



ECONOMIC VIEWS

The high cost of low growth

- how unemployment and education trap South Africa

By MARIE ANTELME

THE QUICK TAKE

SA's unemployment crisis is chronic, long term, and increasingly structural

At the root lies a deep failure of human-capital formation – an education system that fails to sufficiently skill its graduates – and an economy unable to absorb the workers it does

A growth-accounting analysis shows why: investment has stalled, labour's contribution to growth has turned negative, and productivity has collapsed



Marie is an economist with 25 years' experience as a market economist.

UNEMPLOYMENT IS THE greatest reinforcer of inequality. This note aims to contextualise the main drivers of long-term growth – the specific focus is on the nexus between unemployment and education.

THE SCALE OF THE CRISIS

South Africa (SA)'s unemployment rate is amongst the highest in the world – and far higher than any country of comparable income. As of the second quarter of this year (Q2-25), the official unemployment rate was 32.6%, while the 'expanded definition' (including discouraged work-seekers) was 41.2%. The crisis is even more pronounced for young people – job seekers aged between 16 and 24 years face an unemployment rate of 62.2%, and 40.5% for the 25 to 34 years age bracket. This means that out of a total population of 64.1 million and a labour force of 25.2 million working-age people, SA has 12.6 million people who would like to work but cannot find a job.

Breaking it down, in the period from 1994 to 2025:

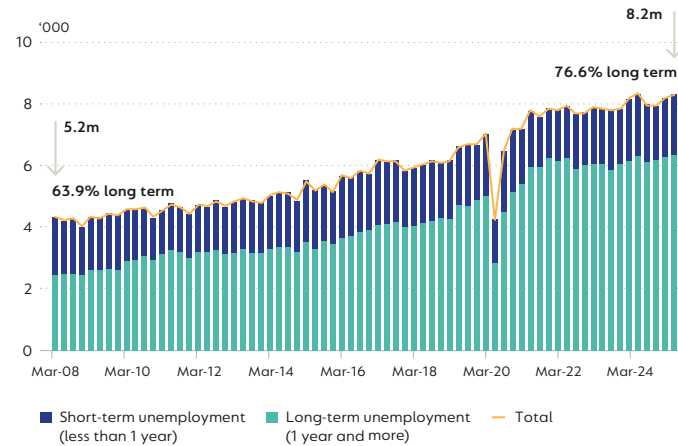
- The number of unemployed people has risen from 3.7 million to 12.6 million, while the population has grown from 40.6 million to 64.1 million.
- The number of working-age people has risen from 20.6 million in 2008 to 29.4 million, while total employment (formal and informal) rose just 2.2 million.
- The burden of unemployment has risen from 13.5% of the adult population to 20%.

>



Figure 1

CHARACTERISTICS OF UNEMPLOYED: TERM



Source: Stats SA Quarterly Labour Force Survey

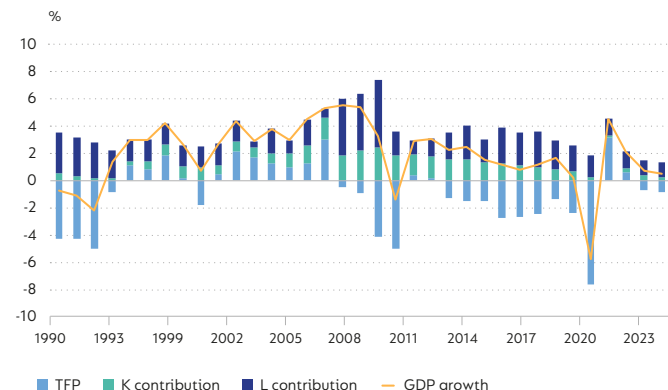
Even more worrying, long-term unemployment – people out of work for more than a year – has risen from 63.9% in 2015 to 76.6 % (Figure 1). Compounding this is that long-term unemployment meaningfully reduces the probability of future employment. The **employment-to-population ratio** – just under 40% – is the lowest in the G20, where the average is closer to 60%.

A report published in October by the Centre for Development and Enterprise framed the unemployment crisis thus: “In this period (2008-2025) an average of just over 500 000 people entered the labour market every year, but only 130 000 new jobs were created each year. Put differently, for every person entering the labour force who got a job, four did not. In effect, 1 000 people joined the unemployment queue every day for the past 17 years.”¹

Multiple structure factors underpin SA’s high unemployment rate – notably the spatial and educational legacy of Apartheid, and the prolonged weakness in domestic growth since 2008. State capture and the declining performance of key economic hubs have also materially constrained GDP growth.

Figure 2

CONTRIBUTIONS TO GROWTH FROM CAPITAL, LABOUR AND TOTAL FACTOR PRODUCTIVITY



Sources: South African Reserve Bank, Stats SA, Penn World Tables, Coronation

WHY HAS THE ECONOMY STOPPED GROWING?

A long-term growth breakdown

South Africa’s recent economic history, since the end of Apartheid, offers valuable lessons about the drivers of economic growth. In the early years, the economy grew at a healthy pace: between 1995 and 2000, real GDP growth averaged 2.6% - a strong recovery from the 0.2% recorded between 1990 and 1994. From 2000 to 2009 growth averaged about 3.6%, peaking at over 5% between 2005 and 2007. However, this slowed sharply to just 0.7% in the decade from 2015. Outside of the period of peak uncertainty from 1990 to 1994, and Covid-19 and the recovery, this has been the weakest period of growth on record since 1945. In per capita terms, real GDP peaked in 2013 and has been falling ever since – meaning South Africans have been getting poorer, on average, for more than a decade.

Economies can only really grow in three ways – by adding effectively to capital stock, by productively absorbing more people into the labour market, and by combining these capital and labour endowments² in more productive ways. This productivity growth enables an economy to grow at a pace more than its potential labour and capital would otherwise accommodate. When successful, this is reinforcing.

Using a standard growth-accounting framework, which decomposes GDP growth into **capital (K), labour (L), and total factor productivity (TFP)**, shows clearly that SA enjoyed a sustained period of broad-based growth between 2000 to 2011, when all three components contributed more than 3% (except in 2009, during the Global Financial Crisis [GFC]) – see Figure 2. Over this period, academic estimates of SA’s ‘potential growth’ – the rate at which the economy has the capacity to grow, given its factor endowment and utilisation – rose to between 3% and 4%. From 2008 onward, however, the picture changes markedly. Most visibly, the labour component shrinks, and the productivity residual collapses.

¹ Centre for Development and Enterprise, “South Africa’s Unemployment Catastrophe: A Call for Urgent Action,” October 2025

² Endowments: a country’s existing labour and capital resources that set the potential for long-term growth



Between 2000 and 2007, investment, innovation, trade openness, and macroeconomic stability drove efficiency. After 2010, productivity fell across key sectors as capacity collapsed and state-owned enterprises absorbed large amounts of capital without producing commensurate output. Eskom's capital stock doubled between 2010 and 2019, yet electricity production fell. Mining and construction also lost efficiency as energy and logistics constraints deepened. The economy pivoted toward **less-productive sectors** – public administration and community services – while output in the rest of the economy contracted.

INVESTMENT STAGNATION

Total capital investment ramped up steadily from 1994 to 2008, reaching a peak of 23.3% of GDP in the fourth quarter of 2008. Over the period, there was steady growth across all economic agents, but the private sector at the time accounted for almost 16% of the total. Since that peak, there has been a steady decline in the private sector's overall contribution, with a trend slowing to below 10%, interrupted only in 2023-2024 when peak loadshedding saw restrictions on generation lifted, and private capital expenditure (capex) into energy picked up. This momentum has since moderated. While the GFC may have shaped near-term private investment decisions, a deterioration in the political environment from 2012 certainly contributed to weaker business confidence and a reluctance to invest.

In their quarterly industry survey, the Bureau for Economic Research asks manufacturers to what degree the prevailing political environment acts as a constraint on their decisions to invest in capital. Figure 3 shows that the proportion of respondents citing politics as a constraint declined steadily up to 2005, reaching a net balance of just 38%. Since 2015, however, this figure has hovered closer to 80%.

The combined contribution to overall capex in GDP from the government and public entities has fallen from the peak of 7.4% of GDP in 2008 to just below 4% in the latest data.

THE LABOUR STORY IS INTERESTING

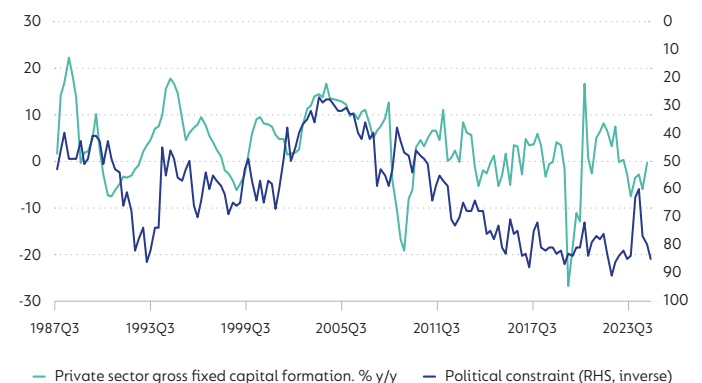
Comparative data suggests that SA's labour adjustment during the GFC was extreme relative to the size of the growth shock, and the economy never fully recovered the preceding employment trend.

Figure 4 illustrates this by plotting the peak-to-trough change in real GDP over the GFC (2007-2009) against the total loss of employment from 2008 to 2010 as the crisis rippled across global economies. SA's position was unusual: while the economic impact over three years was relatively short-lived, the employment loss was comparable to that of Greece, Portugal, and the US – with its notoriously flexible labour market. Looking again at the growth accounting chart (Figure 2), labour accumulation remains positive, but without a recovery to pre-GFC rates.

Realised growth rates impact assessments of potential growth – the long-term rate at which an economy can grow given its labour and capital endowments, and the ability to combine these in more productive ways – because the dynamic is reinforcing. For example, sustained periods of employment growth raises the skills level of the aggregate workforce, improving productivity. Similarly, ongoing capital investment not only contributes to employment

Figure 3

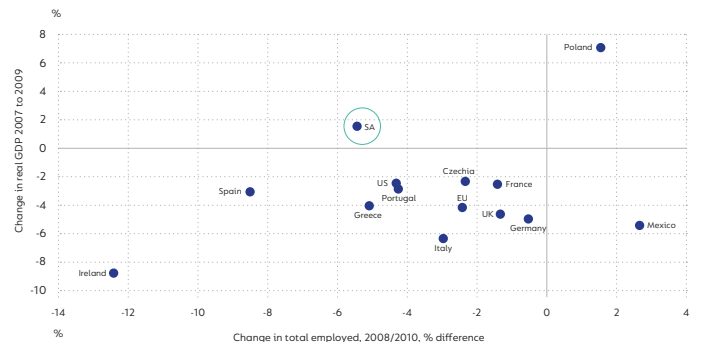
PRIVATE CAPEX AND POLITICAL CONTEXT



Sources: StatsSA, Haver, Bureau of Economic Research

Figure 4

CHANGES IN GDP AND EMPLOYMENT LOSS

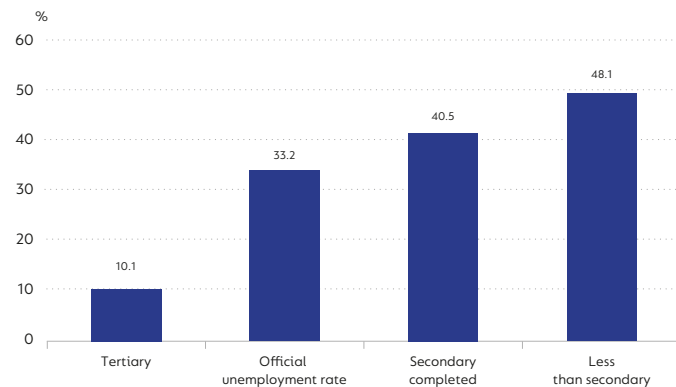


Source: Haver



Figure 5

LEVEL OF COMPLETED EDUCATION, % OF UNEMPLOYED



Source: Stats SA Quarterly Labour Force Survey

but can also have positive effects on efficiencies, competitiveness, wellbeing, and productivity.

A FAILING SYSTEM OF HUMAN-CAPITAL FORMATION

A closer look at the labour market dynamics noted in the opening paragraphs is instructive in the context of low employment growth. In particular, understanding the characteristics of the unemployed shows that both low economic growth and underinvestment in human capital – skills development and education - have reinforced the high rate of unemployment. According to Stats SA's Quarterly Labour Force Survey, more than two-thirds of unemployed people have completed secondary school or less, while those with tertiary qualifications make up about 10% of job seekers (Figure 5). Education is the clearest predictor of employability; it is also the foundation of productivity.

HIGH SPENDING, LOW RETURNS

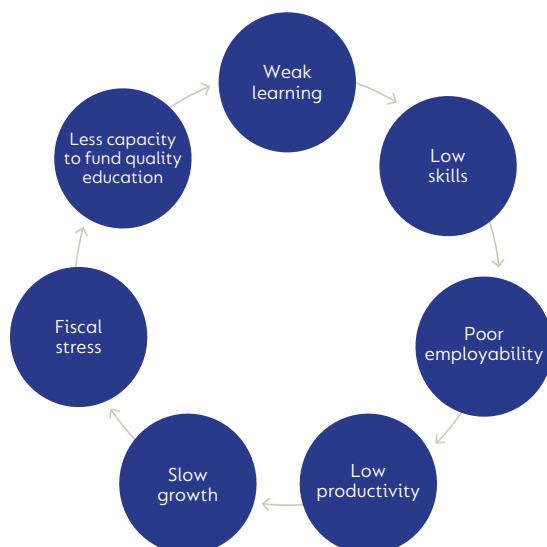
Education absorbs roughly **6% of GDP** and **20% of government expenditure**, placing SA among the world's highest spenders relative to income. Despite this commitment, outcomes are the weakest among upper-to-middle income peers.

Recent international assessments highlight the depth of the challenge. **More than 80%** of Grade 4 learners cannot read for meaning³, and in **47%** of secondary schools, no child reached the intermediate maths benchmark⁴. Adjusted for quality, a South African child effectively receives the equivalent of about **five years of learning** after nine years of schooling.

At the same time, teacher remuneration has risen substantially – by about 66 % in real terms since 2007 – with the average teacher now earning **five times GDP per capita**, the highest ratio in the OECD dataset.

Figure 6

THE EDUCATION-UNEMPLOYMENT NEXUS: A NEGATIVE FEEDBACK LOOP



Research by Peter Courtney (*SA-TIED⁵ for Operation Vulindlela*) shows that learning gaps emerge in the earliest grades: foundational literacy and numeracy determine almost all later educational outcomes. Children who cannot read or count by Grade 4 seldom catch up, regardless of later interventions.

The pandemic deepened these challenges – PIRLS 2023 recorded SA's largest learning loss globally, erasing a decade of progress.

Figure 6 shows that the link between education, employment, and growth is therefore circular.

Breaking this cycle requires treating education with the same rigour applied to macroeconomic policy: measurable outcomes, credible accountability, and efficient resource use. A skilled workforce is the multiplier that turns investment into productivity. Education reform is not an adjunct to growth policy; it is growth policy.

BUILDING REASON FOR (CYCLICAL) OPTIMISM

While these structural challenges run deep, improving dynamics provide some room for cautious optimism. GDP

³ Progress in International Reading Literacy Study (PIRLS), 2023

⁴ Trends in International Mathematics and Science Study, 2019

⁵ Courtney, Peter SA-TIED "Education, Inclusive growth and fiscal consolidation" February 2025



data posted a welcome lift in Q2-25, with gains in tracking data emerging in the third quarter. The sequential rise in output of 0.8% quarter on quarter (1.1% year on year) in Q2-25 was mostly driven by a rebound in consumer spending, despite weakness in the labour market; low credit growth; and weak confidence. Disappointingly, overall capital investment contracted, due to a steep decline in government investment, which more than offset a modest improvement in spending by the private sector.

Looking ahead, we think some of this momentum will be sustained as real income gains are supported by lower interest rates. It is too early to expect a broad-based recovery in investment while business confidence is still stuck in a rut. However, the incremental easing of logistics and energy constraints helps at the margin, and corporate credit has started to accelerate.

The heady rise in precious and industrial metals prices has also boosted SA's terms of trade – traditionally a powerful cyclical driver of growth. While the impact has yet to appear in the activity data – mining production has remained weak, raising questions about how much of the price gains have been capitalised - time lags may yet produce a boost to mining output and exports. Improved profitability should also support related tax and royalty revenues.

In addition, we do expect some of the committed capex by the public sector – notably related to energy, transmission, and logistics to be realised over the next two to three years. There will probably be delays, but where plans are advanced (the Renewable Energy Independent Power Producer Procurement Programme), or the private sector has already been engaged (Transnet ports), we have greater confidence that the actual investment will take place.

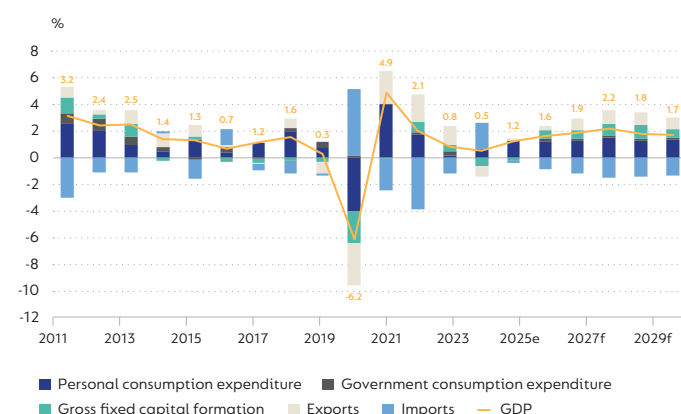
Our real GDP expectations reflect these dynamics. We see GDP of 1.2% in 2025 accelerating to 1.6% in 2026, with some pass-through of momentum from the end of this year into next. By 2027/2028, we think a period of above 2% is likely, as the public capex materialises, but then, as shown in Figure 7, growth is set to slow again. This highlights that growth momentum remains temporary rather than structural.

It may be that the rise in near-term growth will be enough to help sustain a more virtuous cycle, aided at the margin by reform rather than the capacity destruction that has characterised the period from 2008. But, while capex remains weak and educational outcomes critical, the economy's ability to productively absorb labour will remain at the current very low level.

There is a lot of excellent research that offers practical interventions to address this escalating crisis. There is less research quantifying the economic, social, and fiscal impact of not doing so. Laying bare the status quo and understanding the historic drivers of this situation creates an opportunity to intervene. However, if growth remains in the painfully weak 0.5%-1% range – or falters again – current fiscal allocations, even with tough consolidation and a rising primary surplus, will not be sufficient to stabilise the debt trajectory. Figure 8 illustrates this risk: debt continues to rise relative to GDP, crowding out investment, raising borrowing costs, and diverting resources away from social and capital spending.

Figure 7

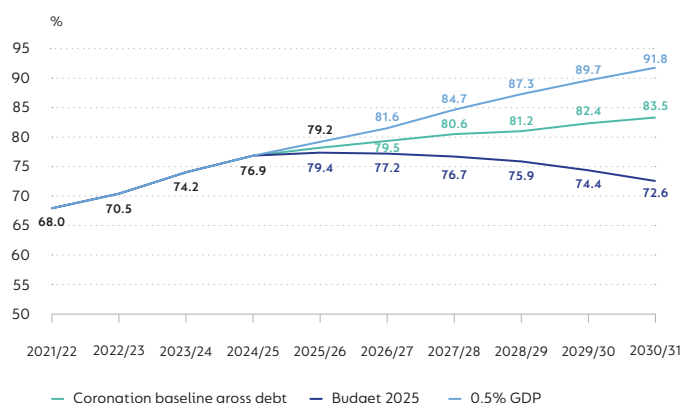
CONTRIBUTIONS TO REAL GDP, PPTS



Sources: StatsSA, Coronation

Figure 8

CORONATION BASELINE GROSS DEBT



Source: National Treasury, Coronation



BOTTOM LINE

South Africa's unemployment crisis is the visible symptom of a deeper malaise: an economy that has stopped growing and an education system delivering very poor outcomes.

Growth accounting makes the sequence clear – unemployment has risen, investment has fallen, and productivity has collapsed. Behind each lies an erosion of human capital that has become self-reinforcing.

Restoring growth requires rebuilding both **capital and capability**:

- **Investment** to expand productive capacity,
- **Growth** to generate demand, employment, and fiscal space, and
- **Education** to build the skills base that makes this process self-reinforcing and inclusive.

These are interdependent. Jobs will not return until growth returns — and growth will not sustain until learning does. +



DISCLAIMER

South African Readers

All information and opinions provided are of a general nature and are not intended to address the circumstances of any particular individual or entity. As a result, there may be limitations as to the appropriateness of any information given. It is therefore recommended that the reader first obtain the appropriate legal, tax, investment or other professional advice and formulate an appropriate investment strategy that would suit the risk profile of the reader prior to acting upon such information and to consider whether any recommendation is appropriate considering the reader's own objectives and particular needs. Neither Coronation Fund Managers Limited nor any subsidiary of Coronation Fund Managers Limited (collectively "Coronation") is acting, purporting to act and nor is it authorised to act in any way as an adviser. Any opinions, statements or information contained herein may change and are expressed in good faith. Coronation does not undertake to advise any person if such opinions, statements or information should change or become inaccurate. This document is for information purposes only and does not constitute or form part of any offer to the public to issue or sell, or any solicitation of any offer to subscribe for or purchase an investment, nor shall it or the fact of its distribution form the basis of, or be relied upon in connection with any contract for investment. In the event that specific funds and/or strategies (collectively "funds") and/or their performance is mentioned, please refer to the relevant fact sheet in order to obtain all the necessary information regarding that fund (www.coronation.com). Fund investments should be considered a medium-to long-term investment. The value of investments may go down as well as up, and is therefore not guaranteed. Past performance is not necessarily an indication of future performance. Funds may be allowed to engage in scrip lending and borrowing. To the extent that any performance information is provided herein, please note that: Performance is calculated by Coronation for a lump sum investment with distributions, to the extent applicable, reinvested. Performance figures are quoted gross of management fees after the deduction of certain costs incurred within the particular fund. Fluctuations or movements in exchange rates may cause the value of any underlying international investment to go down or up. Coronation Fund Managers Limited is a full member of the Association for Savings and Investment SA (ASISA). Coronation Asset Management (Pty) Ltd (FSP 548), Coronation Investment Management International (Pty) Ltd (FSP 45646) and Coronation Alternative Investment Managers (Pty) Ltd (FSP 49893) are authorised financial services providers. Coronation Life Assurance Company Limited is a licenced insurer under the Insurance Act, No.18 of 2017.

US Readers

Coronation Investment Management International (Pty) Limited is an investment adviser registered with the United States Securities and Exchange Commission ("SEC"). An investment adviser's registration with the SEC does not imply a certain level of skill or training. Additional information about Coronation Investment Management International (Pty) Limited is also available on the SEC's website at www.adviserinfo.sec.gov. The information in this document has not been approved or verified by the SEC or by any state securities authority. The opinions expressed herein are those of Coronation Investment Management International (Pty) Limited at the time of publication and no representation is made that they will be valid beyond that date. Certain information herein has been obtained from third party sources which we believe to be reliable but no representation is being made as to the accuracy of the information obtained from third parties. This newsletter contains references to targeted returns which we believe to be reasonable based on current market conditions, but no guarantees are being made the targets will be achieved or that investors will not lose money.

This article is for informational purposes and should not be taken as a recommendation to purchase any individual securities. The companies mentioned herein are currently held in Coronation managed strategies, however, Coronation closely monitors its positions and may make changes to investment strategies at any time. If a company's underlying fundamentals or valuation measures change, Coronation will re-evaluate its position and may sell part or all of its position. There is no guarantee that, should market conditions repeat, the abovementioned companies will perform in the same way in the future. There is no guarantee that the opinions expressed herein will be valid beyond the date of this presentation. There can be no assurance that a strategy will continue to hold the same position in companies described herein.

Global (ex-US) readers

The information contained in the publication is not approved for the public and is only intended for recipients who would be generally classified as 'qualified', 'professional', 'accredited' or 'institutional' investors. The information is not designed for use in any jurisdiction or location where the publication or availability of the information would be contrary to local law or regulation. If you have access to the information it is your responsibility to be aware of and to observe all applicable laws and regulations of any relevant jurisdiction and it is recommended any potential investor first obtain appropriate legal, tax, investment or other professional advice prior to acting upon the information. The value of investments and any income from them can go down as well as up and investors may not get back all that they have invested. Please be advised that any return estimates or indications of past performance in this publication are for information purposes and can in no way be construed as a guarantee of future performance. Coronation Fund Managers accepts no liability of any sort resulting from reliance being placed upon outdated information contained in this publication by any user or other person. Whilst every effort is made to represent accurate financial and technical information on an ongoing basis, inadvertent errors and typographical inaccuracies may occur. Information, laws, rules and regulations may also change from time to time. Information contained in the publication is therefore made available without any express or implied representation or warranty whatsoever, and Coronation Fund Managers disclaims liability for any expenses incurred, or any damage, claims or costs sustained by users arising from the reliance being placed on the use of links, services or any information or representations contained in the publication. Coronation Asset Management (Pty) Ltd (FSP 548), Coronation Investment Management International (Pty) Ltd (FSP 45646) and Coronation Alternative Investment Managers (Pty) Ltd (FSP 49893) are authorised financial services providers. Coronation Life Assurance Company Limited is a licenced insurer under the Insurance Act, No.18 of 2017. Coronation International Limited is authorised and regulated by the Financial Conduct Authority. Coronation Global Fund Managers (Ireland) Limited is authorised by the Central Bank of Ireland under the European Communities (UCITS) Regulations 2011 and the Alternative Investment Fund Managers Directive 2011, with effect from 22 July 2014. Unit trusts are generally medium to long-term investments. The value of units may go up as well as down. Past performance is not necessarily an indication of the future. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. Unit trusts may invest in assets denominated in currencies other than their base currency and fluctuations or movements in exchange rates may have an adverse effect on the value of the underlying investments. Performance is measured on NAV prices with income distribution reinvested.

This article is for informational purposes and should not be taken as a recommendation to purchase any individual securities. The companies mentioned herein are currently held in Coronation managed strategies, however, Coronation closely monitors its positions and may make changes to investment strategies at any time. If a company's underlying fundamentals or valuation measures change, Coronation will re-evaluate its position and may sell part or all of its position. There is no guarantee that, should market conditions repeat, the abovementioned companies will perform in the same way in the future. There is no guarantee that the opinions expressed herein will be valid beyond the date of this presentation. There can be no assurance that a strategy will continue to hold the same position in companies described herein.