BFA

FLASH NOTE
Nº 08.2022 | Dec 28 2022

Unemployment is expected to break below 30% again in Q4

Retail and public sector with larger impact on employment growth

A. DESCRIPTION

1| The unemployment rate decreased by 4.1 percentage points (pp) to 30.0% in Q4 2022, when compared to the same period. According to data from the Employment Survey in Angola published by INE, this is the largest annual drop in the rate since the beginning of the statistical series in 2019. The rate fell 0.2pp compared to the second quarter of the year, which had been set at 30.2%. In fact, it is the lowest unemployment rate in the last 3 years since Q2 2019 (29.0%).

2| It should still be noted that this is an unemployment rate among the highest in the world – there are only a few countries with higher rates, such as Nigeria and South Africa, 33.3% and 32.9%, respectively, according to updated Bloomberg data. Among The SADC, although the data vary with the sources consulted, data from the International Labour Organization showed only more 4 economies with unemployment rates above 20%; in addition to South Africa, which we have already mentioned, eSwatini, Namibia, and Botswana.

B. ANALYSIS

1| The recovery in the economy is leading to a decline in the unemployment rate in Angola, as we see in the chart. – the rate fell year-on-year for the second quarter in a row, and quarterly was the 4th straight drop. The 5-year recession, along with the impact of the Covid-19 pandemic, brought the rate to peaks of 34% in the third quarters of 2020 and 2021, and averaged 32% in 2020 and 2021 – that is, 1/3 of the people available to work and looking for work were out of work, formal or informal, in the Angolan economy. The Covid-19 pandemic has forced the world to adopt defense

Unemployment rate dropped the most on yoy terms in Q3 2022, since 2019

Yoy change

Source: INE

Employment was stable and unemployment dropped, countering usual seasonal effects

Percentage

Source: INE

mechanisms to safeguard welfare, created a break in the labour market with the nominal loss of many jobs, thereby raising the unemployment rate in many countries. Angola was no exception, and the unemployment rate was already on a growing trend, as the pandemic only pushed it to a slightly faster pace of growth having even reached an all-time high in Q3 2021 (34.1%), but since then it has declined, remaining resilient in the 30% range. Looking at the year-on-year change, the most harsh worsening of the situation occurred in Q3 2020, with an increase of 3.3pp to 34.0%; subsequently, the labour market began a recovery, but worsened again, a trend only interrupted in Q2 2022, returning to recovery. The trend was similar in the employment rate, with the largest year-on-year decrease in Q2 2020, from -5.2pp to 59.6%; the performance since 2021 has been less clear, with advances and setbacks. In fact, looking at the year-on-year growth of non-oil GDP and the annual change in the unemployment rate, the largest rise coincided with the largest decrease in activity.

On the other hand, the rapid recovery, which accelerated in Q3 2022, points to a further acceleration of economic growth. This trend is in line with the high frequency indicators we follow, which signal acceleration of the non-oil economy in the third and fourth quarter of 2022; the economic climate indicator also recorded a year-on-year increase, but lower than in other quarters, pointing to a possible slowdown in economic growth.

Unemployment rate drop hints at acceleration of non-oil growth in Q3

Yoy change
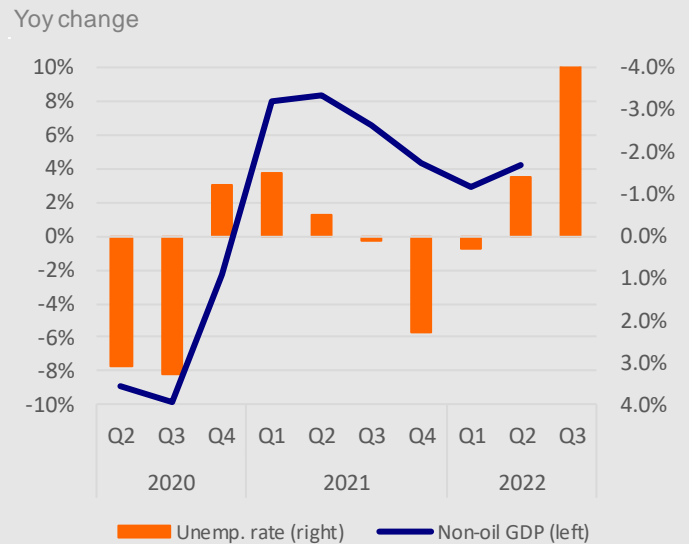
## Box - The labour market in Angola, a characterization

The labor market in Angola presents several challenges, from the high degree of informality, the high unemployment rate that imposes high opportunity costs on the economy, the quality of the employment generated, among others. Labour market participation rates for all age groups is above 60%; the minimum rate is in the group of 65 years or more, which will already have many retirees (62.3%), and the maximum is in the range between 24-35 years (97.8%). The overall participation rate is at 89.4%, a very high level, and is due to two factors: a very young population, and the almost lack of state social support. The participation rate in Angola is significantly higher compared to countries such as Nigeria (58.3%) and South Africa (56.7%), but is also higher than that of the United States of America (62%) as well as that of the European Union (74.6%).

The relationship between age and the participation rate is reversed

Percentage
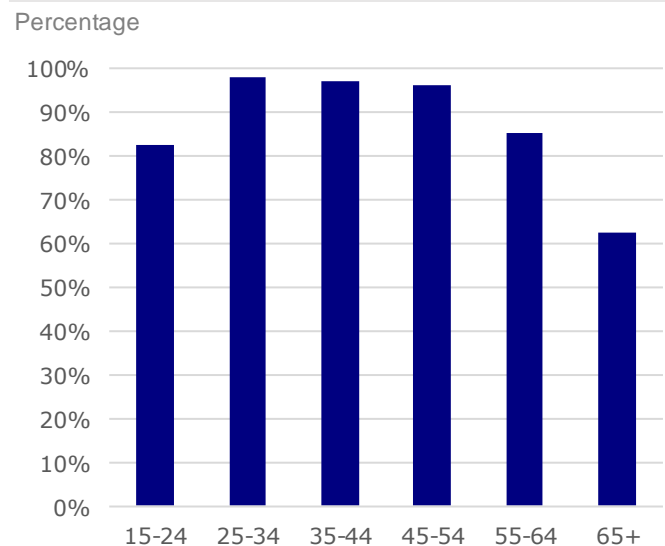
Looking at the various age groups, there is clearly a difference in the labour market for young people (15-24 years). In the younger group, unemployment has averaged 56.3% since 2019, compared with 28.2% for the 2nd age group with the highest unemployment, between 25-34 years; for context, the rate in the following age group (35-44 years) averaged 15.6%. Note the importance of the labor market in the younger age group considering the Angolan age pyramid. Between 2019-2022, the population aged 15-24 represented about 36% of the working-age population; the same age group concentrated about 60% of the unemployed in the same period.

Unemployment rate is much higher in younger ages

Percentage

Source: INE
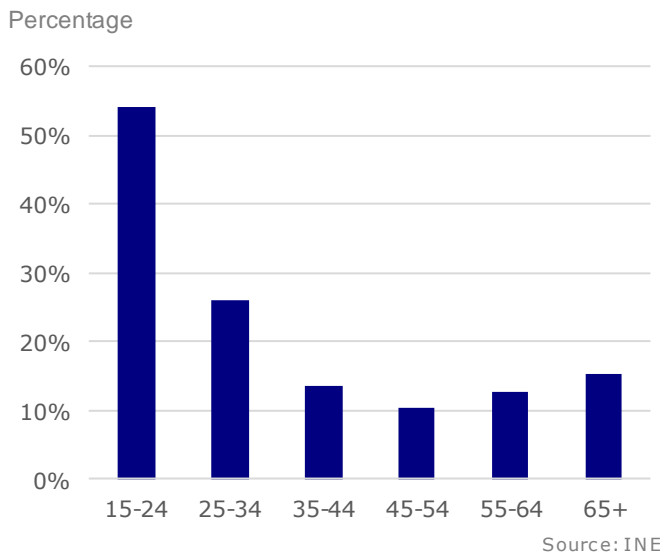
Unemployment is higher in urban areas but varies more in rural parts of the country

Percentage

Rural unempl. (left) —— Urban unempl. (right)
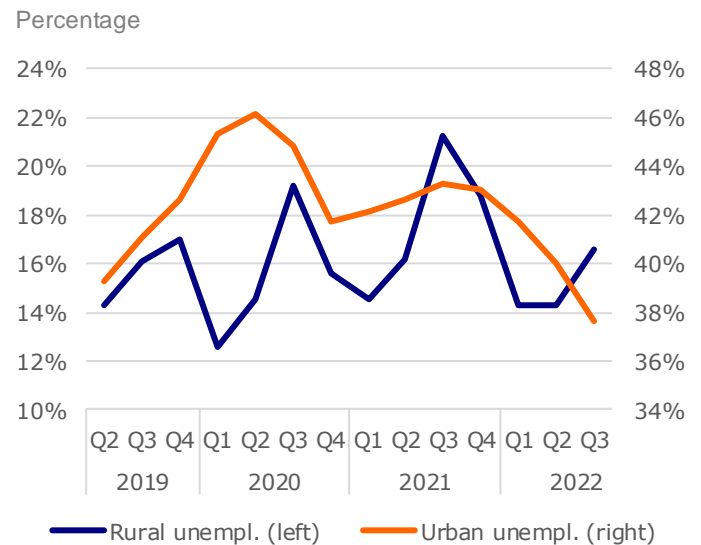
On the other hand, the unemployment rate in the urban area is persistently higher than in rural areas. Since 2019, the average rate in the urban area has been around 42.2%, while in rural areas it is 16.1%. However, activity rates are similar in both areas - 91.2% in rural areas and 88.4% in urban areas. Another very important phenomenon in the Angolan labour market is the much greater relevance of seasonality in the rural labour market, compared to the urban labour market.

In terms of gender, we see a balance, starting with the employment rate, which is slightly higher for men, at 65%, compared to 60% in females. In addition, the activity rate for men (90.2%) is slightly higher than that of women (88.6%).

Agriculture, animal production, hunting, forest and fishing activities are the ones that employ most people, with a weight of 49% of the total jobs generated in the economy (about 5.6 million people). Wholesale, retail & vehicle repair follows right after, concentrating about 22% of jobs. In 3rd place is the Public Administration, which offers 8%. The remaining 11% of jobs are distributed across the remaining sectors. It should also be noted that, regardless of the sector of activity, in Q3 2022, 33% of the jobs were held by self-employed professionals without subordinates, and 22% by unpaid family workers. Only 12% of jobs were for private sector employees (excluding workers employed by private residences). A number that summarizes this reality well is the percentage of jobs in the informal sector: 79% in Q3 2022, with a significant difference by sex (71% between men and 88% among women).

2| Looking at the differences between age groups, the youth unemployment rate recorded the largest annual drop in Q3 2022, and there were improvements in all age groups. It should still be noted that on the employment side the rate recorded more significant annual increases in the 25-34 years and 35-44 years. The difference is explained by a huge increase in the inactive population between 15-24 years, which went from 0.77 million in q3 2021 to 1.17 million in Q3 2022. Most likely, there would have been an increase in young people who are outside the labour market because they are studying, but it is not possible to be sure of this: the inactive population concentrates mainly pensioners (who will be virtually non-existent in the younger age group), students, but also people who do not study or work but are not actively looking for work, not being regarded as unemployed.

In this sense, the unemployment rate remains very high, at 54.2%, but it is falling, and it will be exactly expected that the largest declines occur in this age group if the labour market continues to improve, since this is where the largest number of unemployed are concentrated. It will be interesting to see whether the employment rate in this age group is also rising persistently in the future; the annual increase was 1.9pp (to 37.7%) in Q3 2022, but it is still below the maximum of 39.1% in Q2 2020.

In the remaining age groups, there are greater improvements between 25-34 and 35-44 years, which are also the most relevant groups after the younger class of workers.

3| On the other hand, we can see the different pace of urban and rural labour markets in recent quarters. Between July and September, compared to the same period of 2021, the most significant improvement was in the urban unemployment rate, from -5.7pp to 37.6%, significantly below the previous minimum of 39.3% in Q3 2019. On the other hand, despite the similar improvement in the

In Q3, the younger age gap saw the largest yoy drop in the unemployment rate

Yoy change

Employment grew in almost all sectors, when compared to same quarter of 2021

Yoy change

Retail saw largest absolute increase in jobs, qhen compared to same period of 2021

Contributions for yoy change; Yoy change

rural unemployment rate (-4.6pp to 16.6%), the rate is still above the lows previously recorded, even if we take into account seasonality and look only at the 3rd quarters of the various years – in Q3 2019, the rural unemployment rate was 16.1%. In fact, it is noted from the graph that, while in the urban labour market there were more serious aggravations in 2020, followed by improvements in 2021 and 2022, in rural areas there was a softer worsening, but that occurred in almost every quarter in 2020 and 2021, with only persistent improvements from April 2022 to date.

4| Sector data show that employment growth has occurred mainly in Retail and Public Administration. The primary sector is the one that employs the most, but according to our calculations, it saw a year-on-year decrease in employment of close to 2%, taking 1.1 percentage points from the rate of employment growth; that is, employment, which grew 7.6% compared to Q3 2021, would have grown 8.7% had it not been for the decline in employment in Agriculture, Fisheries, Hunting, Livestock & Silviculture. On the contrary, the retail sector saw employment increase by 19% yoy, contributing positively with 3.8 pp to the year-on-year employment growth rate. Also, the Public Administration, Defence & Social Security sector saw significant growth of 20% yoy, contributing 1.4pp to the growth rate. In general, there was an increase in employment in all sectors, with the highest growth in the Education sector (+24%) and the lowest in Industry, Energy & Water (+11%). Moreover, almost all sectors have seen accelerations in the pace of year-on-year increase. In the Education sector, there was a very slight decrease in the pace of growth (+24.4% yoy in Q2, 24.2% yoy in Q3). On the other hand, in the primary sector growth of 2.1% yoy in Q2 to a decrease of 2.1% yoy in Q3. It should be noted that much of the employment in the primary sector should also be self-subsistence employment, so a strong economic recovery will not be inconsistent with weak employment growth in this sector.

5| The informality of the Angolan economy remains very relevant - in the third quarter of the current year, the number of people employed in the informal market increased 433.0 thousand (+5.0%yoy) to 9.1 million, representing approximately 80% of the total number of employees in Angola. It should be noted that in Q3 2022, most employees in the informal economy were self-employed (51.9%), family workers (27.1%) and workers for their own consumption (11.9%). Analyzing the data, there is a clear indication that the informal employment rate is higher in the rural area than in the urban area (95.6% and 66.8%) respectively. The average ratio of informal employment to formal employment is 4.1, showing that only one in four people work in the formal sector, raising voices of concern about the quality of employment and the future of social security for families.

Informality levels dropping but still remain at very high levels

Yoy change; percentage

- ■ Informal employment   ■ Formal employment
- — %Inf. Empl. (right)
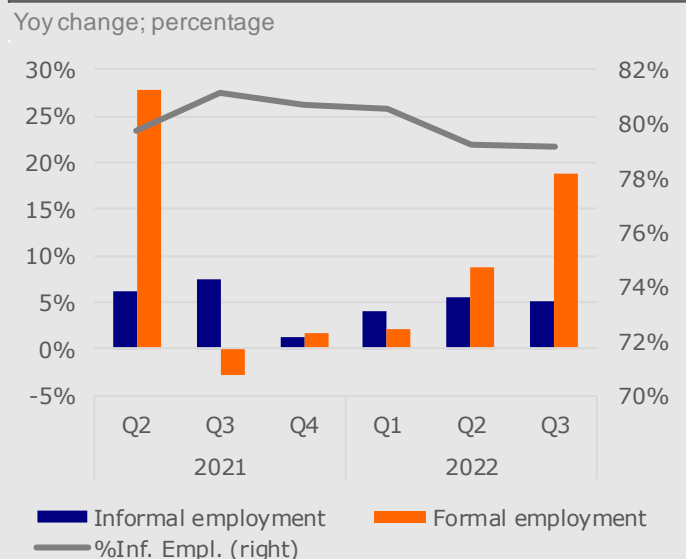
For this reason, many initiatives have been made by the Angolan executive in order to make the economy increasingly formal, and the latest initiative is that of the Informal Economy Conversion Program (PREI) which already has +246,200 licensed operators (formalized) since August of this year. Thus, it is expected that the dimension of informality will reduce more significantly in the near future. However, we see that there is already a trend towards reducing the degree of informality. Year-on-year, formal employment in Q3 2022 grew by 19% (+10pp than in Q2 2022), while informal employment grew by 5% (-0.5pp compared to the immediately preceding quarter). This divergence resulted in a decrease in the proportion of informal employment to 79%, compared to 81% in Q3 2021.

5| We expect the situation in the labour to continue improving, with the unemployment rate falling between 28-29% in Q4, below the 29.0% low recorded at the start of the statistical series in Q2 2019. The employment rate in Q4 2022 is expected to be between 64-65%, possibly close to the current high, also recorded in Q2 2019, of 64.8%. Our perspective is supported, on the one hand, by the upward trend of economic growth, which is expected to last until the end of this year, due to factors we have already cited on other occasions: falling inflation, expansionary monetary policy, public investments, among others. On the other hand, the seasonality of the labour market favors an increase in employment and a fall in unemployment in the last quarter of the year. In 2023, the labour market will continue to improve, possibly at the same average rate as 2022, as there are usually lagged effects of improving the economic conditions of businesses on job creation; that is, despite a slowdown in economic growth that we expect in 2023, employment could grow at a similar pace this year as there will still be an influence of 2022 economic growth on employment growth in 2023.

C. CONCLUSION

1| In Q3 2022 there was a further improvement in the situation in the labor market, consolidating a trend that began between the end of 2021 and the beginning of 2022. At the same time, despite the improvement, the Angolan labour market remains very fragile, with an unemployment rate among the highest in the world, and almost 80% of people employed in the informal sector, even though this percentage is decreasing. The situation in the labour market for younger people is particularly complicated, although it also shows improvements, while more young people outside the labour market are likely to study.

2|Sectoral data also give indications of the economic recovery – growth in the retail sector is likely to have accelerated significantly again between July and September, while in the construction sector it should have accelerated only gradually. At the same time, growth in agriculture and fisheries in Q3 could slow.

3| On the other hand, for Q4 2022, we anticipate that unemployment will be at lows since the beginning of the statistical series in 2019, and that this improvement will continue in 2023 at a similar rate to what occurred in 2022 on average.