

BDSI REPORT

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Salaries increase again in real terms but slowing trend confirmed

A Civil servant salary increases and backdated payments in June have brought the average disposable salary growth back to positive real growth of nearly 1% after inflation.

The average BankservAfrica Disposable Salary Index (BDSI) is R12 849 for June, which is 5.8% higher than a year ago. This compares to civil servant gross salary increases of 6.4% and private sector increases, which averaged about 7% over the last year.

The BDSI is therefore showing slightly lower increases than gross salary increases due to a number of factors, such as:

- lower salary increases;
- higher deductions from personal tax; and
- higher medical insurance payments (which increased by 9.5% according to StatsSA).

Other statistical data shows fewer cases of civil debt judgements which means that over time there should be fewer garnishee orders deducted from formal sector salaries.

Overall the higher tax rate on many formal sector employees and the higher cost of medical insurance are impacting largely on the level of increases.

While take home pay is certainly still increasing, it is at a lower rate than a year ago, and therefore the trend overall is slowing.

The average BankservAfrica Disposable Salary increase in the first six months of 2015 is 6.3% compared to 8.3% for the first six months of 2014 in nominal terms.

In the first half of 2015 disposable salaries increased, but at a slower rate than before. This slowdown in the rate of nominal disposable income is certainly also part of a lower inflation rate, as most salary adjustments are linked to the consumer price index.

One can expect the slower nominal increases to continue as the lower inflation over the last year will impact on wage increases.

Ironically this will lead to low real wage increases as inflation picks up again. But wage increases would still be factoring on the lower inflation rate of the past. Wage settlements are in their nature backward looking, and as the lower inflation rate makes way for a higher rate, the low inflation of the past year will still result in lower wage increases.

The BDSI trend is therefore forecasting low to negative real increases for the next few months.

Pensions once again increase

In contrast to salaries, the average take home private pension has been increasing at a much faster rate. In the first six months of 2015, private pensions increased with 9.6% after increasing only 7.5% for the first six months of 2014.

The South African take home pension, as measured by the South African payment system, increased with 8.9% in June 2015. This left the average pension at R5 766 per month, which is an increase of 3.9% in real terms.

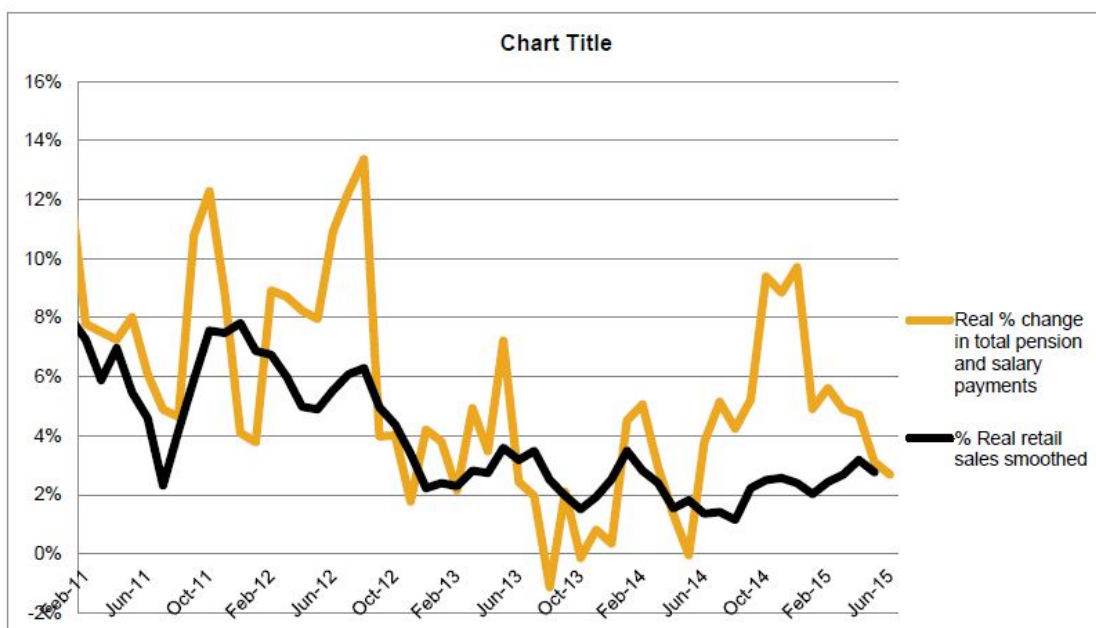
The BankservAfrica Private Pension Index (BPPI), while lower in actual levels, is increasing much faster than the disposable salaries.

It seems that pension payments are benefitting from higher equity markets and the weaker Rand, as many pension funds have foreign exposure. This could also indicate that while pensions are again under 45% of the disposable salary level, the growth in pensions could become more important to retailers and others if salary growth or employment levels come under pressure.

Overall however, both salaries and pensions increased in real terms in June, with slower real increases than the average apparent over the last six months.

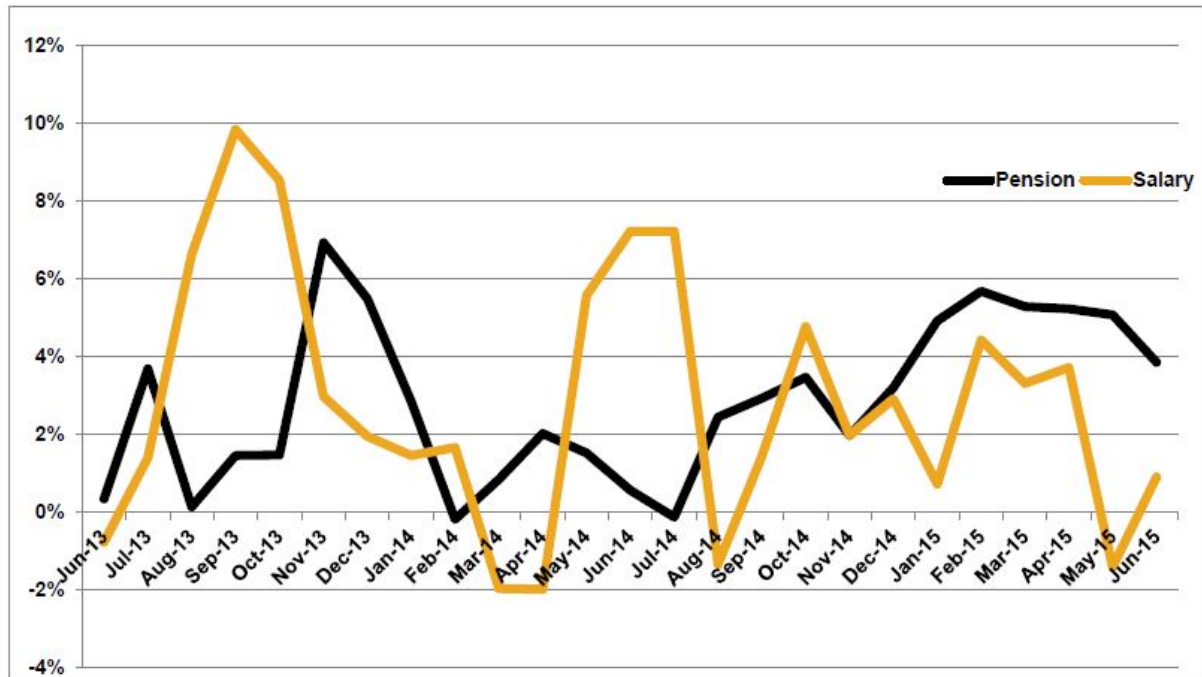
The chart below shows the longer term trend between retail sales and total overall payments via BankservAfrica Disposable Salary Index and the BankservAfrica Private Pension Index.

Graph 1: Real disposable salary increases and retail sales



Source: BankservAfrica and Economists dotcoza

Graph 2: After Inflation changes of Disposable Salaries and Pensions



Source: BankservAfrica and Economists dotcoza.

The distribution of salaries again shows that more people are taking home more.

Both the median disposable salary and pension increased more than the average, and shows that the higher tax rates on higher earners is having a slight redistributive impact.

The median take home salary was R9 578, which is an increase of 5.9% - a higher increase than the average salary. Part of this may also be due to companies questioning garnishee orders and refusing to implement them in full. In 2013 about 12% of civil servants had a garnishee order, in contrast to the 7% that the private sector had, according to research by the University of Pretoria.

This has resulted in a decline in the number of people receiving less than R4000 per month in their bank accounts. This is also the only category where the number of payments over the last year has gone down. The increase in the next lowest category of people – those earning between R4 000 and R10 000pm - was only 1%.

Although in recent times the category shares have remained relatively constant - apart from the decline in the lowest category - the long term data shows that there has been a massive increase in people taking home more than R10 000 per month.

This shows that people who work for larger formal sector employers have been migrating to higher salaries. This has not been limited to just the few people at the top as is often claimed.

The median pension increased with 9.2% to R 3 860 in June 2015. This is probably due to the tax rate increases on higher pension earners, but still important enough to influence the average.