
THE REAL ECONOMY BULLETIN

TRENDS, DEVELOPMENTS AND DATA

FIRST QUARTER 2018

Briefing Note: Map to a million – what’s the map to a million about?

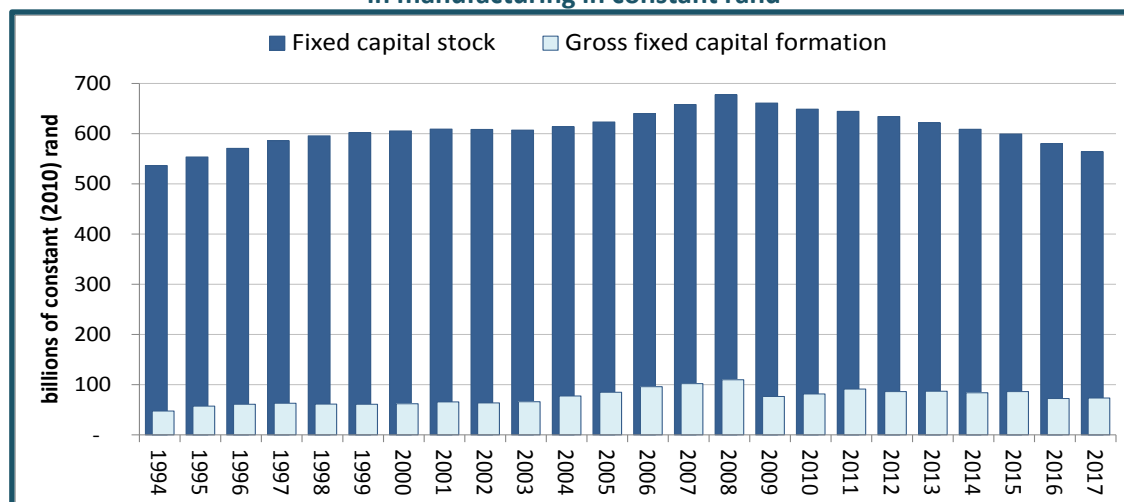
Can the manufacturing sector create a million jobs? The Manufacturing Circle certainly think so and have outlined a process to create a million direct manufacturing jobs over a period of 10 years in their recently released *Map to a Million New Jobs in a Decade*. Given the current number of people employed in the manufacturing sector, that would equate to creating 4.5% net new jobs in manufacturing each year for the next 10 years. For 2018 that would be just over 80 000 jobs, and all going well it would rise to almost 120 000 jobs in 2028.

Between the fourth quarter of 2016 and the fourth quarter of 2017, the Statistics South Africa Quarterly Labour Force Survey showed that 60 000 net new jobs were created in manufacturing. So it is possible to create tens of thousands of jobs a year, however the number of people employed in manufacturing today is well below the peak of manufacturing employment in 2008 (before the financial crisis), and even 2011 (before the commodity price decline). The Manufacturing Circle is, however, clear in their report that a number of areas need to be addressed by both government and the private sector to achieve that target. The jobs will not be created without specific interventions.

The cost of new jobs depends on the amount of capital required. The average amount of capital per job ranges from under R100 000 for clothing to R500 000 for food processing, to close to R1 million in auto and steel and R4 million for basic chemicals. If we can skew investment toward more labour-intensive industries, increasing manufacturing employment by 80 000 in 2018 would require around R30 billion net investment a year (that is, after meeting depreciation costs), and R45 billion to reach 120 000 new jobs in 2028.

In practice, the value of capital stock in manufacturing declined steadily after the global financial crisis in 2008/9, as Graph 1 shows. After climbing by 26% from 1994 to 2008, it dropped 17% through 2017. These trends meant that annual investment was not high enough to offset depreciation. According to Quantec estimates, petroleum refineries and basic chemicals alone accounted for over a third of the unmet depreciation costs.

**Graph 1. Fixed capital stock and gross fixed capital formation (a)
in manufacturing in constant rand**



Note: (a) Includes depreciation as well as new investment. Source: South African Reserve Bank. Online statistical queries. Electronic database. Series on capital stock and gross fixed capital formation in manufacturing. Downloaded from www.resbank.co.za in June 2018.

While investment is mainly funded through financing to be repaid from future earnings, a comparison to manufacturing profits shows the ambitious nature of these targets. Statistics South Africa's quarterly financial statistics showed that the manufacturing sector generated profits after tax and depreciation of R145 billion in 2017. By extension, to generate the targeted jobs, investment over and above depreciation would have to equal around a fifth of profits.

Investment in itself is necessary, but not sufficient, for job creation. Indeed, the number of formal manufacturing jobs appears to have declined steadily through the 2000s, even when investment in the sector was rising. Furthermore, the Manufacturing Circle argues that the sector has significant underutilised capacity that would be the starting point for job creation.

To bring back underutilised capacity and unlock significant new investment the Manufacturing Circle argue that this would require a supportive environment from the state, for example in addressing key input costs and support for raising aggregate demand in the economy; collaboration and engagement between the state and the private sector on key issues such as skills training and trade support measures; and areas for the private sector itself to address, including through local procurement and support of the Proudly South African campaign.

The President in his State of the Nation Address and more recent announcements puts industrialisation high on the agenda, and the efforts to attract massive foreign direct investment would be a strong boost for the manufacturing sector.

Support for manufacturing from the Presidency along with the ongoing support provided by the Department of Trade and Industry (the dti) and through the Industrial Policy Action plan,

as well as overall strengthening of economic performance in the country could see South Africa achieving that target of a million new jobs in manufacturing over a decade. It will, however, require significant commitment from both public and private sector; increased use of underutilised capacity; and, over time, a massive increase in new investment in manufacturing.