Below is the original article as accessed on https://www.businesslive.co.za/bd/economy/2018-07-31-unemployment-rate-rises-as-manufacturing-sector-sheds-105000-jobs/ at 17 Aug 2018.

Unemployment rate rises, as manufacturing sector sheds 105,000 jobs

On the plus side, the mining sector added 38,000 jobs and youth unemployment declined slightly

31 JULY 2018 - 11:38 *by* SUNITA MENON

Picture: THE TIMES

SA's unemployment rate worsened to 27.2% in the second quarter, from 26.7% in the first quarter, Statistics SA reported on Tuesday in its quarterly labour force survey.

Manufacturing lost 105,000 jobs; community, social and personal services lost 93,000; and trade lost 57,000 jobs.

On the plus side, transport added 54,000 jobs, construction added 45,000 and mining added 38,000.

While mining has taken strain, job increases were seen in nonferrous metal ores, gold and uranium ore. Statistician-general Risenga Maluleke said: "These are the areas that have observed gains. In other areas, strains would have been felt but the net effect was the increase of 38,000 jobs."

The expanded unemployment rate, which includes discouraged work seekers, increased by 0.5 percentage points to 37.2%.

The number of discouraged work seekers increased to 2.9-million people during this period while the working-age population increased by 154,000 people.

The Free State suffered the largest increase in its unemployment rate, which grew by 1.6 percentage points, followed by Gauteng, at 1.1 percentage points, and the Western Cape, where unemployment rose by one percentage point.

The Eastern Cape has the highest unemployment rate, at 45.8%.

Youth employment, however, declined slightly — by 0.6 of a percentage point — to 31.6%. This bracket covers to people between the ages of 15 and 24.

Reserve Bank governor Lesetja Kganyago said last week that the current growth trajectory remained too low to tackle SA's unemployment levels.

The unemployment rate was 26.7% in the first quarter of 2018, after reaching a historical high of 27.7% in 2017 — but analysts did not expect this number to move significantly.

Unemployment has worsened significantly since the financial crisis, when it averaged between 23%-24%.

Weak growth, a slew of credit ratings and political uncertainty caused it to rise last year.

Economic growth in 2018 has already faltered, with a 2.2% contraction in the first quarter, which has led many institutions to lower their growth forecasts.

The Reserve Bank slashed its forecast from 1.7% to 1.2% earlier this month.

Investec had forecast unemployment to dip slightly to 26.5%.

Last week, Investec economist Lara Hodes said: "The subdued nature of economic growth implies that unemployment for the second quarter is likely to be similar to the first quarter's result."

FNB chief economist Mamello Matikinca said it was difficult to see where job creation would come from, as she anticipated job losses in mining, manufacturing and agriculture.

Commentary on: Unemployment Rise in South Africa

The article reports about the rise in unemployment rate of South Africa (SA) due to the decrease in net number of jobs triggered by sluggish economic growth and political instability.

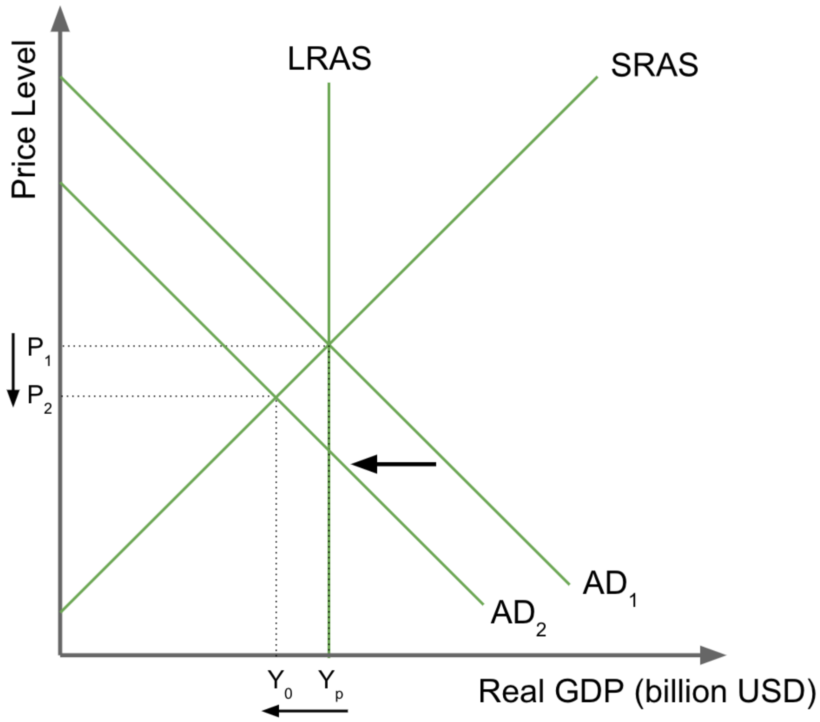

Figure 1: South Africa's recessionary gap

Unemployment rate is the percentage of working force that is currently not employed. Political instability in SA caused a decrease in business confidence due to uncertainty thus decreasing the investment by firms. Negative economic growth -0.4%[1] for the second quarter also suggests sluggish growth in incomes of individuals. This lowered their consumer confidence which reduced their spending's and increased their savings in safe assets. Both of these factors combined reduced consumption and investment causing an inward shift in aggregate demand (AD) from AD_1 to AD_2 which would decrease price level from P_1 to P_2 and

[1] Trading Economics. South Africa GDP Growth Rate. https://tradingeconomics.com/south-africa/gdp-growth. Accessed 20 Aug 2018.

real GDP from Y_p to Y_0 forming a deflationary gap (Y_p-Y_0) resulting in cyclical unemployment at 27.2%. High unemployment would mean many workers would lose their source of income increasing poverty. This would also result in increased crime and other social problems. SA's government would also be disadvantaged because spending in unemployment programs would have to increase on top of loss in tax revenue as less people are paying income tax. Businesses would also suffer because of reduced consumer confidence which would reduce consumer spending causing revenues to fall.

A suitable policy for SA to tackle the high unemployment rate and weak economic growth would be an expansionary fiscal policy where the government increases the government spending by investing in merit goods such as public infrastructure projects.

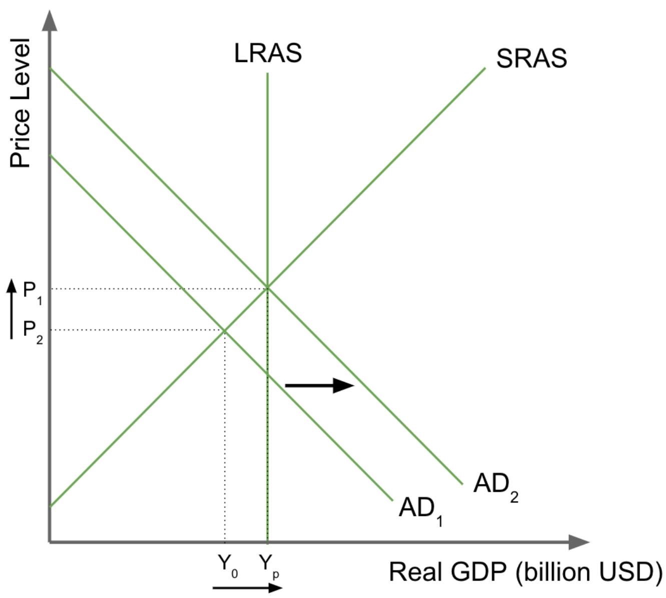

Figure 2: Short term effect of expeditionary fiscal policy on South Africa

Implementing a fiscal policy would increase the government spending (G) component of AD. In short run, this would result in a multiplying effect on the AD shifting it outwards from AD_1

to AD_2 resulting in an increase in both, real GDP from Y_0 to Y_p and price level from P_2 to P_1 respectively. The real GDP would increase however, with the consequence of an increase in price level which would result in inflation.

In the long run, expansionary fiscal policy would also result in SA's LRAS curve shifting outwards from $LRAS_1$ to $LRAS_2$. This would happen because the investments created in infrastructure and other public merit goods for example roads, bridges and schools would also increase SA's capability of producing more and hence increase potential economic output from Y_{p1} to Y_{p2}.

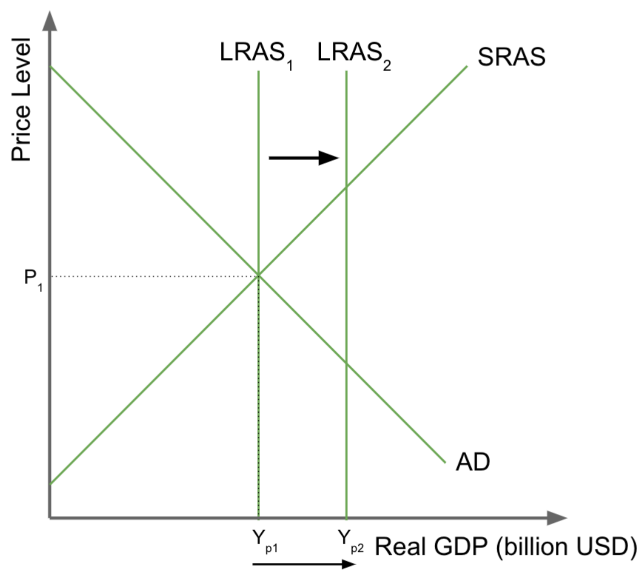

Figure 3: Long term effect of expeditionary fiscal policy on South Africa

However, as SA is already struggling with political instability fiscal policy having political constraints may be difficult to implement as the governments may not agree. A fiscal policy would also require a high government expenditure which may force SA's government to take loans from the central bank which may cause the crowding out effect (depletion of bank's cash reserves) leaving less money to be borrowed by businesses and consumers which interns would reduce the investment and consumption component of the AD reversing the effect of increase in AD to a certain extent.

An alternative which would avoid these problems would be a monetary policy which does not require any government funding and can be implemented quickly by the central bank with minimal political constraints. To implement this, SA's central bank would increase the supply of money in the economy resulting in the lowering of interest rate. Lower interest rates could incentivize individuals and business to borrow and increase spending for consumption and investment respectively rather than save. However, as the business and consumer confidence are very low, monetary policy may prove ineffective as consumers and businesses may be unwilling to spend more despite the incentive due to the fear of recession.

As SA is a developing nation with large scope for economic development, a fiscal policy's advantages in improving SA's economics potential in the long run would outweigh its disadvantages. Furthermore, the crowding out effect can be avoided if SA takes a loan from international banks rather than its central bank. Therefore, a fiscal policy would be a better long run solution in improving SA's cyclical unemployment and sluggish economic growth problem.

Word Count: 667

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