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Growth, structure and labour absorption: Economic reform and South Africa's jobs challenge

Helanya Fourie | helanya@sun.ac.za

Stats SA yesterday released South Africa's employment statistics for the first quarter of 2026. The official data shows that only 4 out of 10 working-age adults are employed. The economy needs to become better at creating jobs and absorbing labour for unemployment to fall at the scale required. And to do this, large and small firms need reliable and affordable infrastructure, better local service delivery, improved spatial planning, and a predictable regulatory environment that does not constrain economic dynamism. Only if those basics improve will firms be more willing to take the risk of investing, expanding and hiring.

The past decade was too weak to show how much employment a faster-growing economy might generate. But the sectoral pattern of growth and the constraints facing firms suggest that a GDP recovery on its own will disappoint on jobs unless the above constraints are addressed. Beyond raising economic growth, the task is to raise the employment payoff from such growth.

The current geopolitical backdrop has also become less supportive. Higher oil prices weigh on growth by raising costs across the economy. For South Africa, that added headwind should sharpen the case for domestic reform.

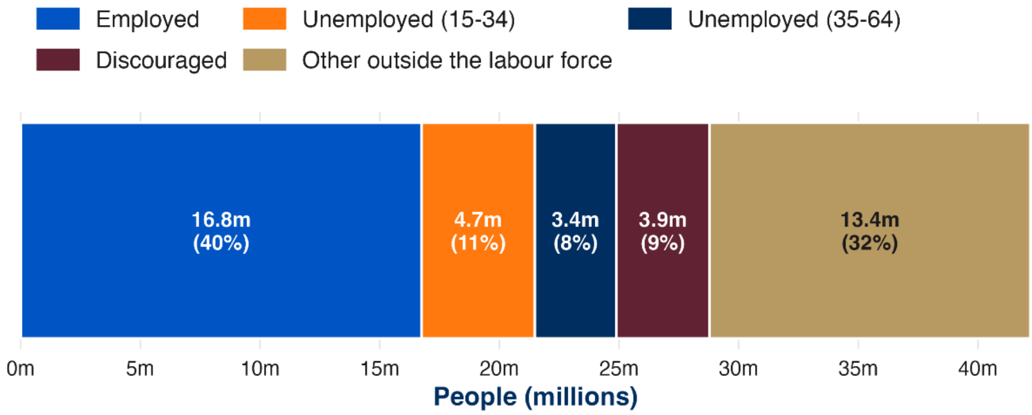
This note sketches the extent of South Africa's employment shortfall, and shows why economic reform is central to raising the employment payoff from growth. It should be read as a primer that frames the problem and sets the scene for the deeper policy choices.

WHAT THE PAST DECADE CAN AND CANNOT TELL US

The extent of South Africa's employment shortfall is unique by international standards. In the first quarter of 2026, the official unemployment rate reached 32.7% (down 0.2 percentage points from the same quarter last year but up 1.3 percentage points from 2025Q4).

8.1 million people were actively looking for work and unable to find it, and a further 3.9 million discouraged work-seekers wanted to work but had stopped searching. For many, long-duration joblessness is the norm: 6.3 million of the 8.1 million officially unemployed had been without work for more than a year.[1]

Figure 1: Labour force status breakdown of South Africa's working-age population



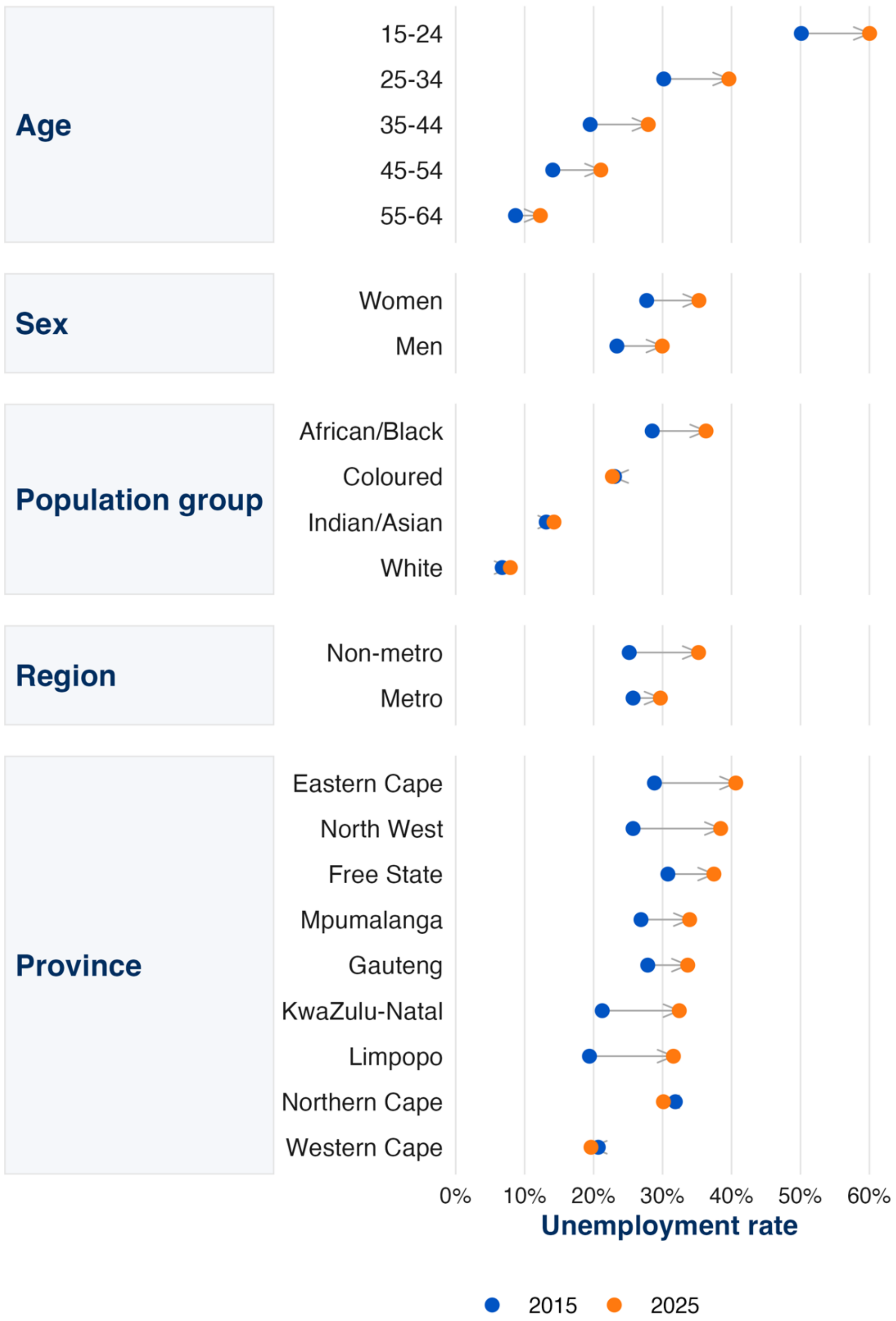
Source: Statistics South Africa, Quarterly Labour Force Survey 2026 Quarter 1.

The burden of joblessness remains concentrated among young people, women and Black Africans (Figure 2). Whereas metro and non-metro areas had comparable unemployment rates a decade ago, unemployment in non-metro areas has risen faster, reflecting weaker rural economies and the uneven geography of the jobs crisis. Stating the obvious: South Africa's labour market has been marked for some time by weak labour absorption on a very large scale.

A clearer way to illustrate the scale of the challenge is through the employment-to-population (absorption) ratio. Figure 3 shows the change in the working-age population and employed persons over the past decade, per province. The contrast in employment absorption rates among South Africa’s key economic provinces is stark. In the Western Cape, 62% of the additional working-age population added between 2015 and 2025 found jobs, with only 9% in Gauteng and 18% in KwaZulu-Natal. In the North West and the Free State, fewer people were employed in 2025 than in 2015.

[1] Statistics South Africa (2026), Quarterly Labour Force Survey 2026, Quarter 1.

Figure 2: Unemployment rates across groups: 2015 and 2025

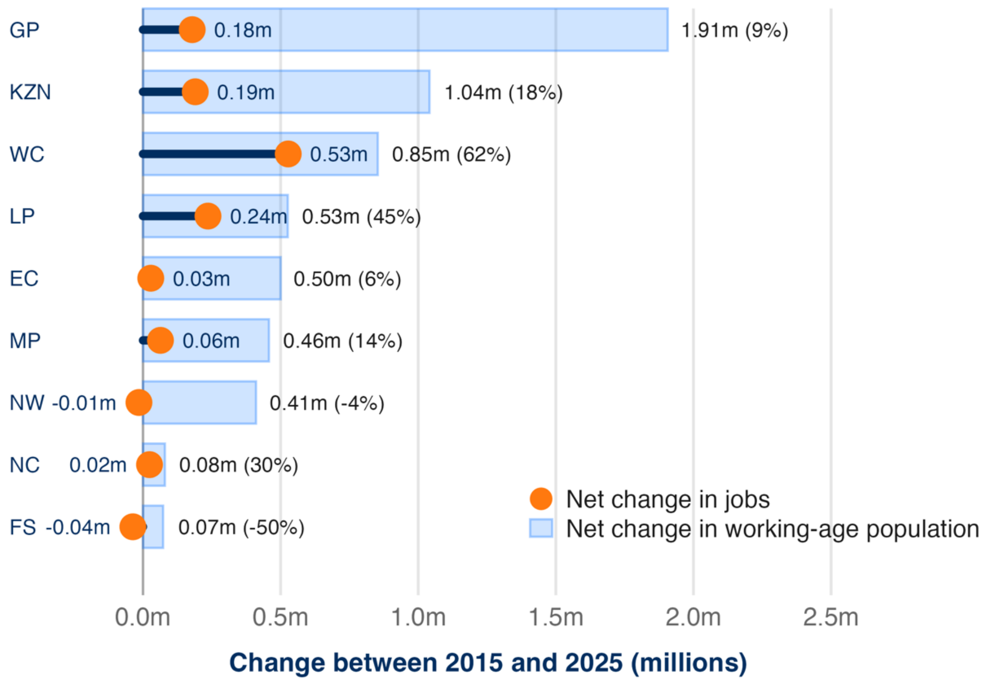


Source: Statistics South Africa, Quarterly Labour Force Survey. Notes: Official unemployment rates are shown across age, sex, population group, region and province

Economic growth creates jobs through familiar channels: stronger demand raises production, improves profitability and makes investment more attractive. This requires substantially more jobs than when demand is soft and uncertain. Firms often respond first by using existing capacity more intensively before they hire at scale.

The historical record bears out the relationship between growth and employment. Between 2001 and 2008, South Africa's economy grew by about 4-5% a year, and the official unemployment rate fell from 30.3% to 22.5%. Faster growth reduced unemployment materially. The BER's own modelling shows that a growth rate of 3% would create 2.4 million jobs by 2030, compared to 1.4 million jobs at around 1%.[2] But this remains far below the 8.1 million unemployed people in need of work and will not eliminate the employment shortfall. South Africa needs faster growth, but it also needs more job-rich growth than has been achieved over the past 15 years.

Figure 3: Employment-to-population absorption ratio per province (net labour absorbed in brackets)



Source: Statistics South Africa, Quarterly Labour Force Survey. Author's own calculations. Notes: Negative values indicate the number of employed people fell over the decade. Bar labels show the increase in working-age population, with the absorbed share in brackets.

The distinction between an employment shortfall (too few jobs available) and a high unemployment rate (people unable to find jobs) is important for policymakers. It highlights the need to focus on job creation, and not purely on capacitating the existing workforce and matching them with available opportunities (though that is important, too).

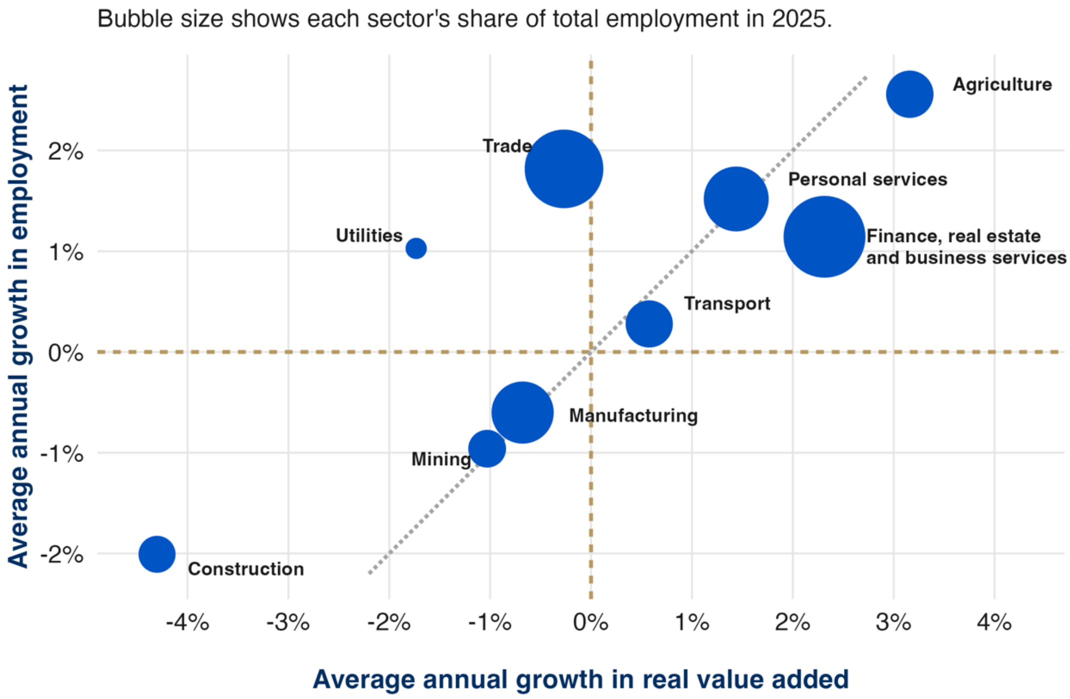
[2] For context, there were just over half a million more persons employed in 2025 than in 2019 (before COVID-19).

STRUCTURAL CHANGE AND THE EMPLOYMENT SHORTFALL

The employment outcome of faster growth will depend on how firms respond. Over time, South Africa's pattern of structural change has become less favourable to labour absorption, with a larger share of value added coming from relatively skill- or capital-intensive activities.

Figure 4 plots different industries according to their change in **value added**[3] and **formal sector**[4] employment between 2015 and 2025. Sectors below the zero-employment-growth line have shed jobs on average each year. Sectors to the left of the zero value-added line are shrinking in real terms as well. Infrastructure failures, such as load-shedding and unreliable logistics, can reduce value added by lowering output, interrupting production, increasing downtime, and forcing firms to spend more on substitutes such as generators, diesel, storage, or alternative transport. Regulatory barriers can have a similar effect, raising compliance costs, slowing investment, or discouraging firms from expanding production and employment. In this way, constraints that reduce firms' ability to produce efficiently can weaken sectoral value added and, by extension, GDP growth, creating a vicious cycle of low growth and low employment.

Figure 4: Average annual growth (2015-2025) in real value added and formal sector employment, with bubble size showing each sector's share of total employment in 2025



Source: Author's calculations using the Spatial Tax Panel 2014–2024, Version 5.1 (Nell and Visagie, 2025) and Stats SA Report 04-04-04 (Industry value added and GDP, constant 2015 prices). Notes: Average annual growth is the compound annual growth rate between 2015 and 2025. Formal sector employment is aggregated from SIC7 1-digit industries. The figure excludes general government. The dashed gold lines mark zero growth; the grey diagonal line marks equal output and employment growth.

[3] Value added (used to estimate GDP) reflects the additional economic value created after subtracting the cost of intermediate goods and services used in production.

[4] Formal sector employment is used because it directly reflects the regulatory, tax and compliance conditions under which firms make hiring decisions.

The performance of construction, manufacturing and mining is especially concerning. Construction has seen a particularly sharp decline in both value-add and employment, consistent with evidence of a prolonged sectoral downturn and a decline in investment. Manufacturing has also subtracted rather than added to GDP growth and employment, reflecting an erosion of tradable, labour-absorbing capacity for low- and medium-skilled workers. The poor performance of the mining sector is striking, given the post-pandemic commodity price upswing. However, electricity shortages, rail and port bottlenecks and regulatory hurdles have significantly constrained the sector's gains over the past decade.

Finance and business services, in contrast, have been an important source of GDP and employment growth. Yet, these sectors are unlikely to serve as a mass-employment engine for the largely low-skilled unemployed population. Trade (which here includes retail and wholesale trade, as well as catering and accommodation) has added workers faster. Still, after subtracting the cost of intermediate goods and services used in production, it has, on average, subtracted rather than added to GDP. Over time, this may negatively affect the production incentives of firms in this sector.

These patterns show that several sectors that matter for labour absorption have been shrinking outright. At the same time, with the exception of agriculture, stronger growth has been concentrated in activities less able to absorb large numbers of medium and low-skilled workers. Our focus needs to be on what has been holding back value-added and employment growth in sectors best able to absorb labour, and moving manufacturing, mining and construction from the bottom left quadrant to the top right.

Importantly, this doesn't mean policymakers can or should engineer a fixed sectoral mix or micromanage the composition of growth. Sectoral fortunes shift over time due to changes in technology (including automation and artificial intelligence), relative prices, trade conditions, consumer demand and firm entry, and they often do so in ways that are difficult to foresee in advance. Firms should not face unnecessary constraints that prevent them from responding and adapting to such changes.

A second mechanism operates within firms themselves. When demand recovers, businesses often respond first by using existing workers more intensively, reorganising production and investing in productivity-raising measures before they expand payrolls. Hiring comes later and more cautiously, especially when firms are unsure how durable the recovery will be. That helps explain why employment can lag behind output even in growing sectors.

Faster growth is vital, but it will not solve mass unemployment if it is concentrated in sectors and firms with limited labour demand. South Africa needs stronger growth, as well as the conditions that would allow it to spread into more labour-absorbing activities. Crucially, we should focus on stimulating sectors known to generate significant investment and employment, but that are being held back by domestic factors that can be controlled.

ECONOMIC REFORM AS THE ANCHOR

The BER has often highlighted failures in electricity, freight logistics, water and municipal service delivery as among the clearest reasons why growth does not translate into stronger labour demand. These bottlenecks raise costs, disrupt planning and make expansion riskier, especially in sectors that would otherwise absorb labour more readily. Under these conditions, firms are less likely to add workers even when demand improves. Sectors like construction, agro-processing, tourism, light manufacturing and many smaller firms are especially sensitive to these constraints.

Operation Vulindlela addresses many of these economy-wide frictions that hold back investment and hiring across sectors and, in this way, should encourage a stronger employment response to growth. Tackling spatial inequality addresses long commuting distances and weak transport links, which raise the cost of job search and add to the country's job mismatch problem.

But structural reforms take time, and other fixes can be made in parallel. Once (If) reforms start taking effect, the employment response will depend on whether (big and small) firms can enter markets, survive and expand. The **OECD's 2025 Economic Survey** finds that South Africa has among the most restrictive product-market regulations (PMRs) among G20 emerging market and OECD economies. The OECD PMR database usefully provides sub-indicators that capture specific features of the business environment rather than just giving a vague sense of over-regulation. Figure 5 shows South Africa's performance relative to other G20 emerging market economies (Brazil, China, India, Indonesia, Mexico, and Türkiye). It specifically highlights the severity of the administrative and regulatory burden, which relates to how easy it is for firms to find, understand and comply with rules, including whether regulations are clearly published online, written plainly, and backed by licensing processes that are not more burdensome than necessary.[5]

The OECD report recommends simplifying the regulatory framework, easing administrative burdens, streamlining public procurement, improving the governance of state-owned enterprises, reducing barriers to entry and strengthening competition in energy and transport. These issues shape firms' incentives and decisions to enter markets, expand and respond to stronger demand with more hiring. The OECD's diagnosis points to the same basic story: stronger employment growth depends not only on economic reform but also on reducing product-market and institutional frictions that inhibit business dynamism. These should not be complicated fixes.

[5] *Interaction with stakeholders* asks whether governments consult businesses and other affected groups before changing rules, whether that consultation is structured, and whether lobbying is transparent. *Barriers to entry in service sectors* measures how hard it is to enter professions and retail activities such as law, architecture, engineering, estate agency, general retail and pharmacy sales, including through licensing, exams, qualification recognition and nationality requirements. *Public procurement* looks at whether firms can compete fairly for government contracts, including whether tender rules, timelines and pre-registration requirements are proportionate and whether contracts are designed in ways that do not shut out smaller firms.

Figure 5: South Africa's product-market regulation sub-indicators relative to the G20 emerging-market average (x=0), with gold diamonds showing OECD benchmarks

Source: OECD Product Market Regulation database

A related point is that small businesses and informal enterprises are often more labour absorbing than large incumbents, yet face the heaviest burdens from poor infrastructure, administrative friction, weak service delivery and limited access to finance. Labour regulations or aspects of wage-setting should not unintentionally raise the threshold for taking on an additional hire. In an overburdened business environment, smaller and younger firms are least able to carry those costs. It is critical that labour policies and regulations balance worker protection with firms' incentives to hire new workers.

South Africa has among the lowest share of workers in informal employment[6] relative to countries with similar levels of GDP per capita (Figure 6). The share of informal employment is closer to that of Brazil, despite South Africa having a substantially lower GDP per capita.[7]

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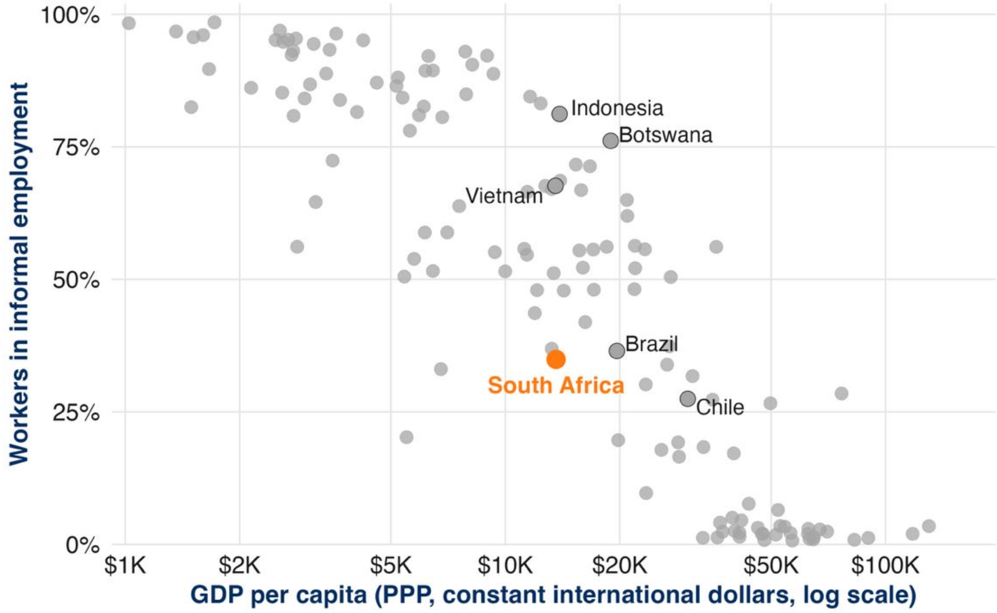
[6] ILOSTAT, the source of this data, counts a person as informally employed if their main or secondary job is in an informal enterprise, is unpaid family work or own-use production, or is a formal-sector job that is not, in law or practice, covered by labour regulation, taxation, social protection, or basic employment benefits.

[7] A recent change in the Quarterly Labour Force Survey should be borne in mind. From Q3:2025, Stats SA revised the QLFS definitions of the informal sector and informal employment to align with the 21st International Conference of Labour Statisticians. This revision did not affect the measured total number of employed people, but it did affect which workers are classified as informally employed. In particular, the new definition places more weight on business registration and tax record-keeping in identifying the informal sector, and on workers' access to social insurance or paid annual and sick leave in identifying informal employment.

Figure 6: Share of workers in informal employment and GDP per capita, latest available estimates by country



Source: Our World in Data, based on ILOSTAT and World Bank data. Notes: Each point is a country. GDP per capita and the share of workers in informal employment use the latest available estimates

Without romanticising precarious and informal work, the policy implication is to remove the barriers that prevent informal and micro-enterprises from emerging, surviving and expanding, and to recognise that the formal sector alone won't be able to solve the problem.[8]

CONCLUSION

South Africa's unemployment challenge is, above all, a crisis of weak job creation in the formal and informal sectors. Faster growth is necessary, but growth without reform will not reduce unemployment at the required scale unless accompanied by a stronger employment response. Over the past decade, the little output growth that South Africa has had has emerged from activities with limited labour-absorbing capacity, while sectors better suited to creating work at scale, such as manufacturing, construction and mining, have weakened. The immediate policy task should be to remove the constraints that hold back labour-absorbing firms and activities. A cost-effective and efficient national logistics system, reliable municipal services, better spatial design, lower barriers to entry, and a predictable operating and regulatory environment all shape whether firms invest, expand and hire. If those basics improve, and if we can make it easier for smaller, informal and younger firms to enter and grow, the employment payoff from growth could be materially higher.

[8] Drawing from a recent article by Justin Visage on **What if the formal economy can't deliver the jobs we need**?

CONTACT US

Tel: +27 (21) 808 3004
Email: helanya@sun.ac.za

Please refer to the glossary on the **BER website** for explanations of technical terms.

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