EFFICIENT GROUP

ECONOMIC COMMENTARY

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YOUR MONTHLY ECONOMIC UPDATE

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HOUSEHOLD INCOME AND THE REAL COST OF HIGHER FUEL PRICES

In June, BankservAfrica released another set of dismal monthly salary data for South Africa (SA). The Take-home Pay Index (BTPI) showed that, during the month of May, the average real monthly salary (removing the effect of inflation) in SA was only R14 696; this plummeted by 6.7% since May 2021. In real terms, the average salary has declined from R16 142 in January 2021 to R14 696 in May 2022. A decline in salaries paid to individuals is, of course, horrible, but it does not tell the whole story.

The main reason why average salaries are declining is because our economy is not growing fast enough, and load shedding is a major contributor. By our estimates, the economy could have been at least 8% to 10% bigger by now, with 1.2 million more jobs, if Eskom had not often sent us into rolling blackouts since 2008. But load shedding is not the only culprit. Poor, unaccountable leadership – which translates into corruption, inefficient policies, and a substandard government at all levels – is the main culprit. That being said, the average salary is also declining because more jobs are being created. In May 2022, 98 738 more households had jobs than the year before, the highest monthly year-on-year increase since 2018. The bulk of new employment opportunities was created in the lower-income brackets, people who earn up to R5 000 per month, suggesting the ongoing return of casual and weekly workers. We believe that this trend is welcome news because it should reduce some of the social tension that has been brewing underneath the surface, and showing up in strikes and civil unrest.

Initially, after the first quarter of 2022, we finally saw the economy recover back to pre-pandemic levels. But unemployment was at record highs. This meant that the rich were getting richer and the poor, poorer – a trend that government was to be blamed for, more so than anyone else. Fortunately, as the economy continues to stabilise in this new global environment, it seems that businesses are, once again, starting to employ lower-skilled and seasonal workers, which should continue to redistribute income towards poorer households. Unfortunately, this remains a short-term solution, because no one can live a sustainable life if their average real salary keeps on dwindling. In the long term, we must return to a healthy, vibrant, growing economy.

You may ask what is up with inflation? Real wages are also declining more rapidly because inflation keeps on rising. But compared to the rest of the world, especially developed economies, we do not have an inflation problem. The United States and rich European countries have an inflation problem: There, inflation is at levels that are four times higher than the average long-term rate. In SA, we have barely breached the upper limit of the South African Reserve Bank's target range of 3% to 6%. Higher than expected fuel and food prices do not mean that total inflation is also extremely high. Food prices, which increased by 7.8% on a year-on-year basis in May, only constitute 15.70% of the average household's total spending. If we use BankservAfrica's data, this means that the average household is only paying R370 more each month for food than they were doing a year ago. Fuel prices only constitute 4.82% of the average household's total spending and increased a staggering 32.5% year-on-year. When we only consider the fuel price increase, we wrongfully believe that the impact on a household's budget should be enormous. But, because it is such a small share of a household's spending, the average household is only spending about R470 more on fuel each month compared to a year ago; it is bad, but definitely not as bad as the media is making it out to be.

Of course, these are only averages and the impact might be worse for your household. So, the best thing a household can do in these uncertain times, where interest rates and inflation are rising, and there is a probability of a recession and/or a market correction occurring, is to plan accordingly. Do so by speaking to your financial advisor today!