

Policy commentary: Demand for skills in South Africa

24 March 2004

Introduction

The Department of Labour's 'State of Skills in South Africa' now before Nedlac identifies three important developments that characterize the structural changes which have occurred in the South African economy, and which have important consequences for the demand for skills, namely:

- financial and business services have expanded significantly over the last five years;
- while manufacturing remains a major contributor to the national output, its share contribution has been declining; and
- mining as a sector shows moderate growth, which has nevertheless been associated with large-scale job losses as mining houses turn to technology (by becoming more capital intensive in their production) in order to improve profitability.

These structural changes in the economy have been widely reported and commented on for some time now. What the Department of Labour attempts to do is to understand the demand for skills within the context of these shifts.

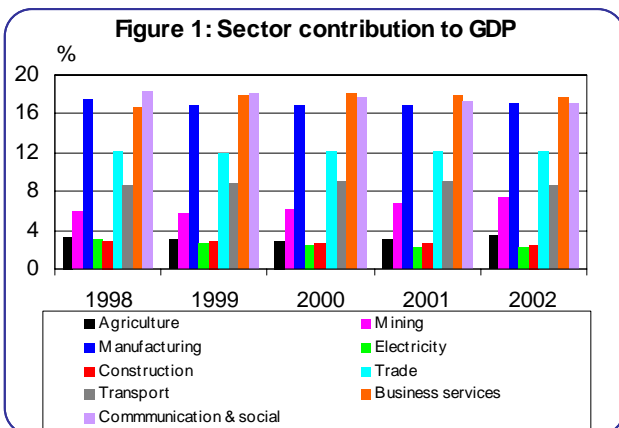
Background

According to the Department of Labour, between 1990 and 1998, formal employment of semi-skilled and low skilled workers fell by 19% (or approximately 700,000 jobs), while employment of skilled and highly skilled workers rose by 12% (or 80,000 jobs). Across the various sectors a similar pattern in labour usage is evident: while demand for low and semi-skilled workers has declined, the demand for skilled and highly skilled workers has increased.

During this period, two important changes occurred in the economic environment namely a process of liberalisation of the economy, and the rapid uptake of technology in all sectors. Both of these developments favoured skilled labour.

Sectors and growth

After 1998, financial or business services (comprising financial intermediation, insurance, real estate, and business services) overtook manufacturing as the leading contributor to GDP, thus marking a shift in the economy towards a

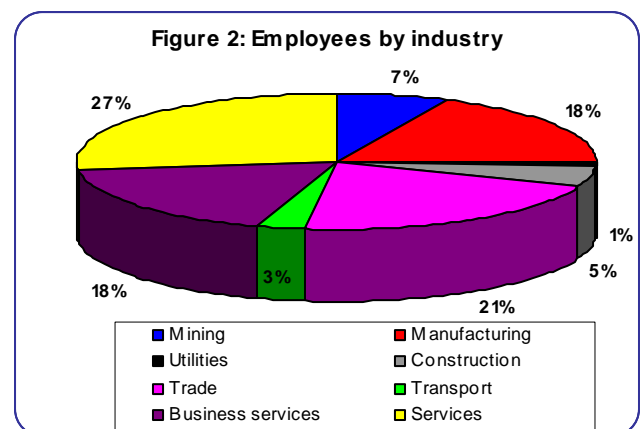


Source: Stats SA, various October Household surveys and Labour Force Surveys

greater service orientation. While manufacturing's contribution fell from 19% to 17%, during the period 1998 to 2002, agriculture and the mining sector's contribution to GDP grew during the same period. (The latter having more to do with the devaluation of the Rand during this period, as the commodities in both sectors are traded on the world markets in dollar denominated terms). Other sectors have either remained relatively unchanged, or declined in their contribution to GDP over time as Figure 1 indicates.

Sectors and employment

Figure 2 represents the current profile of employees by industry - excluding agricultural employment figures (which are heavily influenced by seasonal factors).



What, then, are the factors that create or at least facilitate the demand for skills? According to the Department of Labour, the demand is influenced by, but not limited to, the following factors:

- changes in the main economic sectors in which people are employed;
- employment trends by occupational group at the sector level;
- trends in the geographic location of employment of people in different sectors and occupations;
- the formal qualifications of workers, across sectors and occupations; and
- the types and levels of skills that are utilized by firms (e.g. basic, intermediate, specialist, managerial, etc.)

Commentary

A more dynamic picture of the changing sectoral share of employment, and hence the demand for skills, is provided in an unpublished monograph prepared for the Presidency's 10 Year Review by the UCT academic, Haroon Borat. He argues that in terms of absolute employment, between 1995 and 2002, all sectors witnessed an increase in employment with the exception of Mining & Quarrying (6% to 4%), Community Services (23% to 18%) and Post & Telecommunications (2% to 1%). (see Table 1).

He goes on to add that there were important shifts in the sectoral allocation of employment – Internal Trade (17% to 20%) and Finance, Real Estate & Business Services (6% to 9%). Borhat makes the observation that differential output expansion at the sectoral level is one of the key reasons that aggregate economic growth will deliver uneven growth in employment.

The observation is an obvious but important one, insofar as it is important to seek a more nuanced approach to the problem of what has variously been described as ‘jobless growth’. Employment growth will follow sectoral growth and will invariably be premised on a growing and deepening skills profile. A corollary as the Department of Labour observes, would be that even sectors that are in decline overall such as agriculture, mining and transport employ proportionately more skilled and highly skilled workers (even as they are shedding others at the lower end of the qualifications spectrum). This shift in skills is captured in Table 2.

Table 1: Sectoral share of employment 1995 and 2002

Main Sector	1995	Share	2002	Share	% Change
Agriculture, Fishing & Forestry	1184712	0.12	1477255	0.13	24.69
Mining & Quarrying	59300	0.06	481343	0.04	-18.83
Manufacturing	1420956	0.15	1596496	0.14	12.35
Utilities	84041	0.01	84550	0.01	0.61
Construction	433492	0.05	527678	0.05	21.73
Internal Trade	1650017	0.17	2191347	0.20	32.81
Transport & Communication	469200	0.05	550918	0.05	17.42
Transport	329194	0.03	434613	0.04	32.02
Post & Telecommunications	140006	0.02	116305	0.01	-16.93
Finance, Real Estate & Business Services	582897	0.06	1023373	0.09	75.57
Community, Social & Personal Services	2952269	0.31	3117365	0.28	5.59
Domestic Services	800887	0.08	1132666	0.10	41.43
Community Services (excl Domestic Services)	2151382	0.23	1984699	0.01	-42.39
Other Producers	186601	0.02	10793	0.01	-42.39
Total	9557185	1.00	11157818	1.00	16.75

Source: H Borhat – Employment trends in post-apartheid South Africa 2003

Table 2: Share of Employment by Three Skills Categories¹ and Main Sector

Main Sector	Year		Skilled		Semi-skilled		Low skilled	
	1995	2002	1995	2002	1995	2002	1995	2002
Agriculture	1995	2002	1%	1%	22%	56%	77%	43%
Mining & Quarrying	1995	2002	4%	4%	77%	89%	19%	7%
Manufacturing	1995	2002	6%	10%	74%	75%	19%	15%
Utilities	1995	2002	6%	9%	79%	82%	13%	8%
Construction	1995	2002	6%	6%	74%	74%	19%	20%
Internal Trade	1995	2002	14%	10%	66%	60%	20%	30%
Transport & Communication	1995	2002	15%	22%	73%	67%	11%	11%
Transport	1995	2002	19%	23%	69%	64%	12%	12%
Communication	1995	2002	5%	17%	83%	78%	10%	5%
Finance	1995	2002	17%	25%	77%	67%	6%	8%
Comm. Services	1995	2002	13%	19%	71%	70%	15%	11%
Private Households	1995	2002	0%	0%	3%	16%	97%	84%
Unspecified	1995	2002	7%	5%	35%	17%	17%	4%
Total	1995	2002	9%	11%	59%	61%	31%	27%

Source: H Borhat – Employment trends in post-apartheid South Africa 2003

Standard Bank Economics Division research team

Iraj Abedian (PhD) – Director & Group Economist
 (+27-11-636-2910) Iraj.Abedian@standardbank.co.za

Africa research

Henry Flint (PhD)	+27-11-636-2875	Henry.Flint@standardbank.co.za
Jan Duvenage (BA, BCom (Hons))	+27-11-636-4557	Jan.Duvenage@standardbank.co.za
Isaac Matshego (BCom (Hons))	+27-11-636-7186	Isaac.Matshego@standardbank.co.za
Robert Bunyi (BA (Hons))	+27-11-631-1279	Robert.Bunyi@standardbank.co.za

Financial markets research

Monica Ambrosi (BA (Hons))	+27-11-636-5323	Monica.Ambrosi@standardbank.co.za
Shireen Darmalingam (BBusSc (Hons))	+27-11-636-2905	Shireen.Darmalingam@standardbank.co.za

Macroeconomic research

Johan Botha (DCom)	+27-11-636-2463	Johan.Botha2@standardbank.co.za
Elna Moolman (MA, MCom)	+27-11-631-2018	Elna.Moolman@standardbank.co.za

Public policy

Francis Antonie (MA, MBA)	+27-11-636-2909	Francis.Antonie@standardbank.co.za
---------------------------	-----------------	--

Kindly email Brenda.Landsberg@standardbank.co.za should you wish to be included on our research distribution list. Do visit our web site <http://ed.standardbank.co.za> to view our most recent research or to access our archives.

Disclaimer

This document does not constitute an offer, or the solicitation of an offer for the sale or purchase of any investment or security. This is a commercial communication. If you are in any doubt about the contents of this document or the investment to which this document relates you should consult a person who specialises in advising on the acquisition of such securities. Whilst every care has been taken in preparing this document, no representation, warranty or undertaking (express or implied) is given and no responsibility or liability is accepted by the Standard Bank Group Limited, its subsidiaries, holding companies or affiliates as to the accuracy or completeness of the information contained herein. All opinions and estimates contained in this report may be changed after publication at any time without notice. Members of the Standard Bank Group Limited, their directors, officers and employees may have a long or short position in currencies or securities mentioned in this report or related investments, and may add to, dispose of or effect transactions in such currencies, securities or investments for their own account and may perform or seek to perform advisory or banking services in relation thereto. No liability is accepted whatsoever for any direct or consequential loss arising from the use of this document. This document is not intended for the use of private customers. This document must not be acted on or relied on by persons who are private customers. Any investment or investment activity to which this document relates is only available to persons other than private customers and will be engaged in only with such persons. In European Union countries this document has been issued to persons who are investment professionals (or equivalent) in their home jurisdictions. Neither this document nor any copy of it nor any statement herein may be taken or transmitted into the United States or distributed, directly or indirectly, in the United States or to any U.S. person except where those U.S. persons are, or are believed to be, qualified institutions acting in their capacity as holders of fiduciary accounts for the benefit or account of non U.S. persons; The distribution of this document and the offering, sale and delivery of securities in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by the Standard Bank Group Limited to inform themselves about and to observe any such restrictions. You are to rely on your own independent appraisal of and investigations into (a) the condition, creditworthiness, affairs, status and nature of any issuer or obligor referred to and (b) all other matters and things contemplated by this document. This document has been sent to you for your information and may not be reproduced or redistributed to any other person. By accepting this document, you agree to be bound by the foregoing limitations. Unauthorised use or disclosure of this document is strictly prohibited. Copyright 2003 Standard Bank Group. All rights reserved.