

September 2019

Influences on fluctuations in South Africa's labour force participation

This analysis focuses on QLFS data from 2008 to 2016. The highlights of this study are:

- The significance of the labour force participation rate is that it provides an indication of the relative size of the supply of labour available to engage in the production of goods and services.
- In emerging economies such as South Africa, labour force participation can be seen to decline with economic growth, expanding educational facilities and extended time spent studying.
- The youth (aged 15-24) is the main driver of the labour force participation rate, and those with tertiary education, matric and less than matric delaying their entry into the labour market. This may depend on changes in the economy and other socio-economic and demographic conditions.
- In South Africa, a shift in employment from the primary sector to the tertiary sector caused increased labour participation rates in particular urban(metro) areas (hence high participation rates in Gauteng and Western Cape), while participation of young persons across the country remained low.

1. Introduction

The current socio-economic situation in South Africa poses two challenges. The first is to provide opportunities for the integration of the marginalised and excluded section of the population into productive activities and the general mainstream economy, primarily through employment and general labour market participation. The second challenge, especially for those who are not economically active, is to provide poverty relief to support the economic functioning of such a household unit. Every population necessarily has some sections remaining economically inactive either because of age, education, preferences or other reasons such as retirement or disability. While not everyone can be economically active, the performance of an economy is measured, *inter alia*, by the level of labour market participation either through job searching or employment status. Although South Africa's labour force participation rate is low, it is in line with general international levels¹. It becomes somewhat disturbing, however, if the participation rate seemingly takes a downward turn or a sudden increase as indicated by available data. Examination of Statistics South Africa's (Stats SA) Quarterly Labour Force Survey (QLFS) results reveal a shrinking pool of active labour market participants between 2008 and 2010, while an upward trend is visible between 2010 and 2016.

This is an explorative analysis aimed at stimulating more rigorous analysis of factors that drive labour force participation. It proposes that factors to be considered should firstly include the relationship between labour participation and changes in the unemployment rate; the general level of economic activity with a focus on structural and cyclical features of the economy; and demographic changes that have an impact on labour force participation in South Africa, such as age group and gender. The next section outlines trends in unemployment and labour market participation using QLFS data between 2008 and 2016. It is followed by an explorative analysis of the general level of economic activity, and possible driving forces behind the increase in the labour force participation rate since 2010. The final section highlights challenges for labour market research and policy.

2. Unemployment and labour market participation: 2008 – 2016

A decline in the rate of unemployment is usually a reliable indicator of economic growth and robust job creation. The number of people who were actively looking for and were available for jobs, but could not find any (i.e. the officially unemployed) increased from a seasonally adjusted 4,25 million in 2008 to 5,76 million in 2016 - an increase of 1,51 million over the period. However, the total number of people employed increased by only 1,2 million between 2008 and 2016, while the labour force, or working-age population (aged 15–64), increased by 4,9 million people. The net outcome points to an increase in the number of unemployed that were not matched in magnitude by total jobs created. In

¹ South African Institute of Race Relations (SAIRR). 2017. South Africa Survey 2017. Johannesburg

addition, it appears that rather than actively looking for work, many job seekers pulled out of the labour market and became part of the non-economically active population.

The apparent increase in both official and expanded unemployment was accompanied by an increase in the number of people not economically active², and necessitate some investigation on possible underlying factors. An additional 1,37 million non-economically active people dropped out of the labour market between 2008 and 2016, amid new entrants also growing the working-age population. The purpose of this article is to probe the former, i.e. the possible determinants of the apparent withdrawal from, entrance and re-entrance into the labour market, within the context of the general trend in domestic economic activity.

Figure 1: Official unemployment and labour force participation, 2008 – 2016.

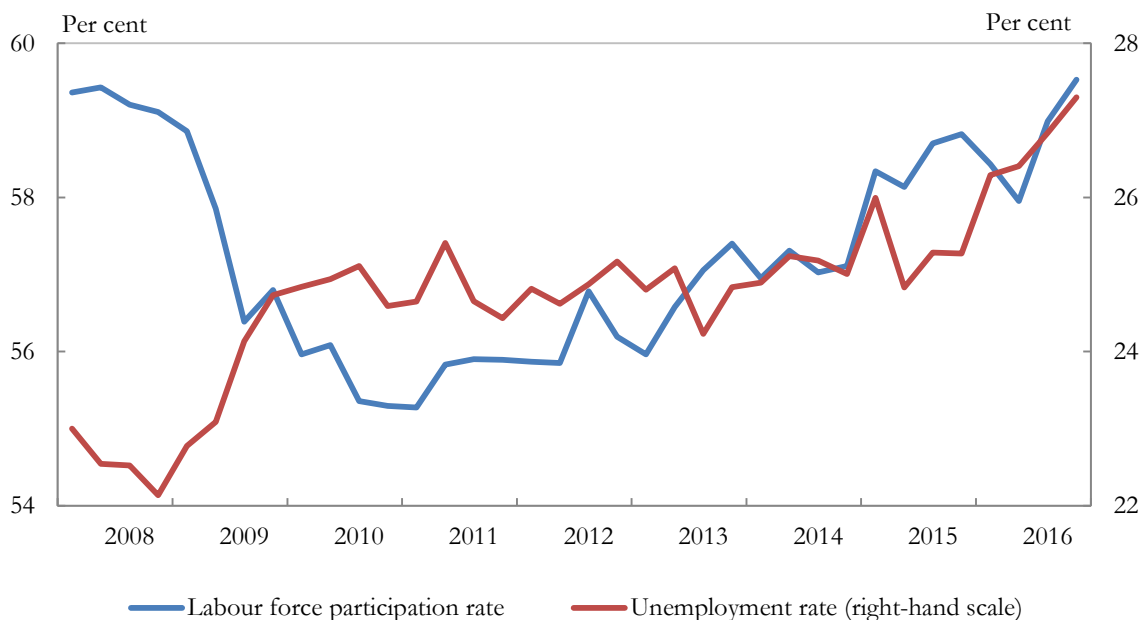


Figure 1 plots the quarterly official unemployment rate and labour force participation rate from 2008 to 2016. Labour force participation rates are useful indicators of overall movement into and out of the labour market. Figure 1 reveals that the propensity for households to attach themselves to the labour market – either by actively searching for jobs or actually being employed – was similar in 2008 and in 2016. However, a clear downward trend is visible up to 2010, followed by an upward trend. The initial downward and later upward trend in the labour force participation rate could have occurred among new entrants to the workforce, in particular the youth, who opt to further their

² Not economically active persons are those, according to Stats SA’s published QLFS, outside the labour force and are regarded as inactive. This inactivity can be voluntary if the person prefers to stay at home or to begin or continue education, or involuntary, where the person would prefer to work but is discouraged and has given up hope of finding work.

studies rather than entering the labour market. The economic recession in 2008-2009 likely enforced the initial downward trend due to largescale retrenchments and discouragement.

Earlier studies³ found that the pre-global financial crisis reduction in South Africa’s labour force participation rate was in response to modest job creation and discouragement, between 2000 and 2004. In addition, discouragement could have been due to labour force participants who could have pulled out of the labour market due to retrenchments and sickness. Retrenchments lead to the discouragement effect, where especially unskilled job seekers cease to look for work as employers demand workers with secondary and tertiary education. As a result of sickness, in particular HIV/Aids illness, a significant number of workers lost hope of finding a job in certain instances.

3. Labour force participation by age and gender

Figure 2: Labour force participation by age groups: 2008 and 2010, 2010 and 2016

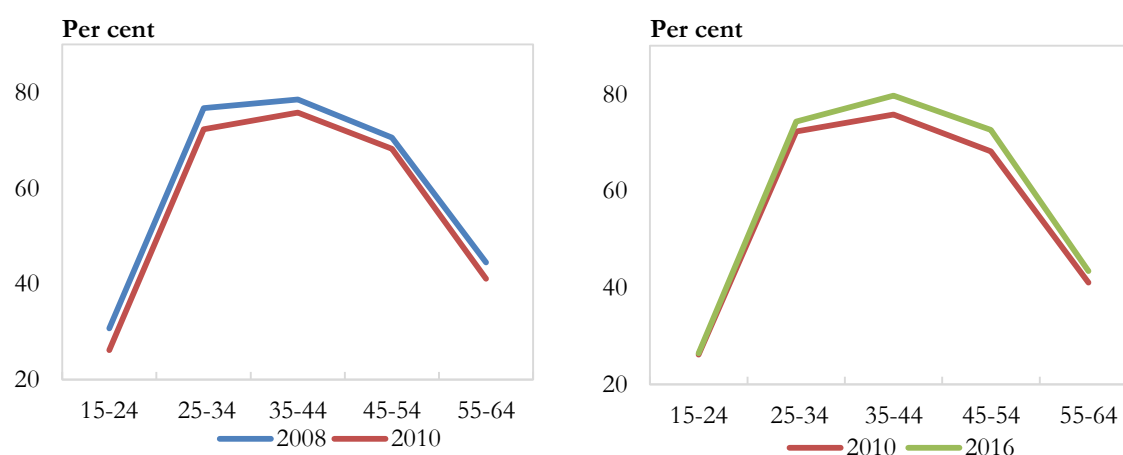


Figure 2 displays age-specific labour force participation rates between the ages 15 and 64 years for 2008 and 2010 as well as 2010 and 2016. The graph mirrors a typical pattern of labour force participation during a person’s life cycle; it tends to rise with age from entering the labour force and peaks in mid-adulthood before tapering off to the normal retirement age. The fact that the likelihood of participating in the labour market increased since 2010 for the middle-aged cohorts, but decreased for the younger cohorts implies that the obstacles or deterrents to active participation became progressively greater for the youngest working age cohort (15-24 years), compared with the older workforce. Secondly, low participation rates within the youngest workforce could indicate that outright non-participation among new entrants reaching working age was more of an overriding force behind lower participation rates for the youngest age cohort.

³ International Labour Organization (ILO). 2011. Global jobs pact country scan, South Africa. Geneva. Lehutso-Phooko, L. 2004. What drives changes in labour market participation in South Africa? Labour Market Frontiers, December. Pretoria: South African Reserve Bank

Figure 3: Labour force participation by gender, 2008 – 2016



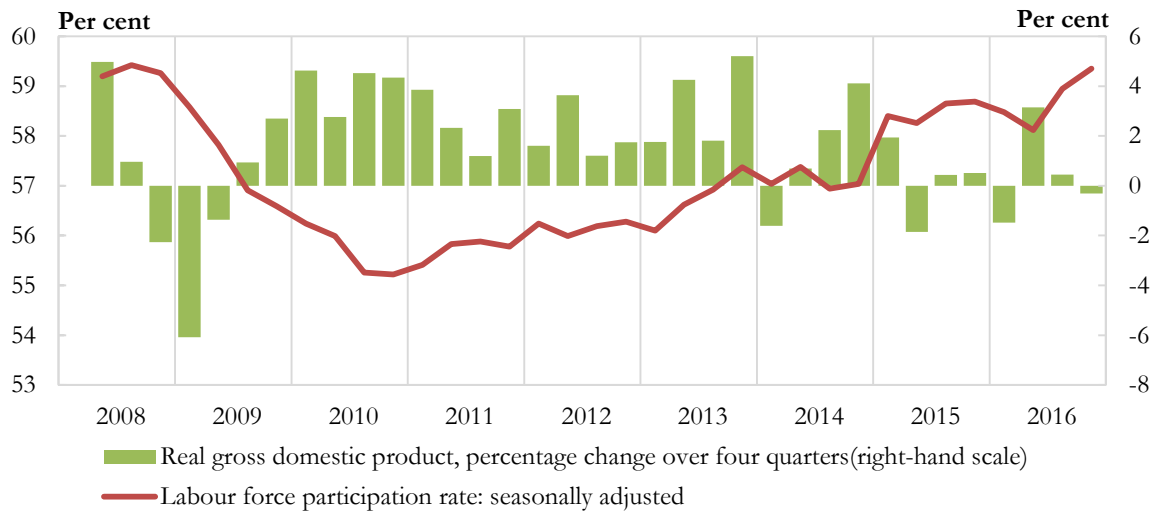
The QLFS results further show that disaggregated labour force participation rates for both females and males increased from 2010 to 2016. Figure 3 shows that the likelihood of working females attaching themselves to the labour market became progressively better relative to that of males, albeit from a low base. In other words, the conditions for female participation became progressively conducive since 2010, although the gender gap remained prevalent over the 2008 to 2016 period. The next section attempts to probe what drove these changes in labour participation in the economy and whether it has behaved differently since the onset of the global financial crisis.

4. General economic activity and labour force participation

The state of the labour market is a key indicator that affects decisions of households to participate in the labour force. During economic expansions, there is higher demand for labour, hence participation rates generally increase for all groups. On the other hand, during economic contractions, there is less hiring and less demand for labour and the labour force participation rate decreases. Cyclical changes in participation rates occur in reaction to the business cycle and are usually short-term occurrences. Historically, in developed countries such as the United States (US), cyclical factors have had the largest effect on the youth's (15-24) labour force participation rate. However, rising school attendance of youths (a structural change) strengthened the effect of the 2001 recession (a cyclical impact) in the US. This combination of structural and cyclical factors lowered youth participation rates to a new historical low at the time. The US economy, at one time or another has experienced a combination of demographic, structural and cyclical changes that has

affected the overall participation rate, as well as the participation rates of different age, race, gender and ethnic groups⁴.

Figure 4: Labour force participation rate and gross domestic product



In emerging and developing countries like South Africa, the labour force participation rate can often be seen to decline with economic growth, as economic growth is associated with expanding educational facilities and longer time spent in post-matric and tertiary study by the youth. As shown in Figure 2, the labour force participation rate for the 15-24 age cohort in the post-financial crisis has remained below 30% between 2008 and 2016. The data, in a U-shaped curve (Figure 4), indicate that the decrease in the labour force between the second quarter of 2008 to the third quarter of 2010 is largely related to the youth. Delayed first-time entry into the labour market could be attributable to, at least to some extent, young people deciding to remain longer in schooling and in tertiary education. A pre-and post-financial crisis impact study by the ILO showed that young South African workers, in part, responded to the crisis by preferring to accrue additional human capital. Furthermore, the 15-24 age cohort had the expectation of advancing their prospect of employment in future upward cycles. Additionally, the report concluded that it was also possible that young households, who do not have grade 12 certificates, tend to join the high number of discouraged work-seekers, enter the labour market on unspecified contracts and create volatility in the informal sector⁵.

In identifying the intricacy of the factors that affect economic activities, there are a number of key issues that are part of the cause of changes in labour force participation in South Africa. These

⁴ Toosi, M. (2011) “A behavioural model for projecting the labour force participation rate” Bureau of Labor Statistics (BLS) Monthly Labor Review, May 2011, pp25-41.

⁵ International Labour Organisation (ILO). 2011. Global jobs pact country scan, South Africa. Geneva

include the Not in Employment, Education or Training (NEET) rates for youth aged 15-24 years, changes in labour demand, domestic economic geography, developments in public sector employment and changes to the supply of labour. However, there are data limitations with regard to long-term analysis associated with part-time employment (limited contracts), expanded public works programmes and domestic and regional migration patterns. Overall, South Africa is not unique as Figure 2 demonstrates that the main driver of low participation rates is among the 15-24 age cohort. Hence, part-time and public works programmes should be seen as positive developments that allow young workers to expand their skills and knowledge in anticipation of better jobs in future⁶. Furthermore, the country displays similar characteristics to other developing countries, whereby a significant proportion of youth is unable to enrol or drop out of education (due to adverse socio-economic conditions or to supplement their household incomes) and are perpetually trapped in poverty or lower paying jobs.

The emergence of new production activities and different working conditions are very important in influencing the decision to enter or exit the labour force. Employment shifts from primary sectors (agriculture and mining) to services (finance, wholesale and retail trade, community and social services) in South Africa deepened post the global financial crisis and was aggravated by incomplete structural changes preceding the crisis⁷. The ILO⁸ observed that labour participation rates for the South African economy decreased consistently for the first time since 1994, hence young workers delayed their entry into the labour market. The shift in employment from the primary and secondary sectors to services also caused changes in the conditions of employment in the domestic economy. Simultaneously, the growth in part-time⁹ work (limited duration and unspecified duration contracts) attracted more young (not in education) workers into the labour force.

In a similar analysis in the OECD¹⁰, it was found that economic advancement in less-developed OECD countries was the driver of a U-shaped labour participation rate curve with young female workers withdrawing from or delaying their entry in or exit out of the labour market and only entering a few years later as skilled workers. Likewise, unskilled or semi-skilled young female workers accepted part-time work with generally lower hourly earnings, fewer training and limited promotion opportunities, as well as less job security during economic recovery. Moreover, the sectors that attracted young female workers were wholesale and retail trade in the private sector and public works programmes in the public sector.

⁶ International Labour Organisation (ILO). 2011. Global jobs pact country scan, South Africa. Geneva

⁷ Bhorat, H & Oosthuizen, M. 2008, Employment shifts and 'jobless growth' debate. In: Andre Kraak, Karen Press (eds). Human Resources Development Review 2008, Education, Employment and Skills in South Africa.

⁸ International Labour Organisation (ILO). 2011. Global jobs pact country scan, South Africa. Geneva

⁹ Statistics South Africa. February 2014. Quarterly Labour Force Survey: Historical revisions of the QLFS. Pretoria

¹⁰ Thevenon, O. (2013), "Drivers of Female Labour Force Participation in the OECD", OECD Social, Employment and Migration Working Papers, No. 145, OECD Publishing, Paris. <http://dx.doi.org/10.1787/5k46cvgmns6-en>

In South Africa, growth in part-time work is associated with both young female and male workers and migrant workers in less skilled-intensive employment sectors such as other business services (labour broking), trade, and community and social services (expanded public works) during economic upswings. Furthermore, a shift from primary sectors caused increased labour participation rates in urban (metro) areas (hence high participation rates in Gauteng and Western Cape) and lower participation for young persons in other provinces or rural areas.

5. Conclusion

The post global financial crisis decline in labour force participation occurred mainly among the young working-age population, mostly due to the youth (supply-side) delaying their entry into the labour market, and also to some extent due to changes in labour demand. However, other research show that pre-financial crisis labour participation changes were due to changes in labour demand, and were more prevalent among the adult working age. The probe into the likely drivers of net aggregate declines and rises in labour force participation rates could be improved by empirical studies such as forecasting the labour force participation rate, using variables such as domestic economic cycles, wages, school enrolment, and other social protection variables. It is important for empirical based studies to attend to both micro and macro-based issues, as well as the relevant interlinkages¹¹. Such attempts would more essentially serve policy-making, sequencing and implementation.

¹¹ Central Bank of Chile. 2005. Labor Market and Institutions. Banco Central de Chile. Santiago