



# POLICY BRIEF

## Understanding labour demand in South Africa and the importance of data sources

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### Introduction

A key area for policy in South Africa is how to develop a strong foundation of labour market information and to provide the type of intelligence and signals that can help government, stakeholders, education and training providers, and students to make more informed decisions about how resources are invested in skills development, education and training. In order to address this need the DHET initiated a four year Labour Market Intelligence Partnership (LMIP) project, with research to be conducted by an HSRC consortium. The project investigates labour market and skill issues, with a view to produce recommendations on how education and training institutions could respond to signals from the labour market, with the goal of developing a credible skills planning mechanism for South Africa.

Building a Labour Market Intelligence System requires both demand and supply side information. Thus, the LMIP is concerned with establishing the foundation for labour market information systems (LMIS) in South Africa in which data on labour demand is indispensable, including the development of a system for forecasting the supply of and demand for skills. The analytical report on which this policy brief is based, *Understanding Labour Demand in South Africa and the Importance of Data Sources*, was conducted with the objective of **defining the nature of labour demand** in South Africa. To this end, the report pursues three main aims:

1. To clarify what is meant by labour demand and labour supply within the LMIP project.
2. To distinguish between labour market analysis and manpower forecasting analysis.
3. To highlight the sources of data that can be used to understand labour demand which are available to the LMIP.

## What is labour demand and labour supply?

According to the report, labour market outcomes result from a combination of the demand for labour by firms and the labour that workers supply. Firms are the focus of trying to understand labour demand, whilst workers are the focus of trying to understand labour supply. Who is working where and at what wage depends both on which firms are hiring workers, the wage they are paying these workers and the number of jobs that need to be filled, as well as which workers are making themselves available for work.

**Labour demand is the derived demand of all firms currently operating.** Firms wish to produce goods or services, sell these goods and services and make a profit. The summation of all the employment requirements of all the firms is the total demand for labour. Moreover, the report notes that economists have traditionally thought that the main influence on the employment required by firms is the wage rate firms pay their workers and the productivity of the workers they employ. Firms are thought to demand more labour the lower the wage paid and the higher the productivity of the potential employees.

Finally, economists define **labour supply as the total number of people willing to work** at the wage the market is offering for their levels of skills. This is the total stock of labour supplied at a particular point in time. However, this can vary over time as people retire, have children, become sick or enter the labour force after school or tertiary education. These additions or subtractions to the total stock of labour are called flows. The report notes that these flows are what the DHET has good and fairly detailed data on.

## Labour market analysis vs. manpower forecasting analysis

According to the report there are two major approaches towards forecasting labour demand requirements by occupation or skill level. First, **manpower forecasting analysis (MFA)** had as its main aim the goal of **predicting the demand for certain types of labour**, usually by different occupational categories. This aim was formulated to assist countries with the task of estimating the need for different types of education and thus to assist in planning how state education should be expanded. The report notes that MFA was extremely popular in the 1950s and 1960s, but was found to be unworkable and has been abandoned in many countries. Criticisms centred on MFA's inability to adjust to rapid technological and social change, as well as challenges with forecasting models.

Following the decline of manpower forecasting analysis has been the more recent approach focusing on **labour market analysis (LMA)**. According to the report, LMA places emphasis on **understanding the current state of the labour market**, rather than predicting its future trajectory. Instead of a focus purely on headcounts of different kinds of workers, the role of the cost or price of labour was recognised as a crucial determinant of labour market outcomes, and thus reporting who earned what and in which occupations and industries was an important part of the focus of labour market analysis. Finally, labour market analysis has been used to evaluate specific public policies or the effects of external changes.

## What sources of data can be used?

The paper presents two general types of data which can be used for understanding labour supply and demand. First, **labour force survey data** enables exploration of South Africa's total supply of labour. In addition, labour force surveys also enable one to observe the outcomes of the demand and supply of labour. In addition, understanding labour demand requires **firm-level micro data**. However, the report found that this type of data has been far less available than the household survey data. Consequently, currently much less is known about labour demand than labour supply in South Africa.

The paper also suggested a range of data sources that could be used to analyse labour demand. These include: labour force surveys and Post-Apartheid Labour Market Series (PALMS), firm surveys, tax data from the South African Revenue Service (SARS) and other administrative data including Unemployment Insurance Fund (UIF) data and Public Employment Service (PES) data from the Department of Labour, the Companies and Intellectual Property Commission (CIPC's) firm data and the government's employee database, the Personal and Salary Administration System (PERSAL). However, not all of these sources are accessible or are necessarily of good quality. Finally, the report noted that the DHET could **add value** to existing data by **linking datasets**.



Published in 2016 by the Labour Market Intelligence Partnership (LMIP) Project.  
The LMIP project is undertaken by a research consortium led by the Human Sciences Research Council,  
and is funded by the Department of Higher Education and Training.  
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