population raises the question of skills development. Training and its importance for economic growth will be discussed in section 6. Before we get there, section 5 takes the analysis a step further by considering age groups.

5. Employment composition and skills level by population group and age group

Figure 2 showed the changing mix of skills within each population group. This can be further broken down by age group. The results are shown in Figures 3a to 3d. In Figures 3b to 3d, the increase in the proportion of skilled employment is clearly evident in the coloured, Indian / Asian and white populations; and it is seen across all age groups within these population groups (compare the red bars with the blue bars in the skilled group). In the case of the black African population group (Fig 3a), the increase in the proportion of skilled employment is much less pronounced; and in the age group 25–34, the proportion of skilled employment fell between 1994 and 2014.

Figure 3a: Employment composition within each skills level by age group: black African population group

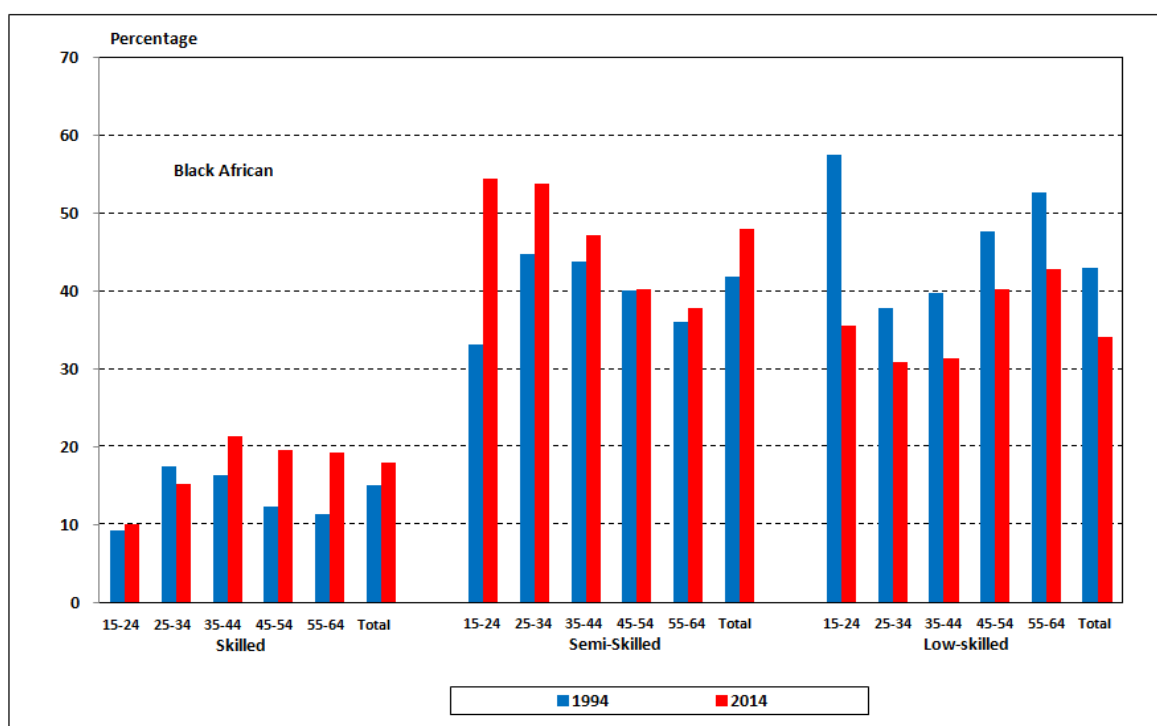


Figure 3b: Employment composition within each skills level by age group: coloured population group

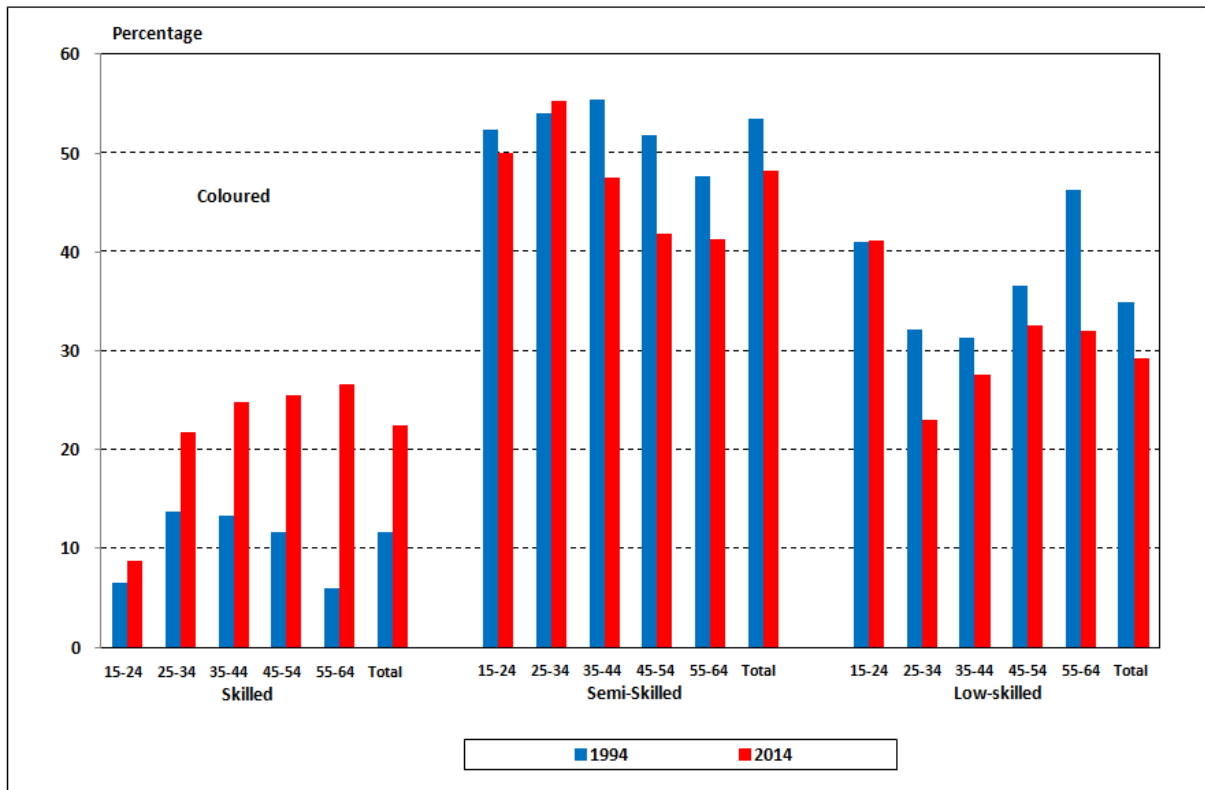


Figure 3c: Employment composition within each skills level by age group: Indian / Asian population group

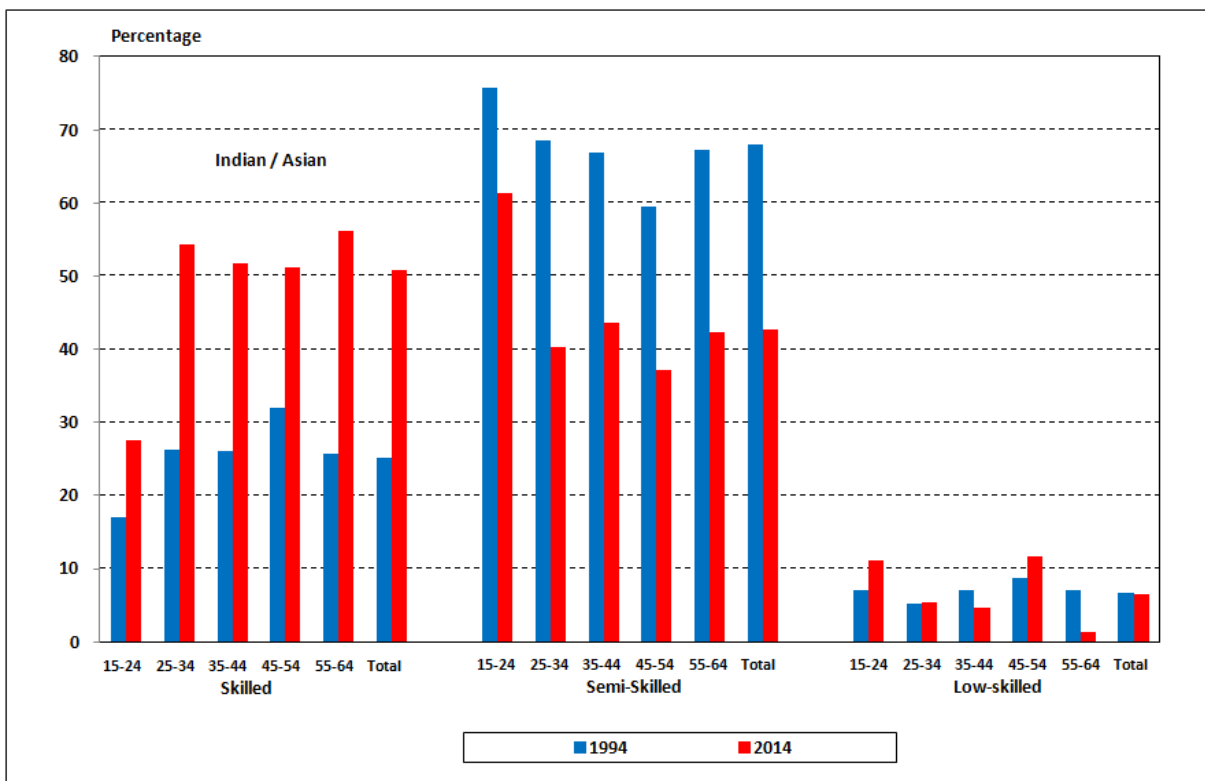
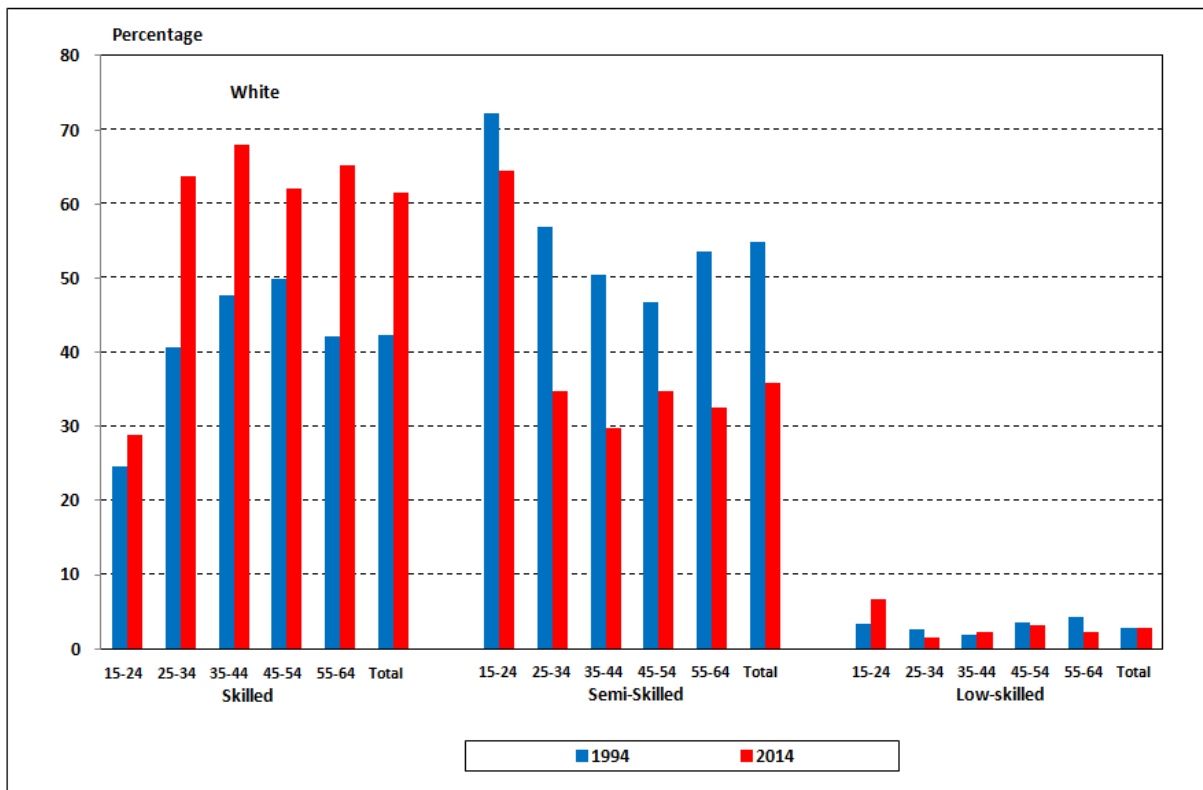


Figure 3d: Employment composition within each skills level by age group: white population group



6. Skills development and economic growth

South Africa’s rate of economic growth, as measured by real gross domestic product (GDP), increased from an average of 2,7% per annum during 1997–2003 to 5,2% per annum during 2004–2007, but then slowed to 2,2% per annum during 2008–2013. Growth in employment has also fallen well short of what is needed to achieve a meaningful decline in the country’s unemployment rate, which in the first quarter of 2014 was estimated at 25,2%.

There is little doubt that recent GDP growth has been well below potential. While slow growth at home has been partly the result of the global economic crisis of 2008–2009 and ongoing poor economic performance across much of the developed world, there are many economic and social reforms which need to be implemented domestically to put South Africa on the road to sustainable and equitable economic expansion. These are comprehensively laid out in the National Development Plan (NDP) and related policy documents.

Skills development and other forms of human capital are widely recognised as a key factor in economic growth. In South Africa the education system, from basic education to universities, is far from optimal. Although it is difficult (if not impossible) to quantify the extent education (or the lack of it) has contributed to (or hindered) economic growth, few would dispute the need for far-reaching changes in our skills development efforts. Employers would dearly love to see young people coming out of training programmes better equipped to cope with the demands of the workplace. The evidence of Figures 2 and 3 discussed above is that the black African population in particular is not being well served by the skills development system in its current form.

The NDP recognises the shortcomings of South Africa's educational system and the importance of addressing these urgently to achieve the skills development that will be needed for higher levels of growth in GDP and employment. The NDP discusses the issue of skills at length. Chapter 9 of the NDP is titled *Improving education, training and innovation*. It is beyond the scope of this note to cover all of the NDP's analysis and proposals relating to education reform, but the following points from the NDP convey the weight it attaches to the development of skills.

The NDP identifies "four key features" of South Africa's "low growth, middle income trap". These are weak competition for goods and services; high unemployment; low savings; and a "poor skills profile" (NDP: 110). It finds that the labour environment is characterised by "weak skills" (NDP: 132). "South African employers spend too little on training their staff and investing in their long-term potential" (NDP: 138).

The NDP states that the "quality of education for most black children is poor" (NDP: 48). It found that "South Africa loses half of every cohort that enters the school system by the end of the 12-year schooling period, wasting significant human potential and harming the life-chances of many young people" (NDP: 305).

Regarding higher education, the NDP states that "the performance of existing institutions ranges from world-class to mediocre" (NDP: 50). It argues that the "South African post-school system is not well designed to meet the skills development needs of either the youth or the economy... Though some institutions perform well and have the academic expertise and infrastructure to be internationally competitive, many lack adequate capacity, are under-resourced and inefficient" (NDP: 316). "The data on the quality of university education is disturbing... The need to improve quality is demonstrated by the reports of graduates who are unable to find employment..." (NDP: 317).

The NDP is also critical of the further education and training (FET) system, which it found to be "not effective. It is too small and the output quality is poor. Continuous quality improvement is needed as the system expands" (NDP: 50). "Approximately 65 percent of college students are unable to find work experience... The college sector is intended as a pathway for those who do not follow an academic path, but it suffers from a poor reputation due to the low rate of employment of college graduates" (NDP: 320).

The sectoral education and training authorities (SETAs) have also experienced serious difficulties. The SETAs were introduced in 1997 and were intended to develop sector-specific skills (see NDP: 323). The NDP identified six problems with the SETAs, namely poor governance; inadequate human resources; poor administration and financial management; no proper monitoring and evaluation system; no accurate records of the number of people who have benefited from the system and what the impact has been; and no linkages with the post-school sector.

There are a number of possible explanations for the current state of affairs. The apartheid legacy, the closing of teacher training colleges, the inappropriate merging and restructuring of educational institutions, the introduction of outcomes-based education, and weak administration; all of these have played a role. Whatever the impact each of these and other factors may have had, of utmost importance is to recognise the need for rapid and effective change to address the situation.

The NDP is very clear about the need for skills development in promoting economic growth and reaching related goals: “South Africa has set itself the goals of eradicating poverty, reducing inequality, growing the economy by an average of 5,4 per cent, and cutting the unemployment rate to 6 per cent by 2030. Education, training and innovation are critical to the attainment of these goals” (NDP: 296–7). Indeed, improving the quality of education, skills development and innovation is one of three priorities that the NDP itself identifies for achieving its overall objectives; the other two are (1) raising employment through faster economic growth, and (2) building the capacity of the state to play a developmental, transformative role (NDP: 27).

Amongst the NDP’s “enabling milestones” is to “ensure that skilled, technical, professional and managerial posts better reflect the country’s racial, gender and disability makeup” (NDP: 34). And amongst its “critical actions” is an “education accountability chain, with lines of responsibility from state to classroom” (NDP: 34).

To address the “skills crisis”, the NDP identifies “improving the quality of education outcomes throughout the education system as one of the highest priorities over the next 18 years, and beyond. This includes the post-school system which the [National Planning] Commission believes must provide quality learning opportunities for young people; adults who want to change careers or upgrade skills; people who have left school before completing their secondary education; and unemployed people who wish to start a career” (NDP: 133). The country “must reform the system of skills training to provide for the needs of the economy ... and of society as a whole” (NDP: 144).

Box 2

Amongst the NDP’s proposals relating to South Africa’s youth, for whom skills development is critical, are the following (NDP: 30):

- Improve the school system, including increasing the number of students achieving above 50 per cent pass rate in literacy and mathematics, increasing learner retention rates to 90 per cent and bolstering teacher training.
- Strengthen youth service programmes and introduce new, community-based programmes to offer young people life-skills training, entrepreneurship training and opportunities to participate in community development programmes.
- Strengthen and expand the number of FET colleges to increase the participation rate to 25 per cent.
- Increase the graduation rate of FET colleges to 75 per cent.
- Provide full funding assistance covering tuition, books, accommodation and living allowance to students from poor families.
- A tax incentive to employers to reduce the initial cost of hiring young labour-market entrants.
- A subsidy to the placement sector to identify, prepare and place matric graduates into work. The subsidy will be paid upon successful placement.
- Expand learnerships and make training vouchers directly available to job seekers.
- A formalised graduate recruitment scheme for the public service to attract highly skilled people.
- Expand the role of state-owned enterprises in training artisans and technical professionals.

7. Unemployment

Closely associated with skills development is the burning issue of unemployment. South Africa’s rate of unemployment is high by world standards and is associated with a range of social problems such as poverty, inequality and crime.

Table 6 provides an overview of the changes that took place between 1994 and 2014. Employment rose by 6,2 million, but the labour force (those working and those seeking work) rose by 8,7 million, resulting in a net increase of 2,6 million in unemployed. The unemployment rate increased from 22% to 25%.

The expanded definition of unemployment, which will henceforth be denoted unemployment*, includes those who are unemployed and who are available to work, whether or not they have taken active steps to find employment. Based on this definition, the number of unemployed people* rose by 3,5 million between 1994 and 2014. The unemployment* rate was stable at 35%.

Table 6 – Changes in employment and unemployment

	1994	2014	Change	Change (%)
Employed ('000)	8 896	15 054	+6 158	69,2
Unemployed ('000)	2 489	5 067	+2 578	103,4
Labour force ('000)	11 386	20 122	+8 736	76,7
Unemployment rate (%)	22	25	+3 % points	-
Unemployed* ('000)	4 707	8 157	+3 450	73,3
Labour force* ('000)	13 603	23 212	+9 609	70,6
Unemployment* rate (%)	35	35	unchanged	-

* Based on the expanded definition of unemployment.

Figure 4 shows that the burden of unemployment was unequally spread over the population groups in 1994. Using the expanded definition, the numbers of unemployed* and the corresponding unemployment* rates were: black African 4 160 052 or 43%; coloured 343 750 or 24%; Indian / Asian 70 763 or 17%; and white 132 208 or 7%. The short explanation of these enormous differences is the legacy of apartheid.

By 2014 the black African unemployment* rate had declined from 43% to 40%, but this is of no consolation to the additional 3,1 million black African economically active population who are unemployed*: the latter rose from 4,2 million to 7,3 million (Figure 4). The unemployment* rates and the number of the unemployed* increased in all the other population groups. To say that labour market trends over 1994 to 2014 were disappointing would be a terrible understatement. Linking this discussion to the earlier analysis of skills, we turn now to the impact of education (Figure 5).

Figure 4: Unemployment* by population group (*based on the expanded definition)

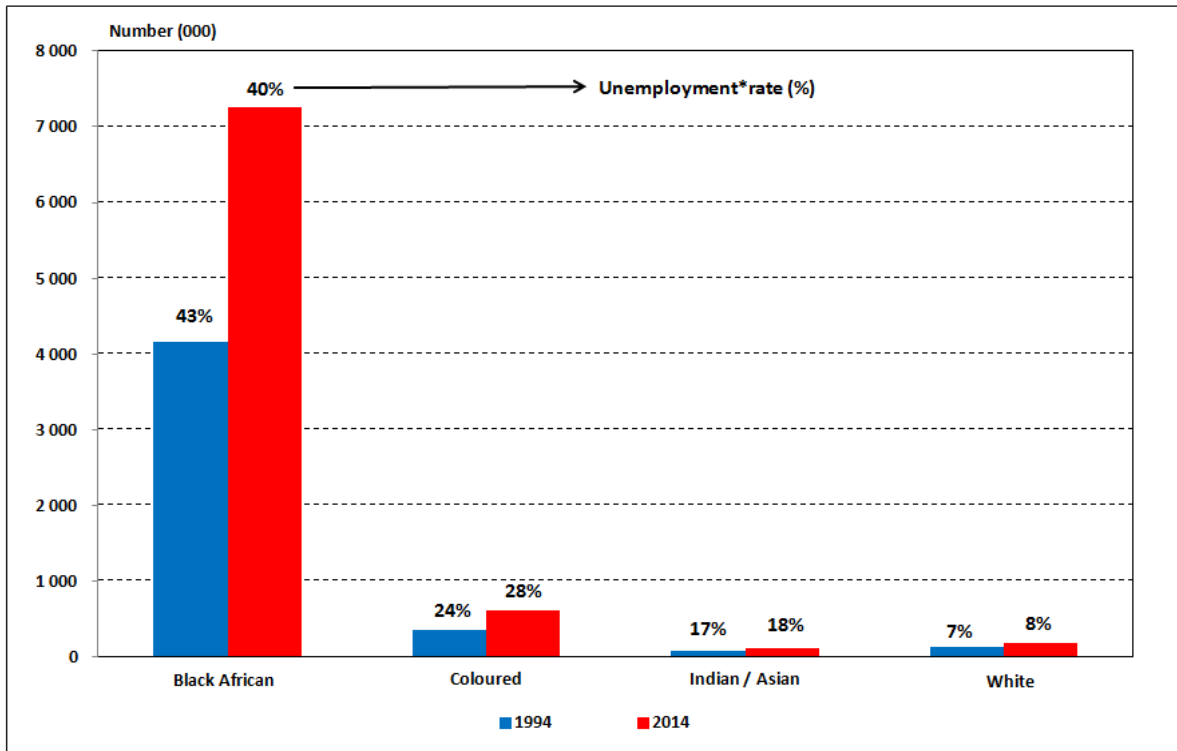


Figure 5: Unemployment* by educational level (*based on the expanded definition)

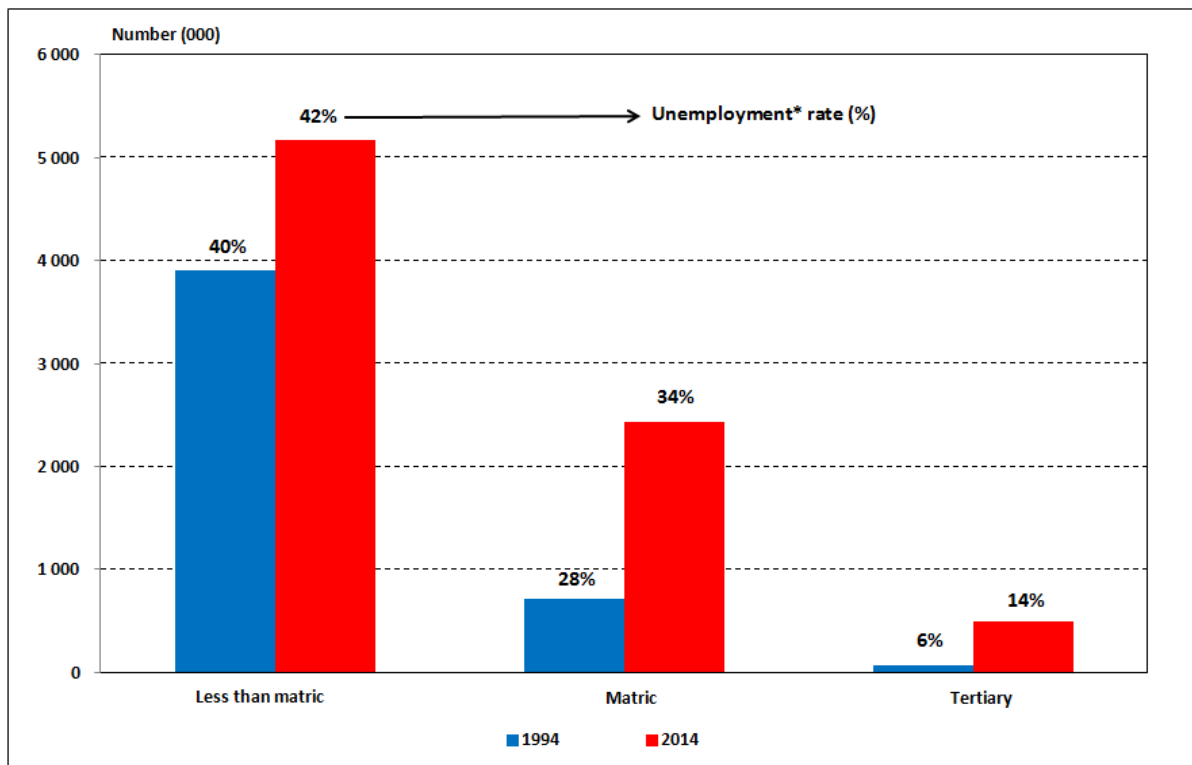


Figure 5 reveals education as an important determinant of unemployment* in both 1994 and 2014. In 2014 the numbers of unemployed* and the corresponding unemployment* rates for educational levels were: less than matric 3 904 489 or 40%; matric 710 622 or 28%; and tertiary 70 650 or 6%. Each of these categories worsened between 1994 and 2014 both in terms of the number of the unemployed* and the unemployment* rates.

Figure 6: Unemployment* rates by population group and educational level (*based on the expanded definition)

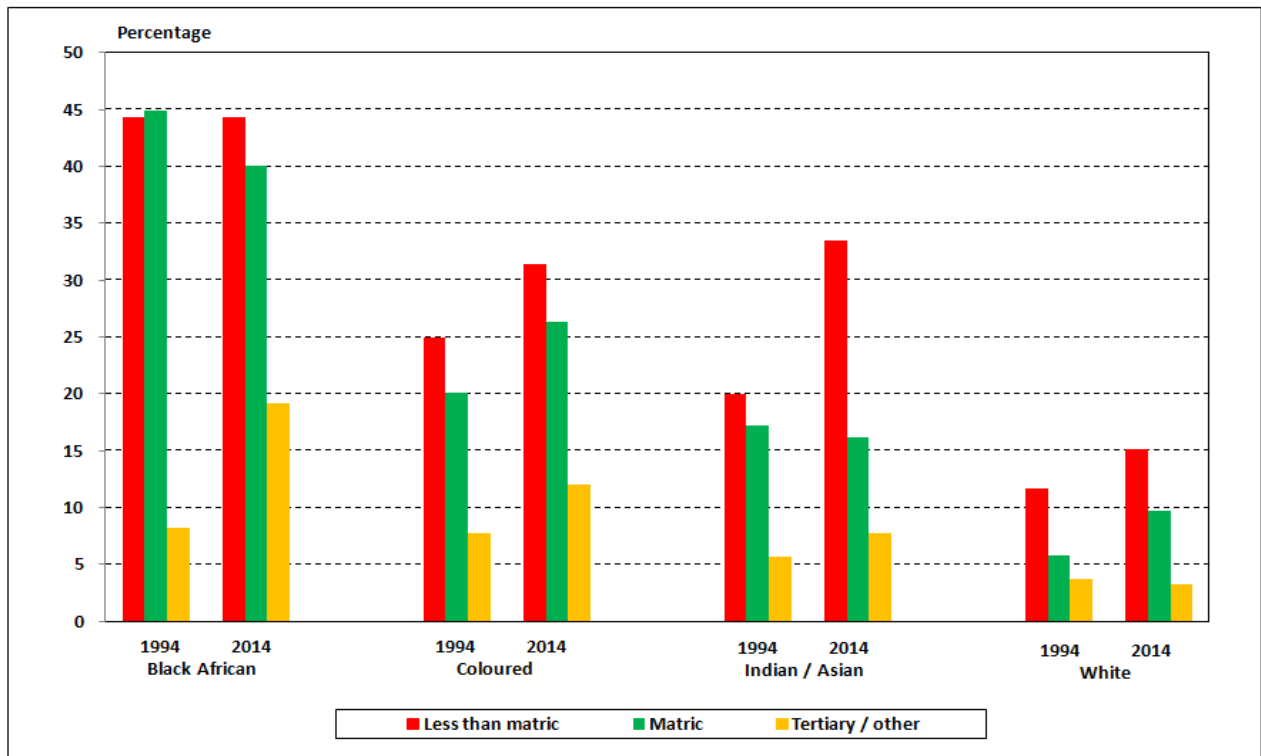


Figure 6 shows the combined impact of race and education on unemployment* rates. In both 1994 and 2014 the highest unemployment* rates were experienced by the black African population group who had no tertiary education, and the lowest unemployment* rates were experienced by the white group with tertiary education. From the information in Figures 1 and 2, these outcomes are expected.

The general trend in Figure 6 is an increase in unemployment* rates between 1994 and 2014. There are three exceptions, namely black Africans with matric, Indians / Asians with matric, and whites with tertiary education.

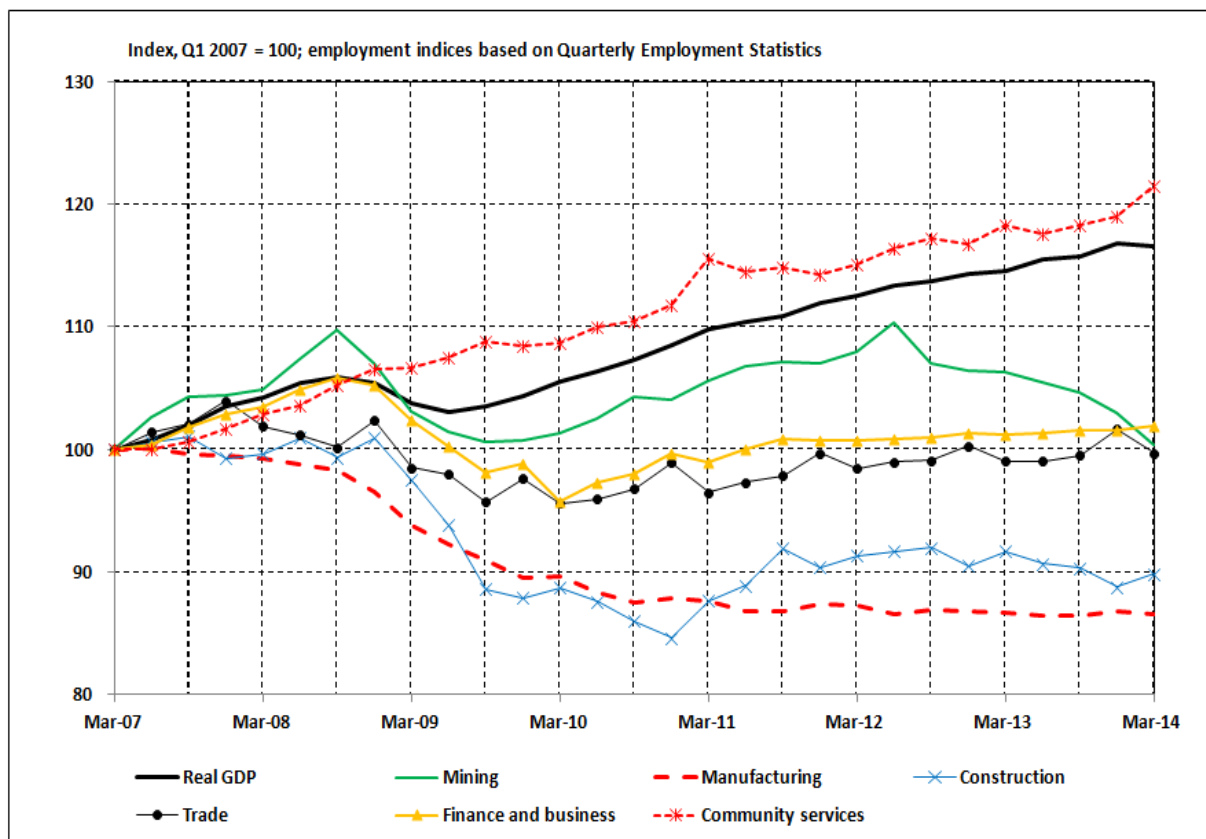
Box 3

Possibly of most concern is the increase in the unemployment* rate for black Africans with tertiary education. It more than doubled, from 8% to 19%. Not many would have predicted such an outcome for the post-apartheid period when access to the labour market, at least for those with skills, should have been easier after so many decades of racial exclusion. The trend raises serious questions about the quality and/or appropriateness of tertiary education and reinforces the findings made above regarding skills development.

Explaining high unemployment and its uneven distribution is complex. Apart from the apartheid legacy and skills, employment and unemployment are inevitably affected by factors such as labour market flexibility, relative labour and capital productivity, relations between business and labour unions, global competition and globalisation, wage rates, black economic empowerment, and legislation that affects the labour market directly or indirectly. Much focus falls on the need for economic growth as a solution to unemployment, all the more so because the rate of employment creation tends to fall short of growth in real GDP (i.e. to create employment growth of x% seems to require real GDP growth of (x + y)%). Figure 7 illustrates this for the period since 2007, during which only community services, which includes the public sector, experienced higher growth in jobs

compared with GDP (the employment figures are for the formal economy only). The worst performer was manufacturing, which employed 13% fewer workers in 2014 compared with 1994.

Figure 7: Formal-sector employment in selected industries and real GDP



Slow employment creation is also evident from transition rates, i.e. the rate at which people change their labour market status from one quarter to the next. Table 7 shows that on average, for the period 2010 to 2013, the transition rate from unemployment in one quarter to employment in the following quarter was 11,2%. And this needs to be offset against those who were employed in the first quarter and who became unemployed or not economically active in the second (4,2%).

Level of education does not appear to be a good predictor of quarterly movements from unemployed to employed, although those with less education are more at risk of leaving employment from quarter to quarter (approximately 6% movement for those without matric compared with 1,2% for those with tertiary). Adults are more likely to find employment than the young, and adults are more likely to remain in employment. Experience is also important (the transition rate from unemployed to employed was 6,5% for those without experience and 14,7% for those with experience).

Table 7: Transition rates* by highest level of education and age

	From unemployment to employment (%)	From employment to unemployment or not economically active (%)
Total	11,2	4,3
Highest education level:		
Primary	14,0	5,7
Secondary not completed	11,1	6,1
Secondary completed	9,9	3,7
Tertiary	12,1	1,2
Age:		
Youth (15–34 years)	10,2	6,4
Adult (35–64 years)	13,4	2,9

* From one quarter to the next quarter, average for 2010 to 2013.

8. Conclusion

There is widespread acknowledgement of the failings of South Africa’s education system. Government, business, teachers and learners all recognise that skills development has been far from optimal and is in need of serious attention. Recent economic growth in South Africa has also been well below potential, and although the low rate of economic growth has many explanatory factors, it is difficult to avoid the conclusion that a lack of skills within the workforce is one of them.

The NDP describes the inadequacies of the country’s education system at length. It proposes a range of improvements without which economic growth is unlikely to meet the rates required to facilitate transformation in general, and, in particular, meaningful reductions in the unemployment rate and meaningful advances in the skills profiles across all population groups. “Closer to 2030, South Africa should be approaching ‘developed world’ status, with the quality of life greatly improved, with skilled labour becoming the predominant feature of the labour force and with levels of inequality greatly reduced” (NDP: 157).

The QLFS statistics presented in this note underscore the findings of the NDP on the education system and the burning need for improvements. Between 1994 and 2014 there was an increase in skilled employment as a proportion of total employment (+4,6 percentage points: Table 3), and a substantial increase in the black African proportion of total employment (+9,6 percentage points: Table 5). However, the gains made in the proportion of skills were highly uneven within population groups. The gains made in the black African population were marginal (Figure 2), a pattern which is clearly evident across all age groups (with a decline in age group 25–34 years) (Figure 3a).

The statistical evidence from the QLFS is that the implementation of effective policies to accelerate transformation in skills development is one of the great challenges that the country faces. The challenge is all the more pressing when seen in the context of recent GDP statistics, which have been well below their growth potential. The country’s skills development is inadequate to meet the current demands of employers across the private and public sectors, and those demands will only grow in future. For economic growth to reach the targets of the NDP, and to be sustained at those levels in an equitable way, the implementation of effective skills development programmes across the entire educational spectrum cannot be delayed.

Between 1994 and 2014 employment grew from 8,9 million to 15,1 million, but this was not nearly adequate to address the problem of unemployment. The latter grew by 2,6 million, or by 3,5 million on the expanded definition. Worst affected by the unemployment crisis is the black African population, whose lack of access to effective skills development needs to be addressed with urgency.