



Q2 2018 BARGAINING BENCHMARKS

A resource for negotiators in South Africa

LRS Labour
Research
Service

“Knowledge is too important to leave in the hands of bosses”

Negotiators often have very few resources to assist them with preparing for bargaining processes at company or sector level. There is very little information on wages and other key indicators in the public domain and trade union negotiators in particular have limited scope to buy the information that they might need. It is also true that much of the information that is available is not in a form that is easily understood by negotiators.

Bargaining Benchmarks is a basic resource for role players in collective bargaining in South Africa. This report provides negotiators with a series of benchmarks that will help them enter into bargaining processes as informed role players.

This publication is made possible through the support of the National Skills Fund (NSF).

Table of Contents

| | |
|---|-----------|
| Definitions | 4 |
| Price Inflation: Cost of Living | 5 |
| Contribution of different groups to annual change | 6 |
| Annualised increases in prices by Expenditure category | 7 |
| Inflation by Expenditure Group | 8 |
| Inflation Rates by Province | 9 |
| Producer Price Index | 10 |
| Employment | 11 |
| Employment growth | 12 |
| Wage Settlement | 14 |
| Sectoral Determinations and the Proposed National Minimum Wage | 15 |
| References | 16 |

Definitions

| | |
|-------------------------------------|--|
| BARGAINING COUNCIL | Comprises of one or more registered trade unions and one or more registered employer organisations. The aim is to provide a forum for collective bargaining by which settlement on matters of joint interest can be reached through negotiation. |
| CPI (CONSUMER PRICE INDEX) | Measures changes in the price level of market basket of consumer goods and services purchased by households. |
| ECONOMIC GROWTH | The increase in the inflation-adjusted market value of the goods and services produced by an economy over time. It's conventionally measured as the percent rate of increase in real gross domestic product, or real GDP. |
| EMPLOYMENT | The fact of having a paid job. |
| INFLATION | The rate at which prices increase over time, resulting in a fall in the purchasing power of money. |
| GDP (GROSS DOMESTIC PRODUCT) | A monetary measure of the market value of all the final goods and services produced in a period of time, often annually or quarterly in a country. |
| PPI (PRODUCER PRICE INDEX) | The measure of average change in price of a basket of representative goods and services sold by manufacturers and producers in the wholesale market, including finished goods, intermediate goods, and raw materials or crude commodities). |
| SECTORAL DETERMINATION | A set of wages and conditions of services that govern vulnerable workers in a particular sector. |
| WAGE FLOOR | The lowest wage found in collective agreements. |

Price inflation: Cost of living

INFLATION

The increase in prices over a certain time period. Measured as an annual percentage increase (for example, June 2017 to June 2018). Almost always presented as an annualized number covering the previous 12 months.

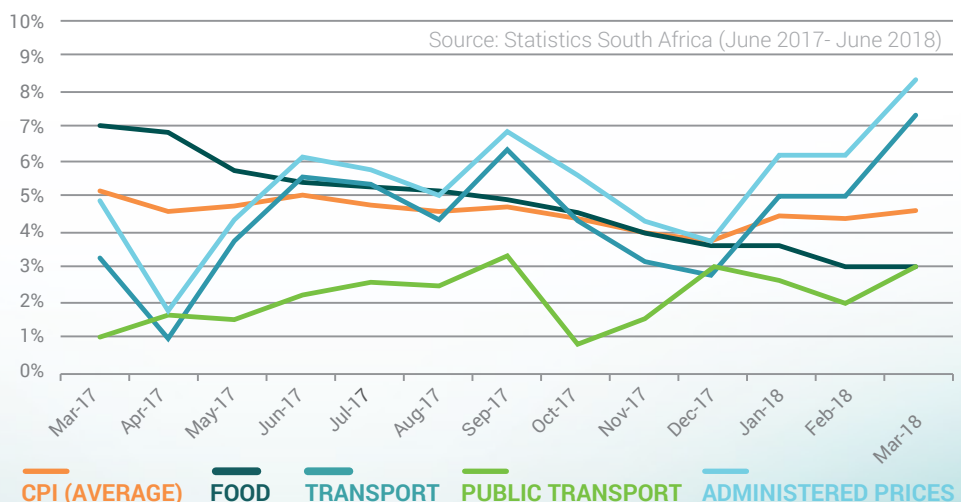
The first thing to be aware of is that inflation is backward looking. As an example, if the latest inflation number is for March 2018 and it is reported to be 3.8%, then this tells us what happened to prices over the last 12 months (from March 2017 to March 2018).

The easiest way to understand inflation is to think of buying power. If a worker receives a 10% increase, but the price of the goods that the worker buys also increase by 10%, then that worker will not be able to buy anything beyond what they bought previously, even though they appear to have more money. The wage earner, therefore, has exactly the same buying power they had before despite the 10% increase.

The Consumer Price Index (CPI) represents the overall increase in prices of all goods. The inflation rate as measured by the CPI was 4.6% at June 2018. This means that the price of goods and services generally increased by 4.6% from June 2017 to June 2018.

You can find this monthly release at www.statssa.gov.za/

Figure 1: Consumer Price Index (CPI) and selected price categories June 2017 to June 2018.



Overall CPI is made up of different categories of goods and services. So for example, while overall CPI increased by 4.6%, the price of transport and transport-related items increased by 10.5% and the price of public transport increased by 6.7%. Administrative prices (school fees, telephone, electricity, trains, and petrol/paraffin) increased by 12.1% to June 2018, while the price of food increased by 2.9% in the same period.

The next table shows the contribution of the main kinds of expenditure to the inflation rate for September. You can see that housing & utilities and transport prices are the biggest contributors to average inflation of 4.6%.

Table 1:
Contribution of the different groups to the annual change in inflation June 2018.



| Group | Contribution (Jun-18) |
|----------------------------------|-----------------------|
| Housing and utilities | 1% |
| Transport | 1% |
| Miscellaneous goods and services | 1% |
| Food and non-alcoholic beverages | 0.6% |
| Alcoholic beverages and tobacco | 0.4% |
| Education | 0.2% |
| Clothing and footwear | 0.1% |
| Household contents and services | 0.1% |
| Health | 0.1% |
| Restaurant and hotels | 0.1% |
| All items | 4.6% |

Source: Statistics South Africa (June 2018)

Remember that the inflation rate describes a rate of increase. So, if annualised inflation is lower this month than it was last month, it does not mean that things are cheaper. It just means that the prices increased more slowly than they did before.

The table below shows that although the average inflation rate came to 4.6%, other components within the basket of goods attained inflation rates higher than the average CPI.

If we look even closer, we can see which sub-categories are currently driving inflation. The next table shows that the prices of fuel, private transport and water increased fastest.

Table 2: Annualised increases in prices from June 2017 to June 2018 by expenditure category



Source: Statistics South Africa (June 2018)

| CPI | 4.6% |
|-------------------------------|-------|
| Fuel | 16.3% |
| Private Transport Operation | 13.5% |
| Alcoholic Beverages | 8.3% |
| Primary & Secondary Education | 7.7% |
| Fish | 7.5% |
| Books, Newspaper & Stationery | 7.2% |
| Restaurants | 7.2% |
| Insurance | 7.1% |
| Water and Other Services | 7.1% |
| Meat | 6.8% |
| Financial Services | 6.4% |
| Non-Alcohol Beverages | 6.2% |
| Medical Services | 5.8% |
| Vegetables | 5.7% |
| Tertiary Education | 5.3% |
| Other Goods & Services | 5.2% |
| Health | 4.7% |

Inflation by expenditure group

Table 3:
Annualised inflation
by expenditure
group, June 2018



There is more than one inflation number. The inflation rate that is reported in mainstream media is the average inflation rate. Different groups, from the very poor to the wealthy, can experience different rates of inflation because they buy different things.

Source: Statistics South Africa (June 2017- June 2018)

| | Monthly expenditure | June-18 |
|-----------|--------------------------------|---------|
| Decile 1 | Up to R1 477 per month | 2.5% |
| Decile 2 | R1 477 up to R2456 per month | 2.8% |
| Decile 3 | R2 456 up to R3549 per month | 3.3% |
| Decile 4 | R3 549 up to R4742 per month | 3.4% |
| Decile 5 | R4 742 up to R6151 per month | 3.5% |
| Decile 6 | R6 151 up to R7907 per month | 3.7% |
| Decile 7 | R7 907 up to R10352 per month | 4.2% |
| Decile 8 | R10 352 up to R14419 per month | 4.5% |
| Decile 9 | R14 419 up to R22492 per month | 5% |
| Decile 10 | R22 492 and more... | 4.8% |

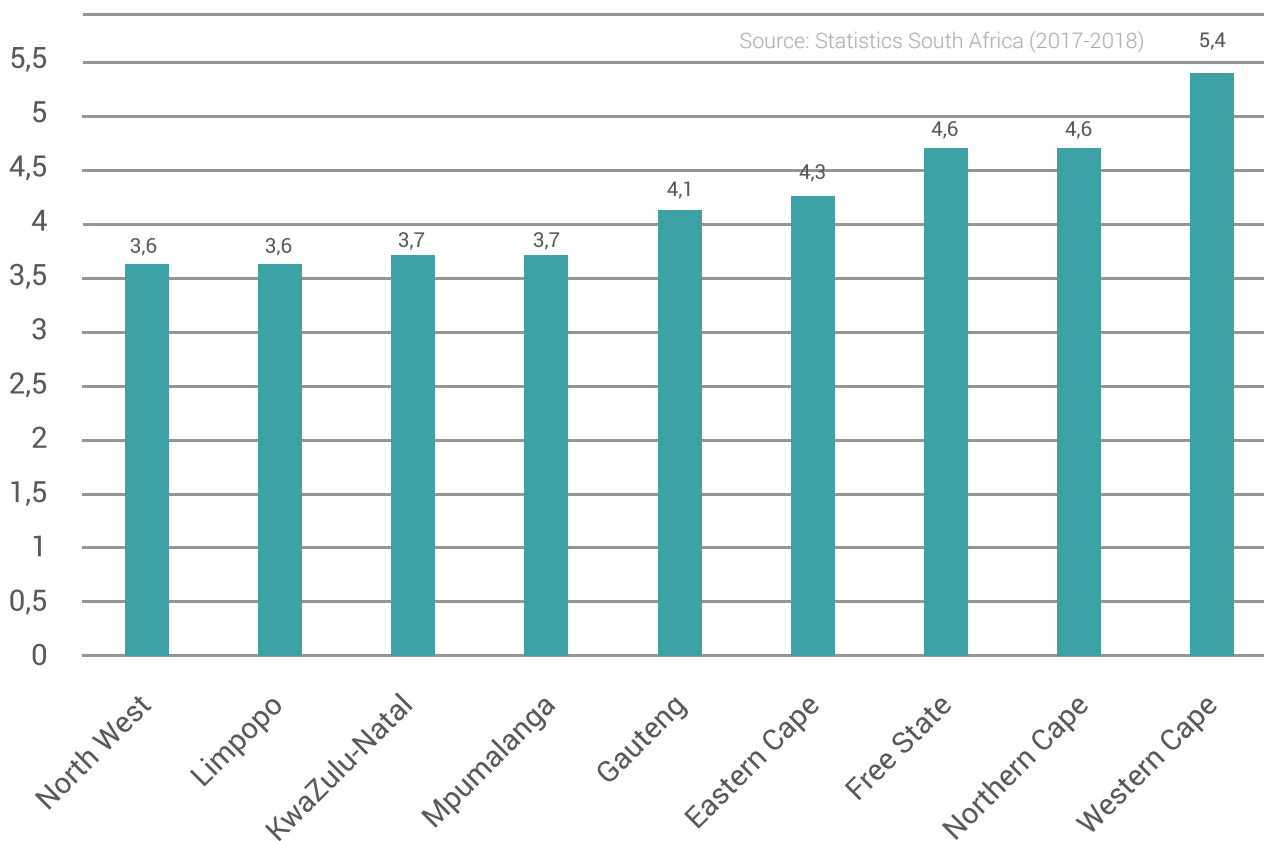
At the moment, inflation appears to be higher for wealthier households. This is not always the case. For example, back in 2009, the inflation rate for the poorest households was 4% higher than inflation for the wealthiest households.

Inflation rate by province

Figure 2:
Annualised Inflation
Rate (%) by Province,
June 2018



When comparing the overall inflation rate according to provinces, it can be seen that Western Cape attained the highest inflation rate of 5.4% and lowest was found in North West (3.6%) in the second quarter of 2018.



Producer price index

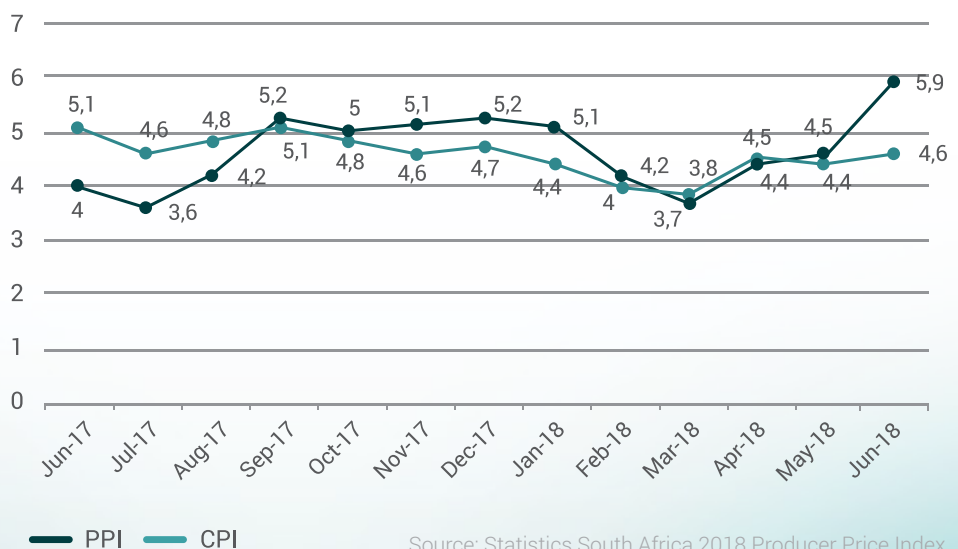
The line chart below shows monthly movement of the Producer Price Index (PPI).

The Producer Price Index (PPI) measures an average change in price of a basket of representative goods and services sold by manufactures and producers in the wholesale market, while CPI measures price changes in a basket of goods and services bought by the average household.

The PPI can assist us in understanding what inflation might do in future. There are many factors that can influence the inflation rate, but the trend in PPI is one way of predicting what prices will do in the short term.

The chart below shows the annualised rate of increase of the Producer Price Index (PPI) by month. The fact that PPI is running ahead of CPI at the moment suggests that those prices will feed through to the consumer in time and that inflation is likely to increase in the months to come, off the current base of 4.6%.

Figure 3: annualized percentage increase in PPI and CPI June 2017 to June 2018



Source: Statistics South Africa 2018 Producer Price Index

Employment rate

Employment is the fact of having a paid job. Each year new workers enter the labour market (some straight from school, some from tertiary institutions).

Figure 4 shows that employment rate in South Africa was 43.3% in the third quarter of 2017 and declined to 43.1% in the third quarter of 2018.

Figure 4:
Shows that employment rate in South Africa was 43.3% in the second quarter of 2017 and declined marginally to 43.1% in the second quarter of 2018

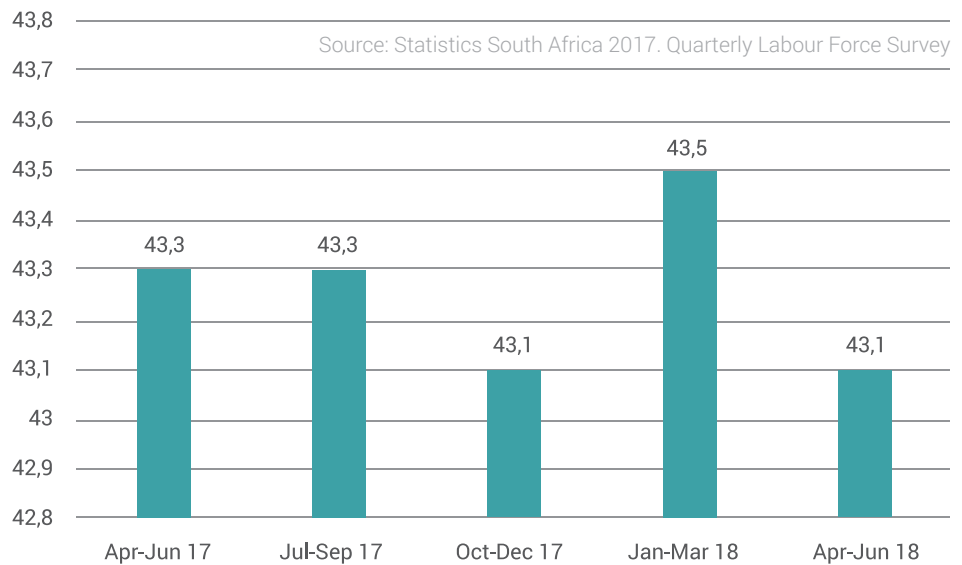


Table 4:
Employment by
Industry March
2018



| | Mar 18 (‘000) | Jun 18 (‘000) | Qtr to Qtr Change |
|--------------------------------------|------------------|------------------|----------------------|
| Agriculture | 847 | 843 | -30 |
| Mining | 397 | 435 | 38 |
| Manufacturing | 1 849 | 1 744 | -105 |
| Utilities | 143 | 161 | 18 |
| Construction | 1 431 | 1 476 | 45 |
| Trade | 3 276 | 3 219 | -57 |
| Transport | 960 | 1 014 | 54 |
| Finance & Other Business Services | 2 402 | 2 399 | -3 |
| Community & Social Services | 3 785 | 3 692 | -93 |
| Private Household | 1 275 | 1 296 | 22 |
| Total | 16 378 | 16 288 | -90 |

The industry that recorded the most job losses was Manufacturing which accounted for 105 000 jobs, followed by Community and social services (93 000), Trade (57 000), and Finance and Other Business Services (3 000). Industries that created jobs were Transport (54 000), Construction (45 000), Mining (38 000), Private households (22 000) and Utilities (18 000) industries.

As shown in the table above, some industries lost jobs while others created jobs, resulting in a net loss of 90 000 across all industries.

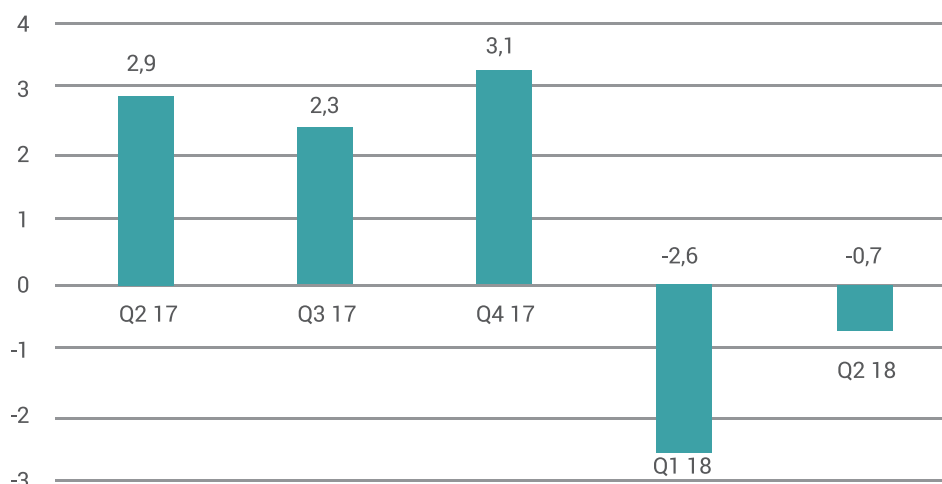
Economic growth and GDP

The Gross Domestic Product (GDP) is an indicator or tool used to measure the country's Economy.

The GDP represents the total of the market value, or prices, of all final goods and services produced in an economy during a period of time. GDP is expressed as comparison to the previous year or quarter.

The graph below shows that in Q2 2017, GDP was 2.9%, declined to 2.3% in Q3 and increased to 3.1% in Q4 2017. The GDP plummeted to -2.6% in Q1 2018 and -0.7% in Q2 2018. Mining and finance contributed 0.4% to gross domestic product in June 2018. The largest negative contributor in the gross domestic product were agriculture (-0.8%), transport (-0.4%), trade (-0.3%) and government (-0.1%).

Figure 5:
Growth in GDP
% March 2017 to
March 2018



The table below shows that Mining and finance contributed 0.4% to gross domestic products in June 2018. The largest negative contributor in the gross domestic product were agriculture -0.8%, transport -0.4%, trade -0.3% and government -0.1%.

Table 5:
Contribution in
Growth in GDP
(%) by Industry
June 2018

| | | | |
|--------------|------|------------|------|
| Mining | 0.4 | Transport | -0.4 |
| Finance | 0.4 | Trade | -0.3 |
| Construction | 0.1 | Government | -0.1 |
| Agriculture | -0.8 | | |

Wage settlements

Through the LRS AWARD Database, it is possible to determine the median wage increase over various industries. Such information provides valuable insights into negotiation trends that can be utilized towards building your own bargaining case.

Source: LRS AWARD Database (June 2018)

Table 6:
Median salary increase over various industries for the second quarter of 2018.



| Industry | % Median Wage Increase |
|---|------------------------|
| Wholesale & Retail Trade, Catering & Accommodation | 8 |
| Transport, Storage & Communication | 8 |
| Manufacturing | 8 |
| Agriculture, Hunting, Forestry & Fishing | |
| Community, Social & Personal Services | 7 |
| Construction | |
| Electricity, Gas & Water | |
| Financing, Insurance, Real Estate & Business Services | 7 |
| Mining & Quarrying | 6.5 |
| AWARD Benchmark (all Collective Agreements) | 8 |

- 02 04 06
- 08 **10** 12
- 14 16 18

The median and why we like to use it:

The mean is the sum of all the numbers in a given set divided by the amount of numbers in the set. The median is the middle point of the number set, in which half the numbers are above the median and half are below. For example: if the range of numbers is 2, 4, 6, 8, 10, 12, 14, 16, 18 then the median is 10.

We prefer using median when analyzing wage data as the result cannot get distorted by an outlier (very big or small number) as is the case with calculating averages.

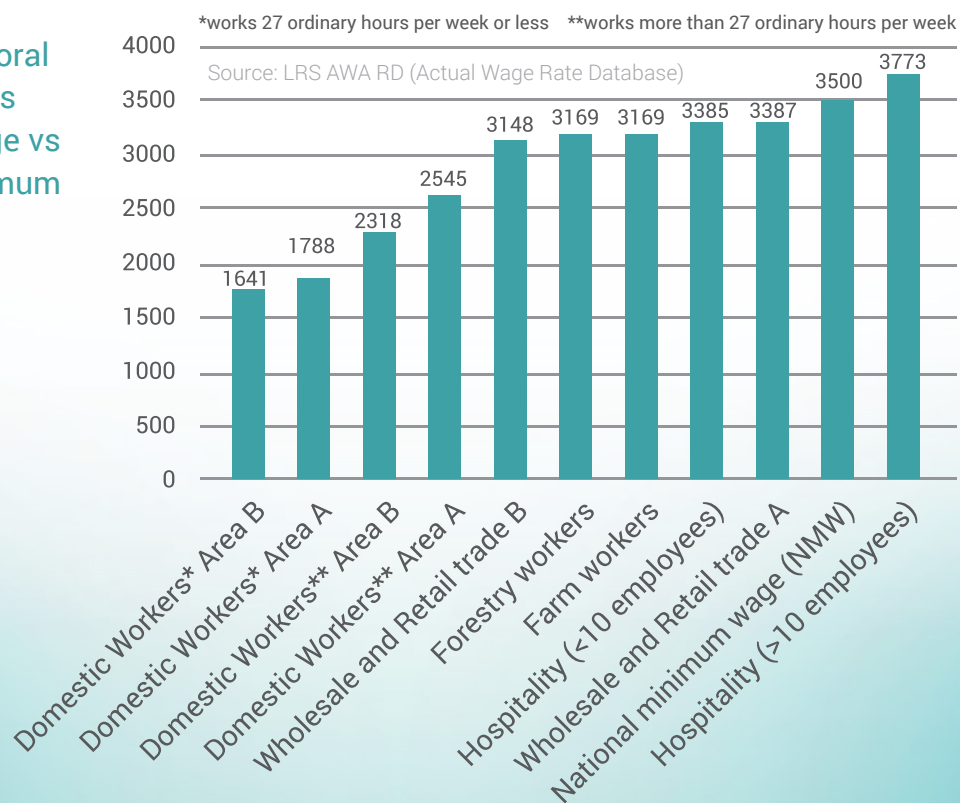
Sectoral determination minimum wages

Sectoral determinations regulate the terms or conditions of employment for vulnerable employees in sectors where they 'are likely to be exploited, or where worker organizations and trade unions are absent' (DPRU, 2010:15). The Employment Conditions Commission convenes public hearings in order to gather proposals from both employers and employees and then makes recommendations to the Minister of Labour.

Once the Minister approves the recommendations, they are published in the Government Gazette as new wage rates or sectoral determinations (Basic Conditions of Employment Act, Act No. 75 of 1997 Section 51/62).

The graph below shows that the lowest minimum wage was found in the domestic sector area B at R1641 per month and highest was found in the hospitality (more than 10 employees) at R3773 per month. Most of the sectoral determination minimum wages were lower than the proposed national minimum wage (NMW) of R3500 per month.

Figure 6: Sectoral Determinations Minimum Wage vs National Minimum Wage 2018



References

Labour Research Service, (LRS), Actual Wage Rates Database (AWARD).
2017. Available at: <http://www.lrs.org.za>

Statistics South Africa 2018 Quarterly Labour Force Survey publications.
Available at: <http://www.statssa.gov.za>

Statistics South Africa, 2018 Consumer Price Index publications
Available at: <http://www.statssa.gov.za>

Statistics South Africa 2018 Gross Domestic Products publication
Available at <http://www.statssa.gov.za>

Statistics South Africa 2018 Producer Price Index publication
Available at <http://www.statssa.gov.za>