Centre for the Study of the Economies of Africa

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Economic Growth and Job Creation: (2012 Q3 to 2013 Q4)

PREAMBLE:

Recent experiences of rising unemployment amidst impressive economic growth marks an uncharted paradigm in Nigeria's history and calls for systematic monitoring of developments for policy purposes. This report examines the pattern of economic growth and employment generation in Nigeria based on quarterly data. It analyzes the quality of job creation and dynamics of output and employment, establishes the link or absence thereof between economic growth and labor demand, and provides insights into policy actions to spur employment.

Introduction

Job creation remains a centerpiece of President Goodluck Jonathan administration's efforts owing largely to the prevailing high rate of unemployment, particularly among the youth. Measured as ratio of the unemployed labor force that is actively looking for employment to total labour force, the unemployment rate rose from 21.4 percent in 2010 (the year preceding the inauguration of the administration) to 27.4 percent in 2012. During the same period, youth unemployment rose from about 35.9 percent to 42.0 percent.

The National Bureau of Statistics estimates that the labor force grew at an average annual rate of 3.2 percent from 57.5 million in 2006 to 65.2 million in 2010 and 67.3 million in 2011. As at 2011, the active unemployed labor force stood at 16.1 million, yielding 23.9 percent unemployment rate. At the annual rate of growth, the labor force is estimated at 69.4 million in 2012. Given the officially reported unemployment rate of 27.4 percent in 2012, the unemployed labor force rose to 19 million in 2012, implying that a net of 2.9 million people became newly unemployed during the year. This figure represents an increase from 2.1 million in 2011 and 1.5 million in 2010. The alarming rate of increase in unemployment is driven by both labor force growth and lackluster demand for labor in the labor market.

Job Creation

As part of efforts to monitor employment, the NBS started conducting quarterly job creation surveys beginning from the third quarter of 2012. The findings show that a total of 813,209 and 1,163,766 workers were hired during the second half of 2012 and the entire 2013 respectively, covering formal, informal and public sectors. Job hiring, as specified in the surveys, are due to several factors including business expansion, replacement hiring and others. Among the factors driving replacement hiring, pursuit of higher education, retirement and redundancy are preeminent and amount in effect to shifting workers out of the labor force or into unemployment.[1] Thus, replacement hiring does not constitute job creation *per se*; its inclusion in job numbers will overstate the employment intensity of business expansion associated with economic growth. Figure 1 provides data on gross (unadjusted) hiring figures and corresponding figures after adjustment by the proportion of hiring to fill "vacancy left by ex-employee."

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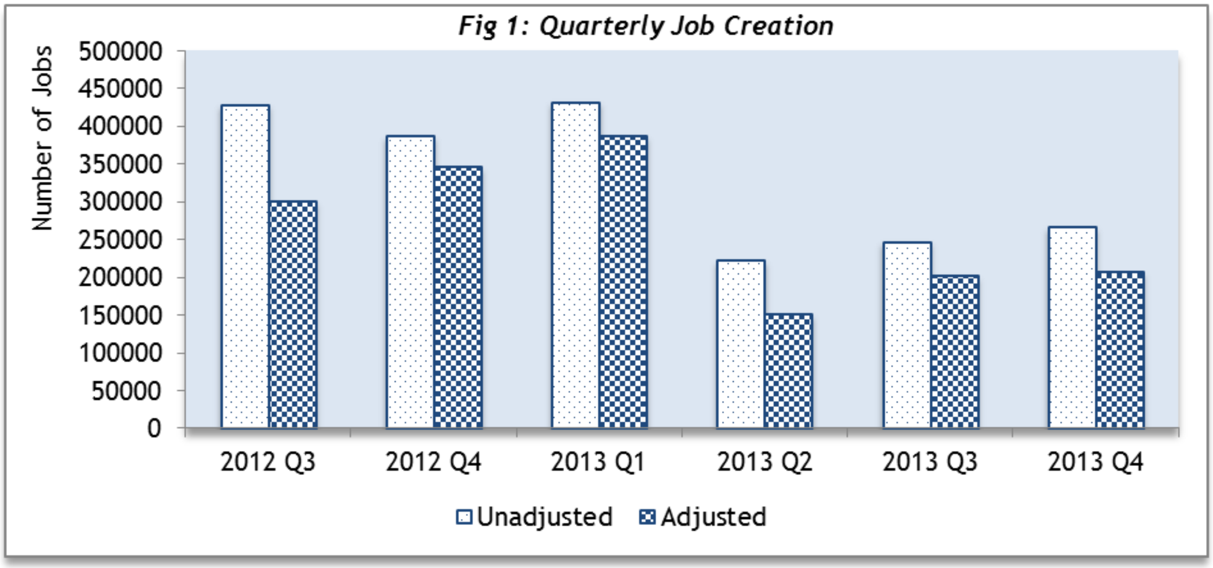
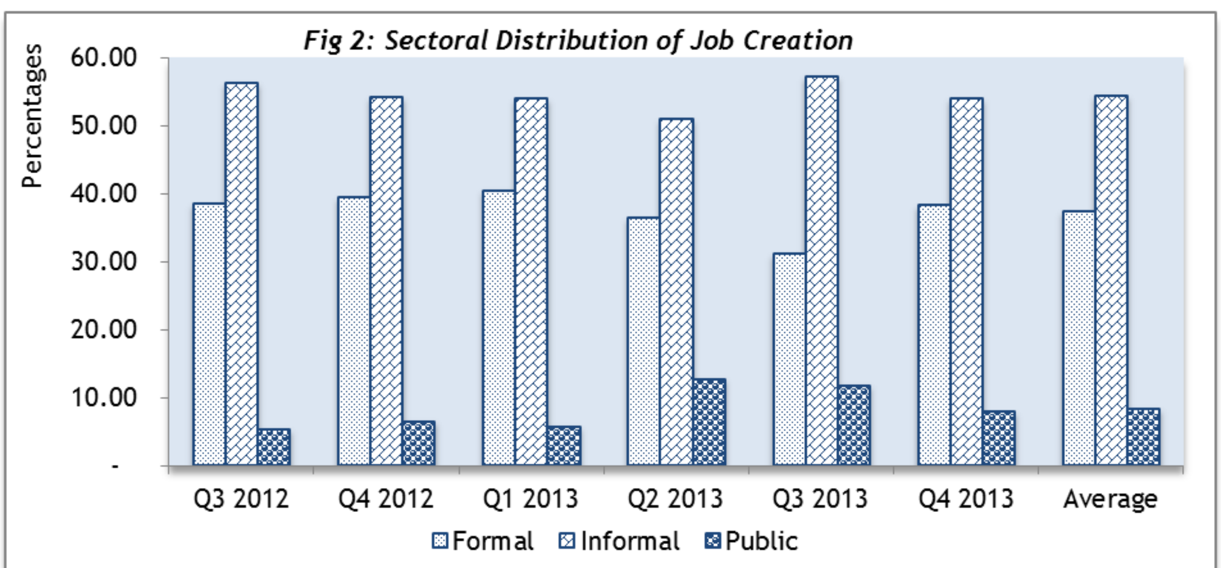
[1] That is, a worker that is newly hired simply replaces another worker that moves out of the labor force or becomes newly unemployed.

The adjusted numbers show that labor services contribute essentially to increases in economic activities in general. Using those numbers, the economy *created* 942,000 new jobs in the entire year 2013 (an average of 78,500 jobs per month), compared to 644,000 during the second half of 2012 (an average of 107,333 jobs per month), indicating a slowdown in job creation in 2013. Most notably, there was a slide in private sector hiring between 2013 Q1 and 2013 Q2, an average of 53 percent drop, which was accompanied by a 15 percent increase in public sector hiring.



Available data on reasons for hiring does not permit adjustment of gross hiring by sector (formal, informal and public). To proceed, we apply the overall adjustment rate to all sectors, yielding a sectoral distribution of job creation that is equivalent to the corresponding distribution of gross hiring. Figure 2 presents the distribution of jobs into private (formal and informal) and public sectors.



The Figure shows that the informal sector dominates job creation, accounting for nearly three in every five new jobs created in the economy. This places the informal sector's share of employment approximately close to estimates of its share of output, measured by Gross Domestic Product (GDP).[2] There are also indications that the informal sector distribution of employment, in terms of activity sectors, is not significantly different from the aggregate distribution[3], suggesting that the sectoral pattern of job creation in the formal sector is fairly representative of the pattern in the aggregate economy.

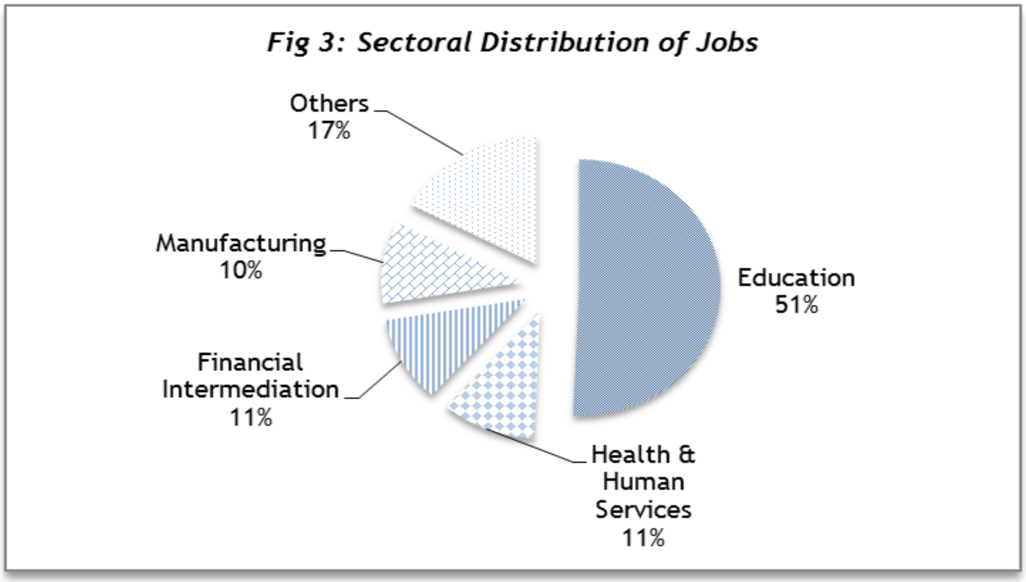
Distribution by Economic Activity Sector

Figure 3 shows the distribution of job creation in the formal sector during the six quarters (2012Q3-2013Q4). In all, the primary sectors (agriculture and mining) account for 1.46 percent, the secondary sectors (manufacturing and construction) account for 11.79 percent while the tertiary sectors (trade and services) make up 86.75 percent. The top job creating sectors are education (50.7 percent), health human services (10.8 percent), finance and insurance (10.8 percent), and manufacturing (10.4 percent). Indeed, the top sources of jobs, education and health, are driven by population growth and associated demand for human services. Employment expansion in the financial services sector is likely, in part, to be driven by efforts to expand financial services to the historically excluded population. Expansion of employment due to these efforts is also population-driven; the larger the population, the more effort is required. In addition, the manufacturing sector is expanding mostly through increasing demand for consumption goods in the food and beverages, clothing and footwear subsectors (these are typically referred to as consumer-friendly subsectors), the growth of which is also driven by rising demand by the surging population.[4]

[2]A collaborative study by the National Planning Commission (NPC), Nigerian Institute for Social and Economic Research (NISER), National Bureau of Statistics (NBS) and the United Nations Development Program (UNDP) estimates the informal sector's share of GDP at 58 percent in 2013.

[3]Data from various sources, National Rolling Plan (1980 - 2003), NBS (Statistical Fact Sheets), National Manpower Board (Data File, 1970 - 2005), CNS/FOS/NISER (2001), show that tertiary services share of non-agricultural informal employment increased from 68 percent to 80 percent between 2000 and 2009, which approximates the shift in aggregate employment from 71 percent to 78 percent between 2000 and 2008.

[4] There is the possibility that price increases (driven by demand shifts) may account for part of this growth. However, there have been no substantial differences in the growth of components of Consumer Price Index (CPI) associated with these manufacturing subsectors in comparison with the other components.



Next, we examine the quality of jobs created. Figure 4 provides the distribution of jobs by cadres and shows that most of the new jobs, with the exclusion of apprenticeship and unpaid work account for mere 7.25 percent, require education. In terms of education level, the jobs at managerial, technical and professional classes as well as the clerical duties typically require (post-secondary) tertiary education. In effect, job creation favors only the educated labor force, leaving the uneducated unemployed with little or no opportunities in the economy.

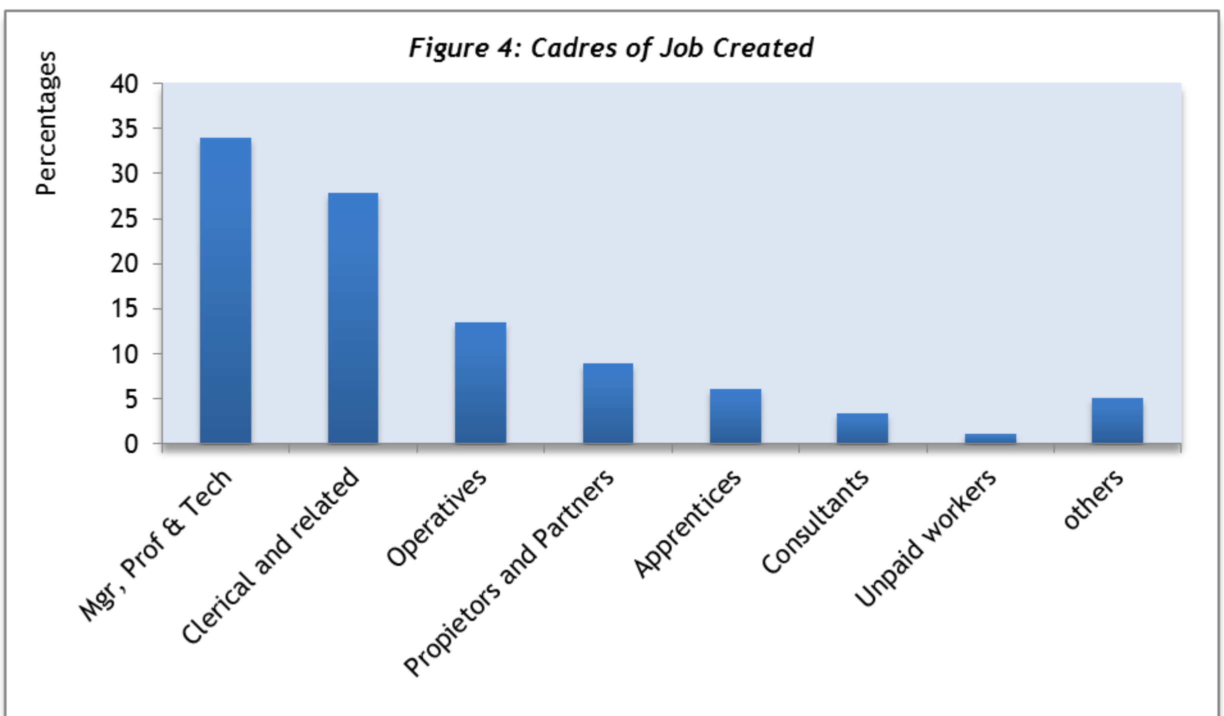
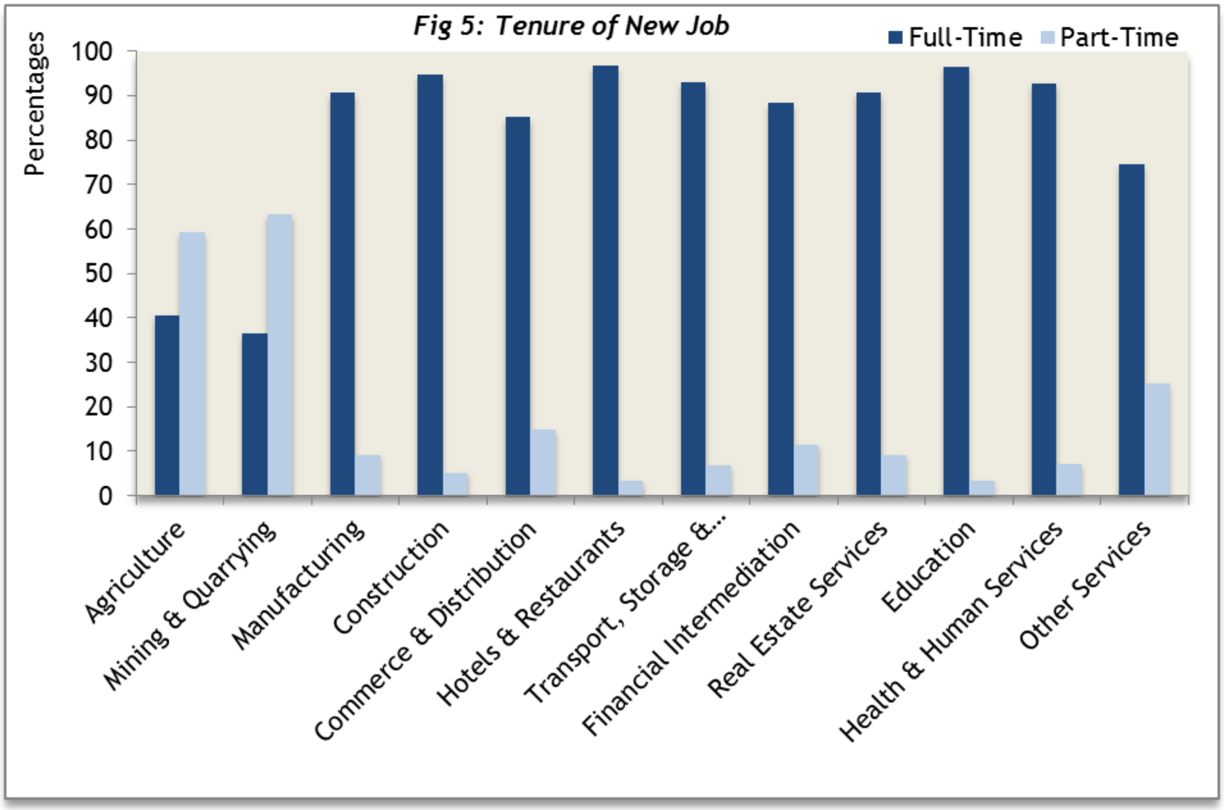
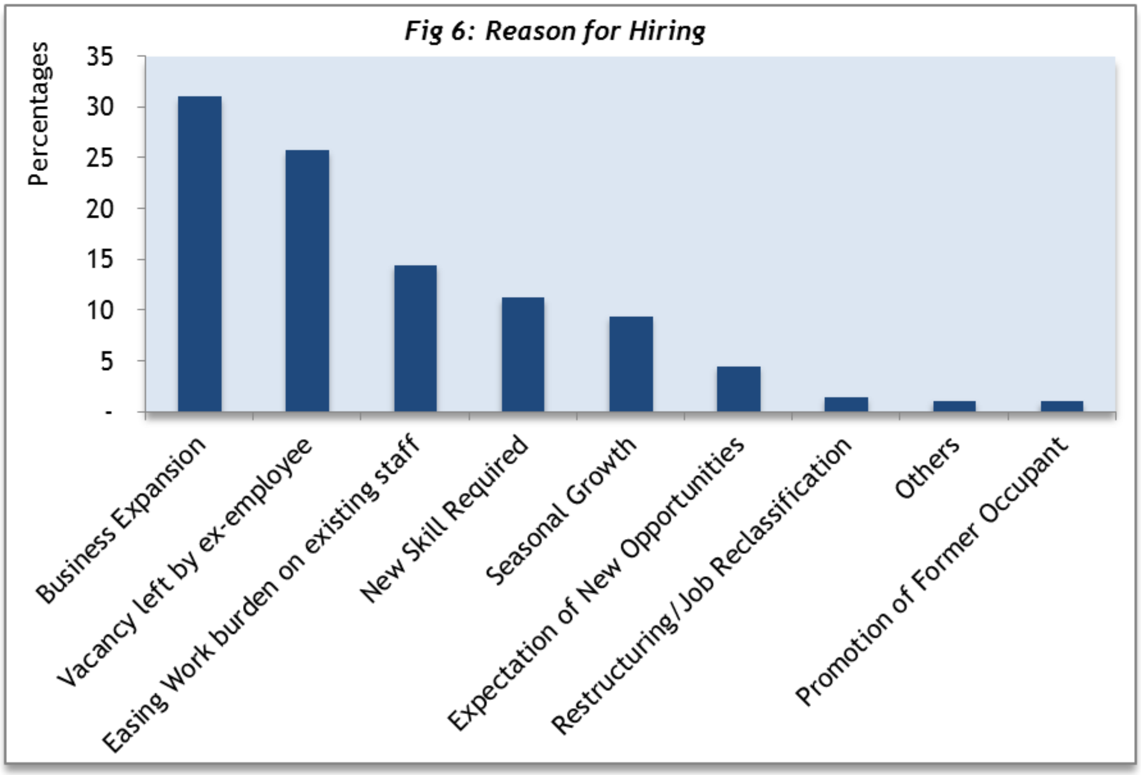


Figure 5 shows the distribution of jobs by tenure. The majority of new jobs in the primary sectors (agriculture and mining) are part-time while the rest of the jobs in the economy are dominantly full-time. The incidence of part-time tenure is lowest in the education and hospitality sectors and is highest in the mining sector.

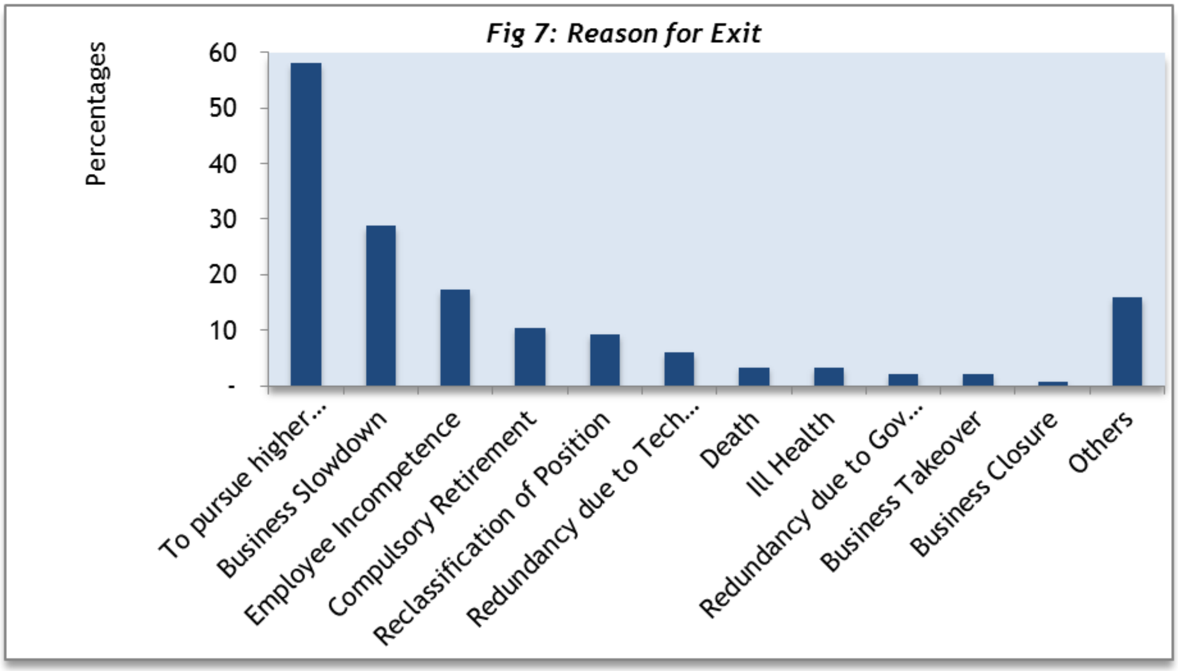


The pattern of jobs created among the youth, defined as population aged 15-35, is similar to Figure 5 with the exception of the mining sector where the jobs are dominantly full-time.

The detailed data on sources of jobs show that hiring is driven dominantly by business expansion (31 percent) followed by staff exit (26 percent), redistribution of tasks (14 percent), demand for new skills (11 percent), seasonal growth (9 percent) and expectations of new opportunities (5 percent).



It is also essential to examine the factors driving replacement hiring. For example, if the former occupant of the position was fired and had to re-enter the pool of job-seekers, then the new worker hired is simply replaced in the pool. If, instead, the former occupant leaves to take up a new position in an expanding firm, then there is potential for double counting. Good enough, the survey also provides the reasons why employees exit the surveyed firms. Figure 7 shows that the most important reason for staff exit was to pursue higher education, accounting for 58 percent of total exits, while business slowdown comes in a distant next at 29 percent.



Thus, the dynamics of the labor market is driven substantially by the youthful population finding opportunities in the expanding education sector in the meantime while they gather resources to pursue advanced education.[5] The education sector is expanding more rapidly at the pre-tertiary levels, particularly due to population-driven demand for education. Given that the informal sector is more fluid than the formal sector, it is expected that the dynamics playing out in the formal sector plays to a more significant extent in the informal sector.

Figures 6 and 7 imply that, in effect, about 15 percent (58 percent of 26 percent) of total jobs are created by young people moving out of the labor force to pursue higher education. This comes behind business expansion which accounts for 31 percent and ahead of prior understaffing which makes up 14 percent of new jobs. The fact that 15 percent of new jobs are created because of higher education pursuit shows the extent to which job creation is dependent on social values. In addition, the fact that understaffing ranks in the top three drivers of job creation indicates a high degree of wage squeezing in the labor market.

Economic Growth and Job Creation: Profits versus Population?

Figures 3-7 provide a clear view of where jobs are coming from: the education sector. There is the possibility that this demand is derived from demand for services by the growing population rather than economic growth. One way to assess the link between

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[5]While the high unemployment rate is expected to be a disincentive for demand for education, the expectation does not play out in the market.

growth and labor demand is to compare value addition with job creation across sectors. Table 1 below shows the distribution of value-added gains in the economy during 2013 (value added during the year compared to 2012), along with the distribution of new employment during the year.[6] For the sake of parsimony, education and health & human services are aggregated into a single sector as they are both driven by demand for population services.

Table 1: Output and Employment in 2013

	Share of Increase in Value Added	Share of New Jobs	Labor Absorption
i) Agriculture	4.97	1.33	0.27
ii) Mining & Quarrying	10.08	0.12	0.01
iii) Manufacturing	14.65	10.71	0.73
iv) Building & Construction	7.25	1.82	0.25
v) Commerce & Distribution	17.88	4.23	0.24
vi) Services	**45.18**	**81.78**	**1.81**
Hotels and Restaurants	*0.60*	*3.10*	*5.19*
Transport, Information & Comm.	*15.08*	*1.50*	*0.10*
Financial Intermediation	*7.99*	*11.63*	*1.46*
Real Estate	*8.99*	*1.86*	*0.21*
Education, Health & Hum Services	*2.97*	*60.17*	*20.23*
Other Services	*9.55*	*3.53*	*0.37*
TOTAL	100.00	100.00	

Source: Author's calculations from NBS (2014) and CBN (2014)

The table shows that the services sector leads in terms of both value addition and job creation, accounting for 45 percent of value addition and 82 percent of jobs. While the commerce and distribution sector is next in terms of value addition, it is the manufacturing sector that comes next in terms of job creation. Thus, these shares are disproportionate. However, they are particularly more disproportionate within the services sector than across the basic sectors. Two sub-sectors, transport & ICT and real estate services contribute nearly a quarter (24 percent) of gross value added increment during the year (amounting to 53 percent of services contribution to increase in value addition) but contribute only 3.4 percent of jobs (4.1 percent of services contribution to jobs). On the other hand, the education, health and human

[6] Due to seasonal effects, it is difficult to arrive at a reasonable inference by comparing value added during the six quarters (2012Q3-2013Q4) with value added during the preceding six quarters (2011Q1-2012Q2). Evidently, the two periods cover different seasons in 2012, which can be problematic for the discussion intended here.

services subsector contribute only 3 percent of new value added, but account for 60 percent of jobs created in the entire economy during the year.

A measure of labor absorption (on the margin), obtained as the ratio of new jobs share to new value share, comes out at 20.23 in education, health and human services, compared to 5.19 in hotels and restaurants, 0.73 in manufacturing and 0.01 in mining. While it is the case that the services sector retains the highest rate of labor absorption, the subsectors driving employment (health and human services) are different from those driving value addition (real estate, financial services, transport, information and communications).

It is clear that value added in the economy is driven by profits from intangible services rather than from tangible production. High-technology firms in the services sector are driving output through high levels of profits but employing relatively few workers (real estate, financial services, transport, information and communications). Most of the large firms in the sector (especially transport and communications) have their distribution segments located in Nigeria while the production segments of the value chains where labor demand is intensive are located overseas.[7] On the other hand, the main sources of employment are labor-intensive services that are driven by demand from the growing population (education, health and other human services, food and beverages manufacturing).

This “disjoint spheres” phenomenon is perhaps driven by the weak link between enterprise profits and investments in the real sectors of the economy. To put this in context, commercial banks report monumental profits annually, but entrepreneurs in the SMEs sector continue to report access to capital as a major impediment to business expansion and employment generation. Indeed, the banking system fails substantially in the traditional expectation that its growth should help the real sector. Data from CBN shows that bank credit to the real sector, as a share of gross credit, plummeted from 66 percent in 1995 to 28 percent in 2010 (CBN statistical bulletin, 2011).

Summary: GDP Growth or Big Pushes on Jobs?

There is ongoing discussion centered on whether 7 percent, 10 percent, 13 percent, or in general X percent growth should be the focus of Nigerian government and policymakers or big pushes in the direction of job creation in order to stem the tide of rising unemployment. As it stands, the economy is dualized, with one segment driving value addition and the other segment, driven by growing population, creating jobs in

[7] A case in point is the communication sector where the gadgets are manufactured in South Africa (MTN), India (Airtel) etc. but only the distribution takes place in Nigeria.

population centered services, and the two are remotely connected. More importantly, the rate of influx of new entrants into the labor market is alarming. As data[8] suggests, an average of 2.4 million new workers is expected to enter the labor market every year during 2011-2015. This figure will rise to 4.7 million by 2030.

Data from the recent past suggests a rethinking of the X percent growth strategy. The NBS estimates that between 2006 and 2011, jobs increased by only 793,000 while the pool of unemployed grew by 9 million. Meanwhile, economic growth averaged 7 percent per annum during the period. In 2013, a total of 1.2 million jobs were created, 60 percent of which was derived from education and health sectors, and an additional 1.2 million new workers dropped into the jobless pool. While the X percent growth agenda is achievable by growing corporate profits, the possibility is quite far-fetched that such growth will generate good employment outcomes. Indeed, most of the growth will likely be achieved by replacing workers with machines and gutting real wages.

Experience from the past, particularly during 1999-2006, also suggests that big pushes on job creation could deliver monumental pay-offs in terms of both jobs and economic growth. Following a bilateral trade deal between the Federal government and the Government of the People's Republic of China for supply of 1 million metric tons of cassava annually, expansion of agricultural production bolstered employment and wages in agriculture during the period. Other bilateral trade arrangements that brought about more intensive international trade also came into effect (Nigeria Trade Hub, 2013). These, in part, also led to expansion of the commerce and distribution sector, which absorbed large flows of rural-urban migrants. In addition, the period witnessed the opening of the economy to entry of new firms in the communications sector, which, at the time, were operationally labor intensive. Despite the redundancies that occurred in the public sector, unemployment rates remained fairly unchanged over the period.

There are existing opportunities to replicate this experience. Locating them will require a careful analysis of the opportunities in global markets and production potentials at home.

Conclusion

It is a natural expectation that economic growth creates jobs. However, this expectation rests on the basic expectation that sectors driving value addition are also driving job creation. While this connection is straightforward in industrializing

[8] Data from the United Nations Population Division

economies, it is not so everywhere else. Indeed, the disconnection is most notable in service-driven economies. Nigeria is currently experiencing this disconnection.

There have been efforts in the past to connect corporate profits with SMEs financing. One of such initiatives was the SMIEIS (Small and Medium Industries Equity Investment Scheme)[9]. However, the results were painfully limited as the program benefited only the top firms who would otherwise have had no difficulties accessing credit. In the present environment, regulations coercing banks into investing in SMEs are non-starters. However, recent effort by the Central Bank to raise the reserve requirement on government funds to 70 percent, with the intention of channeling the funds to SMEs, is commendable. The next step will be to actually get the funds to those in need of them. Areas to target include light manufacturing (aside from food and beverages) such as clothing and textiles, and agriculture. While recent jobs have benefited only the educated, it is in the real sectors (mainly manufacturing and construction) where educated and uneducated workers can always find employment.

Except efforts are stepped up to channel resources to the real sector where the rubber meets the road in the growth-employment nexus, X percent GDP growth rates will continue to mean very little to nothing in terms of employment, and millions of more young people will continue to flock into the labor market trying to find job opportunities. And, they may not find them.

[9] In 2002/2003, the Bankers Committee had an arrangement to make banks invest 10 percent of their profits before tax (PBT) in SMEs.

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