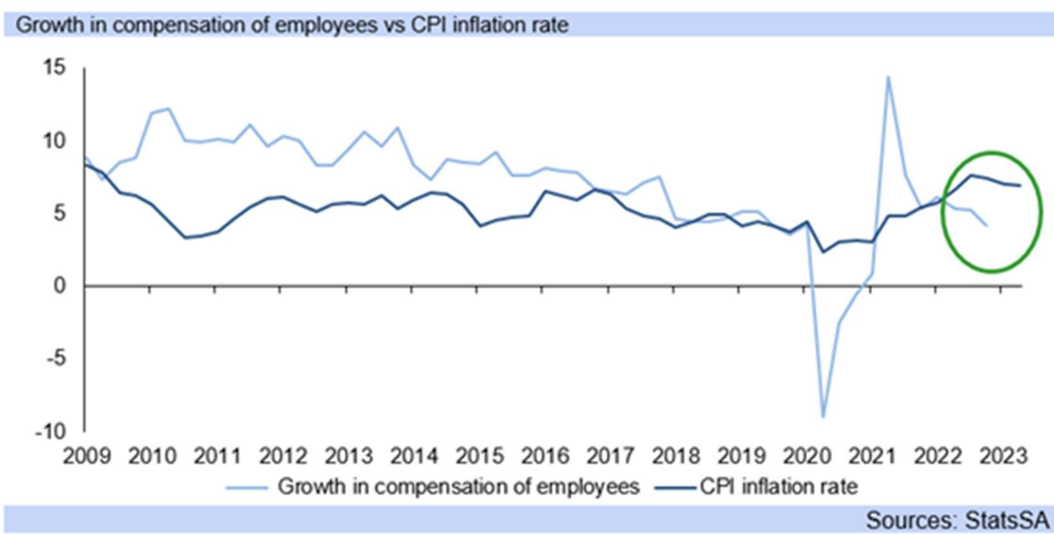
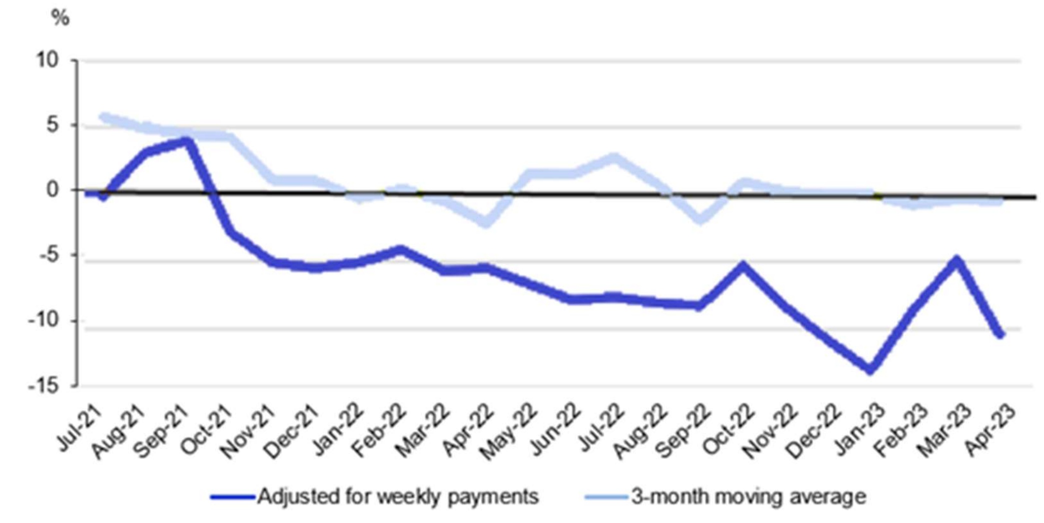
Investec

Household finances: salaries fall further in real and nominal terms as South African's earn less

Friday 9 June 2023

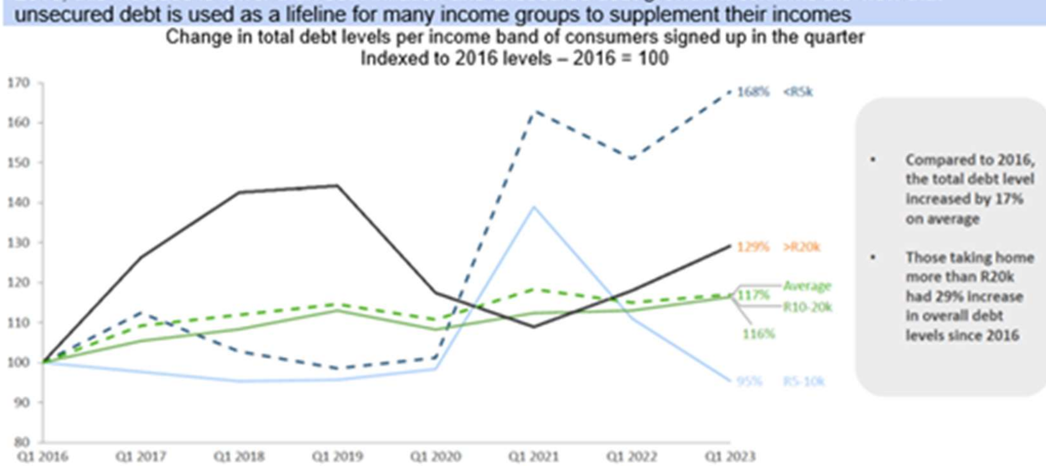


Growth in real BTPI vs Real BPPI (%) (<R100K per month)



Source: BankservAfrica and Economists.co.za

Total debt levels (which include both secured and unsecured debt) have increased by 17% compared to 2016; this increase is lower than both inflation and unsecured debt growth. It confirms the view that unsecured debt is used as a lifeline for many income groups to supplement their incomes



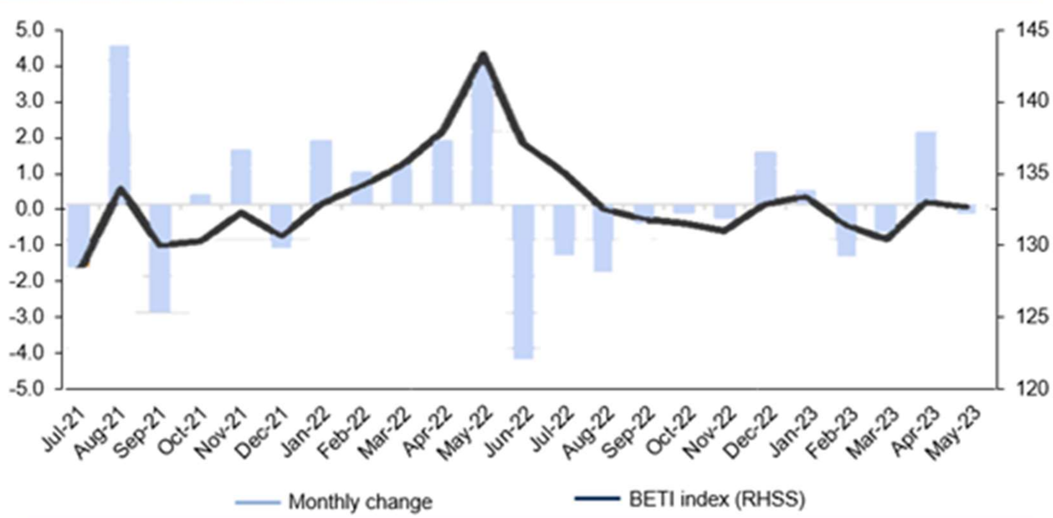
Sources: DebtBusters Q1.23

- Average salaries continue to fall in SA, both in real and nominal terms, with actual (nominal) take-home pay recording R15 063 in April 2023, versus R15 335 in April 2021 (R15 345 April 2022) and R15 416 in January 2021 (R15 567 January 2022).
- The BankservAfrica Take-home Pay Index, or BTPI, further shows real (adjusted for inflation) take-home pay slipping to R13 524, -10.4% lower than a year earlier (R15 097), and below R16 021 recorded in April 2021.
- BankservAfrica highlights that "(t)his is … an environment … where companies will remain in 'survival mode' for an extended period of time" and "is by no means conducive for job creation or comfortable wage increases".

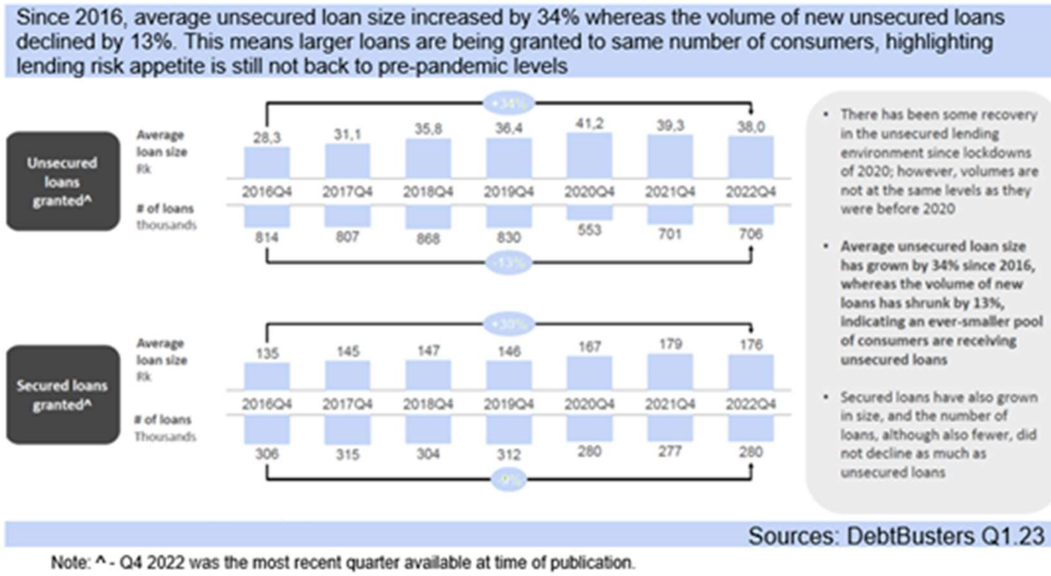
- With the cost of living rising by 6.8% y/y in April, and actual salaries falling by -4.2% y/y, consumers are becoming poorer (in real and nominal terms), severely reducing affordability, and weakening the economic environment.
- It is not only load shedding which is weakening economic growth in SA, likely to still come out close to 0.2% y/y this year, but also the drop in consumer affordability, which negatively affects HCE (Household Consumption Expenditure).
- HCE accounts for two thirds of GDP, and when HCE weakens GDP does so too. BankservAfrica's Economic Transactions Index (BETI) shows the economy weakened in May, by -7.4% y/y (February -2.0% y/y).
- South Africa has essentially been in a stagflationary environment for a while now, as economic activity has been weak and inflation high, and rising at times (see Economic growth note, 6th June, contact details below).
- Q2.23 will likely see CPI inflation drop below 6.0% y/y, but salary and wage increases are not expected to occur which will be sufficient to make up for the loss in spending ability in either real or nominal terms.
- The declining renumeration trend that households have been facing this decade to date has been a key reason for poor growth, and so employment outcomes in the economy, as demand is muted, and so in non self-generation fixed investment .

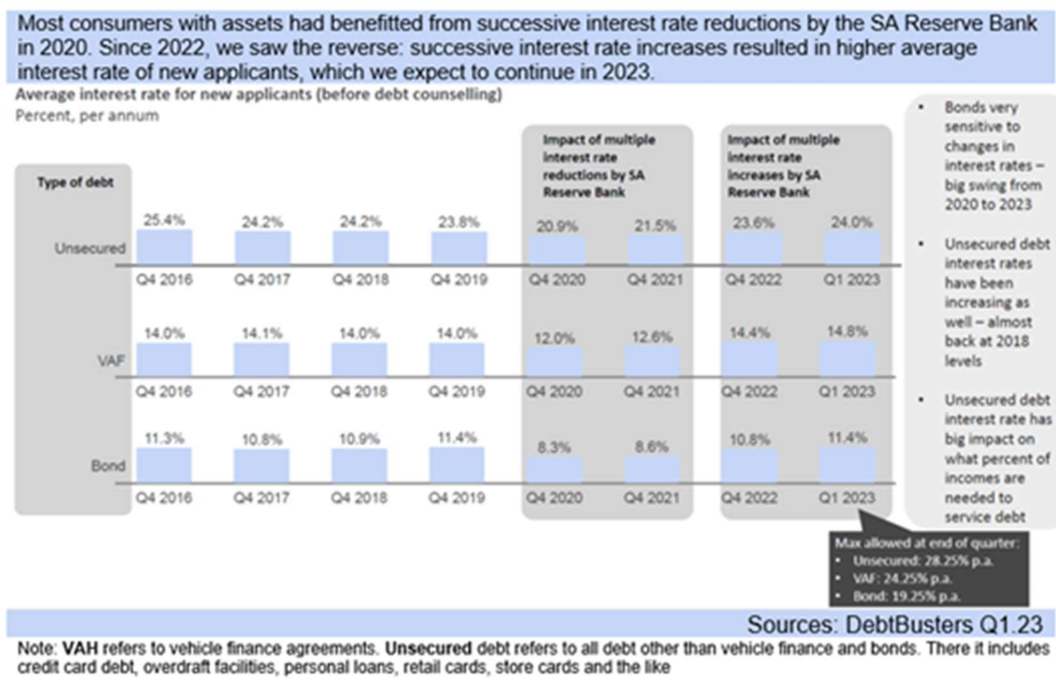
Please scroll down to the second section below

BankservAfrica Economic Transaction Index



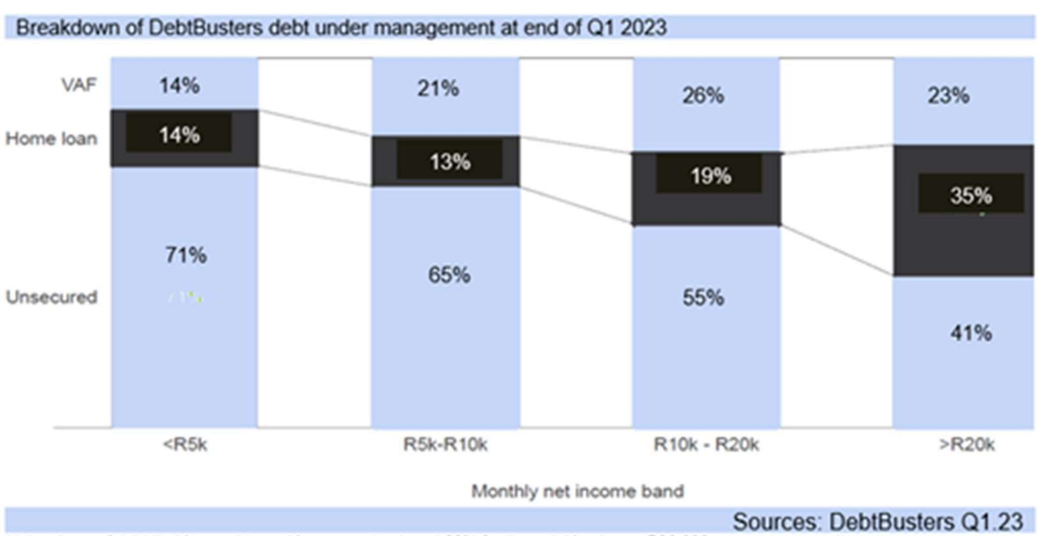
Source: BankservAfrica and Carpe Diem Research





- South Africa is in an electricity crisis, brought to a head as rapid renewable energy investment from the private sector was not supported over the last few years, with enormous delays in regulatory approvals. This has now changed to strong support.
- The country has been called a Mafia state on the reported corruption at Eskom, and Transnet, and in some other areas of government and the SOEs, with negative effects on services, economic growth and employment, and on political support for the ANC.

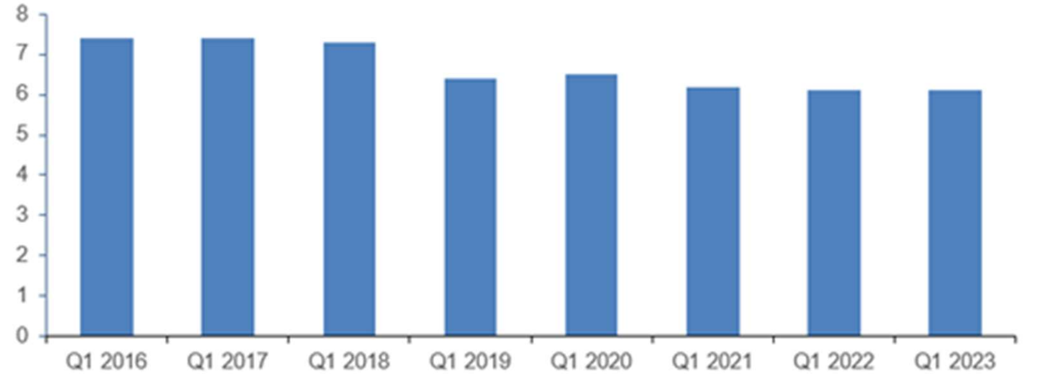
- Extremely insufficient rail and port capacity is also decimating growth and so job creation, with unemployment at an official 32.9%, from 26.7% in 2017. President Ramaphosa and business leaders are now spearheading resolutions in these three areas.
- Households are experiencing debt stress, with Debt Busters highlighting that in Q1.23 the “impact of successive interest rate increases since November 2021 and elevated levels of inflation is now fully evident in consumer finances.”
- Debt Busters notes a “(h)igher debt service burden with 65% of net incomes going towards paying debt … those taking home R20k or more p.m. need to use 70% of their income towards debt repayments.”
- “The debt-to-income ratio for top two band is higher in Q1 2023 compared to same periods in the past: 123% for those taking home more than R10k per month and 159% for those taking home R20k or more p.m … near all-time high levels.”
- Debt Busters also finds “(u)nsustainably high levels of unsecured debt … on average 30% higher than that in 2016 levels; for those taking home R20k or more, the unsecured debt levels were 67% higher.”
- “This is a direct result of erosion of net income (take home pay): consumers need to supplement this erosion with unsecured credit.” As consumers see their take home pay drop while the cost of living rises resorting to debt aids affordability.
- Companies paying below the CPI inflation rate for salary and wage increases, with inflation likely to average 6.0% y/y this year, or with employees receiving lower incomes will not strengthen the economy or demand for goods and services.



Note: share of debt that is asset-based increases to almost 60% for those taking home R20,000 or more per month

The average number of credit agreements (open trades) a consumer has continues to be at historical low levels. When factoring in debt levels, this indicates consumers have more debt pe credit agreement and are seeking help faster than before

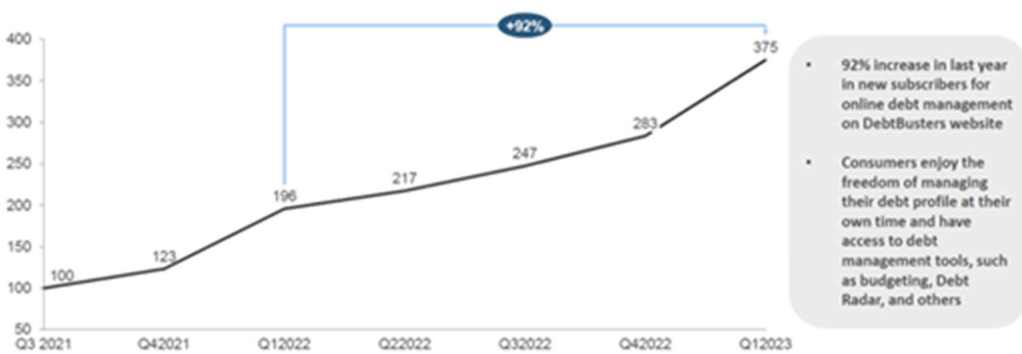
Credit agreements (open trades) per new consumer
Number, when consumers sign up with DebtBusters



Sources: DebtBusters Q1.23

Consumers' interest in online debt management continues to increase. We have observed that the non-debt counselling userbase for DebtBusters website has gown 92% over the past year

Number of new non-debt counselling subscribers to DebtBusters website
Indexed to Q3 2021 levels; Q3 2021 = 100



Sources: DebtBusters Q1.23