

ABSTRACT

The Impact of Zambia's Economic Downturn on Labour Market Outcomes

In 2015, Zambia's economy grew by 3.2%, the lowest economic growth since the 1990s as it was hit by a devastating combination of external shocks, domestic policy misalignments and consequent macroeconomic instabilities. The most notable external shock was the sharp decline in the global price of copper, the main foreign exchange earner for the economy, as international commodity prices, including copper, fell particularly sharply during 2015. The reduced price of copper was mainly due to the decline in Chinese demand. On the domestic front, the country was hit by a severe power crisis, which ensued from mid-2015, and a weakened Kwacha, the country's currency, against the major convertible currencies. Cursory estimates by the Zambia Association of Manufacturers suggested that the load-shedding alone reduced industrial production in manufacturing by between 60-70% between June and October 2015. The slowdown in agriculture was mainly attributed to unfavourable weather conditions. The erratic rainfall, especially during the first half to the rainy season, led to the drop in output of major food and cash crops such as maize, sorghum, groundnuts and tobacco.

In this paper, we assess how this downturn has impacted upon the employment outcomes in the country. We find that the economic downturn in Zambia has had considerable impact on the labour market – with the principal impact being in the form of job losses, with a net reduction of 6.5% in the 12 months period prior to April 2016. Businesses experienced a drop in their bottom line, with 73% of the firms recording at least 25% fall in profits. To mitigate this, they increased prices and effected recruitment freezes and redundancies, especially in the mining and construction sectors. The findings have many implications. In particular, the results point to economic vulnerability for young people under age 25, the low income workers, and the lowly skilled. We also find that despite the downturn, both businesses and individuals were optimistic about the future. But there are also warning signs as a significant proportion of businesses appear to be considering a recruitment freeze in future.