



Budget 2020: A Resource for the Media based on the Household Affordability Index on which parts of Budget 2020 can be assessed.

Budgets are a political tool. How National Treasury prioritises and spend our money reflects the political choices made by the state as well as suggesting the vision held for us. The resource below includes our latest household affordability data for February 2020 and STATSSA's latest jobs data. We will be assessing Budget 2020 based on its impact on household affordability and the socio-economic situation households living on low-incomes experience.

We provide data on (1) food prices and inflation, (2) the National Minimum Wage and household affordability and inflation, (3) value-added tax (including what an increase in VAT will mean for households living on low incomes), (4) the cost of securing a basic nutritious diet for a child vs. the child support grant, (5) the old-age grant and why it would serve us all well to substantially increase it, and lastly using Statistics South Africa's latest data, we show (6) employment and unemployment trends and wage data, disaggregated by population group and over a long time period to provide a broader socio-economic context on which Budget 2020 can be assessed.

1. The cost of the Household Food Basket

The February 2020 Household Affordability Index shows that:

- **Month-on-month** the cost of the household food basket **decreased** by R116,49 (-3,5%) to R3 223,49 in February 2020.

The drop in the February household food basket is driven primarily by significantly lower prices of vegetables and meats, as well as a movement away from the festive season retail mark-ups.

- **Year-on-year** the cost of the household food basket **increased** by R150,27 (**4,9%**) from R3 073,22 in February 2019 to R3 223,49 in February 2020.

2. The National Minimum Wage and household affordability levels

Last week the Minister of Employment and Labour gazetted a **3,8%** increase on the National Minimum Wage, moving the hourly rate from R20 to R20,76 for General Workers. The increase is below the current inflation level experienced by low-paid workers even before the annual increases in transport and electricity come into play. It means that millions of workers will be worse off this year than they were the year before and will have to cutback further on food and go into deeper levels of debt to cover expense shortfalls.

- In February 2020, General Workers, earning the NMW of R20/hour experienced a **23,5% deficit in their wages** just on transport, electricity and food costs for a family of four persons (earning R3 200,00 vs. the R4 182,56 required for transport, electricity and food).
- **Year-on-year:** the cost of the **3 core expenses critical for worker productivity** (transport, electricity and food) increased by **5,6%** from R3 961,91 in February 2019 to R4 182,56 in February 2020.
- In February 2020 the NMW rate per hour would have to increase by **30,7% or R6,14** (from R20 an hour to **R26,14 an hour**) just to allow a worker to cover her/his expenses of transport to get to work and back, prepaid electricity and food for a family of four members.

3. Value Added Tax

Households living on low incomes are highly exposed to VAT. PMBEJD tracks 38 foods which women tell us they try and buy each month and which make up the household food basket. 19/38 foods in the household food basket are subject to VAT charges. In February 2020 VAT on the household food basket came to R228,70. **7%** of the household food basket is made up of VAT. VAT is a regressive tax.

The VAT costs on the household food basket is equivalent to the cost of 35kg of maize meal (R226,48) needed by families every month.

Year-on-year inflation on foods subject to VAT was **6,3%**.

On the 1st of April 2018 government increased the VAT rate to 15%. Due to the public outcry on what this would mean for households living on low incomes, National Treasury appointed an Independent Panel of Experts to investigate options to mitigate the impact of the VAT increase on poorer households. The VAT Panel recommended that the following items be added for zero-rating: white bread, bread flour and cake flour; sanitary pads; school uniforms; and nappies; and that the National School Nutrition Programme be strengthened and the Old-Age Grant and Child Support Grant be increased.

Most of the VAT Panel recommendations were dismissed. In October 2018, Minister Mboweni announced that as of the 1st April 2019 government will (just) zero-rate sanitary pads, bread flour and cake flour. No changes were made to the Old-Age Grant or the Child Support Grant to mitigate the impact of the VAT rate increase.

It seemed to us that National Treasury's response to mitigate the impact of VAT on poorer households by zero-rating a few more foods and non-food items was not only based on several flawed assumptions on what people eat and how meals are put together but they had also missed the central point raised by civil society and trade unions - *South African households are facing a massive food affordability crisis and require urgent government intervention.*

Whilst the increase in the VAT rate exacerbated the household affordability crisis, it was not the cause of it. Adding a few more foods and non-food items to the list for zero-rating would not be enough to deal with the fundamental problem which is that millions of South African families cannot survive on the little money coming into the home and cannot afford the cost of a monthly basket of food.

- Zero-rating on cake flour was implemented in April 2019. In February 2019 the price of 10kg cake flour was R72,49. A year later, and with the zero-rating, the price of cake flour is R72,39. Year-on-year inflation was 0%. The -14% savings has disappeared.
- PMBEJD does not track bread flour. Low-income households in Pietermaritzburg do not buy bread flour.
- The price of two big packs of sanitary pads has decreased by 17%. In February 2019 the price of 2 big packs was R79,98, and in February 2020 the price is R13,20 lower at R66,78. Zero-rating on sanitary pads has resulted in a drop in price but sanitary pads are still expensive.

An additional VAT-rate increase is mooted. **If VAT is increased, this is what the minimum level of increase on the basket will be:** (*minimum because VAT will increase electricity and the cost of all inputs along the food value chain*):

- A VAT rate of 16%, on the February household food basket will see the total VAT cost increasing by R15,25 (R228,70 to R243,95).
- A VAT rate of 17% on the February household food basket will see the total VAT cost increasing by R30,50 (R228,70 to R259,20).

Government does not control the price of food. Food prices can be highly volatile and unpredictable. Prices are influenced by droughts, high temperatures, unseasonal weather; the crude oil price and exchange rate, global trade and speculation; electricity prices and fuel levies; and retailer profiteering. It is reckless to continue increasing VAT on something government doesn't control and yet forms the basis of all social and economic

outcomes. South African households currently cannot afford the cost of a basic nutritional food basket. **In February 2020, families underspent on basic nutritional food by 25%.** Increasing VAT will make it even harder for households to keep the foods they are able to afford on the table. Households will not be able to absorb a VAT increase.

4. Child Support Grant

27% of South African children under the age of five years are stunted, and 10% are severely stunted. Nearly a third of boy children are stunted (30%) and a quarter of girl children are stunted (25%).ⁱ

- The food poverty line, calculated by Statistics South Africa, is **R561** per capita per month (latest April 2019).
- The Child Support Grant is **R430** per month. *This is a fixed value and does not increase as a child grows older.*
- In February 2020 it cost an average of **R627,03** to feed a child a basic nutritious diet per month.

As children grow older, their nutritional requirements increase. It means that the cost of feeding a child increases in price as a child grows older and is also different for teenage girls and boys. See Table 1 below.

Table 1: The difference between the cost of feeding children a basic nutritional food basket [BNFB] and the value of the Child Support Grant (February 2020).

Age of child	Feb_2020 BNFB	CSG	Deficit CSG (ZAR)	Deficit CSG (%)
Small child aged 3-9 years	R560,12	R 430,00	-R130,12	23%
Small child aged 10-13 years	R604,21	R 430,00	-R174,21	29%
Girl child aged 14-18 years	R637,07	R 430,00	-R207,07	33%
Boy child aged 14-18 years	R706,73	R 430,00	-R276,73	39%
Average	R627,03	R430,00	-R197,03	31%

In February 2020, the Child Support Grant of R430 per month is set **23%** below the food poverty line (R561) and **31%** below the average cost to secure a basic nutritious diet for a child (R627,03).

On our data, we are currently underspending by an average of 31% on the plates of ±12,3 million children.

The Child Support Grant is an instrument to invest in our future and support investments in health and education for improved health, education, societal and economic outcomes. With all our problems, reprioritising money and redirecting this money to ensure our children receive proper nutrition is probably the most useful and cost-effective intervention we can make.

- Last year government increased the CSG by R20. Given the tiny increase, government didn't even increase the CSG all in one go. It increased the CSG by R10 in April 2019 and only 6-months later, by the remaining R10 in October 2019.
- In February 2020 the cost of a small 400g jar of peanut butter, an excellent source of protein and fats on children's sandwiches cost R26,99 (R3,52 is VAT).

Closing the deficit between the CSG and BNFB line will cost R197,03 per child per month, and for ±12,3 million children, R2,4bn a month. Not closing the deficit will cost South Africa a whole lot more.

5. The old-age grant

50.7% of pensioners who receive an old-age grant live in households without an employed adult.ⁱⁱ Old-age grants are not just for the individual pensioner. Pensioners use the old-age grant to support their families. This money subsidises high levels of unemployment, low baseline wages, the low Child Support Grant and keeps households functioning. The old-age grant is currently valued at R1 780 per month (R59,33 a day). It is not enough.

The old-age grant has an economic value to South Africa. Every month government injects ±R6,2bn directly into the economy through the instrument of the old-age grant. ±3,5 million pensioners receive this money directly into their pockets and spend every cent of this money directly in the economy. At least once a month every economic hub in South Africa is boosted. Economic activity flourishes. Across South Africa, every single one of the smallest towns to the biggest cities come alive.

The old-age grant acts to (1) stabilise society and (2) stimulate the economy, but it is currently doing this at very low-levels. Increase it and the benefits to society and the economy will increase exponentially.

Pensioners who rely on an old-age grant were not paid enough money when they worked to support their families and save for their retirement. *This situation is repeating itself again as the National Minimum Wage is set too low.* Government has chosen to set the National Minimum Wage at a poverty level and last week chose to keep the level below the current level of inflation. Millions of South African workers earning at the National Minimum Wage level will be forced onto the old-age grant when they retire. They too would have lived their entire working lives in poverty and on retirement will be thrust into ever deeper poverty. Government is failing to ensure workers receive a decent wage and then when workers retire is then failing to ensure workers receive a decent pension.

Government has an ethical obligation to our country's pensioners to increase the value of the old-age grant. In meeting this obligation however, it would also reap enormous social and economic returns. We support The Pietermaritzburg Pensioners Forum campaign for the old-age grant to be increased, as a first step, to R2 500 a month. This will inject an additional R2,5bn into the economy each month and holds the possibility to bring about a decisive shift in our economic trajectory by boosting consumer spending and unleashing broadscale economic activity as well as resulting in exponential benefits to building our social base and developmental future.

5. South Africa's job and wage-level statistics

South Africa's economic crisis is worsening. The jobs crisis is deepening. The employment trajectory is unlikely to change over the next year. In a country with such high levels of unemployment and a low baseline wage, the economic crisis is brutal. Families do not have any savings buffer against shocks. Any increase in the cost of goods and services in this framework is damaging. Households will not be able to absorb the increases. Nor is it likely that the economy is strong enough to withstand plunging consumer demand. Budget 2020 will have to be assessed in this context.

Below we pull out the latest unemployment, employment (absorption rate) and wage statistics from Statistics South Africa,ⁱⁱⁱ disaggregate them by population group, and show them over a longer time period. The disaggregation and extended time frame are important because we gain nothing from fooling ourselves that the economic crisis is better than it actually is. South Africa's inequality levels skew national statistics. Privileging the official national unemployment rate, currently at 29,1%, is not reflective of the truth. The majority of South Africans find themselves in terrible financial trouble, and this needs to be upfronted.

Statistics South Africa's latest Quarterly Labour Force Survey [QLFS] for quarter 4, 2019^{iv} shows a net loss of 108 000 jobs over the past year (Q4, 2018 16,5m people were employed and now Q4, 2019 16,4m people are employed). The data shows that most of these jobs were lost in our most productive age groups of 25-34 years (a loss of 126 000 jobs). These are workers with young families.

The QLFS shows that in the 4th quarter of 2018, 9,7 million people were unemployed; and in the 4th quarter of 2019, 10,4 million people are unemployed. Over the past year 675 000 more workers were unemployed, contributing to the total of 10,4 million unemployed.

We were promised a 275 000 jobs per year jobs target. We are not creating jobs; we are losing them.

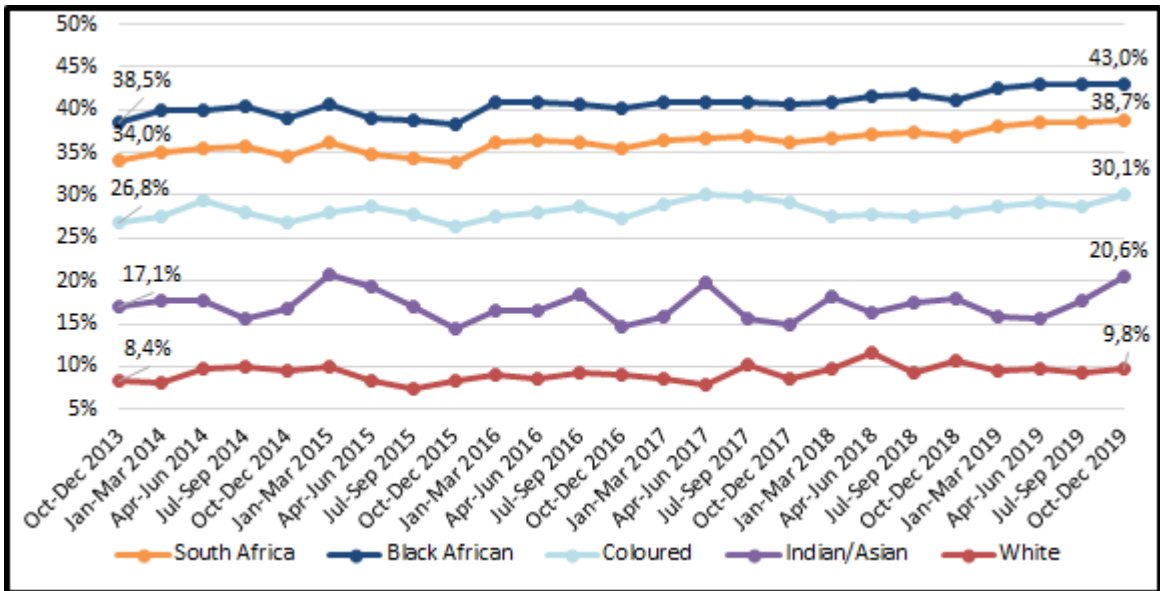


Figure 1: Expanded unemployment rate by population group (2013 to 2019).

The official unemployment rate for Black South Africans is 32,4%; and the expanded unemployment rate is 43% (this rate includes discouraged work seekers). 9,3 million Black South Africans of working age are unemployed. 97 000 Black South Africans lost their job over the past year and 611 000 more workers were unemployed.

Our unemployment levels are so high that to get a sense of how households are getting by, we must look at the number of people who are employed.

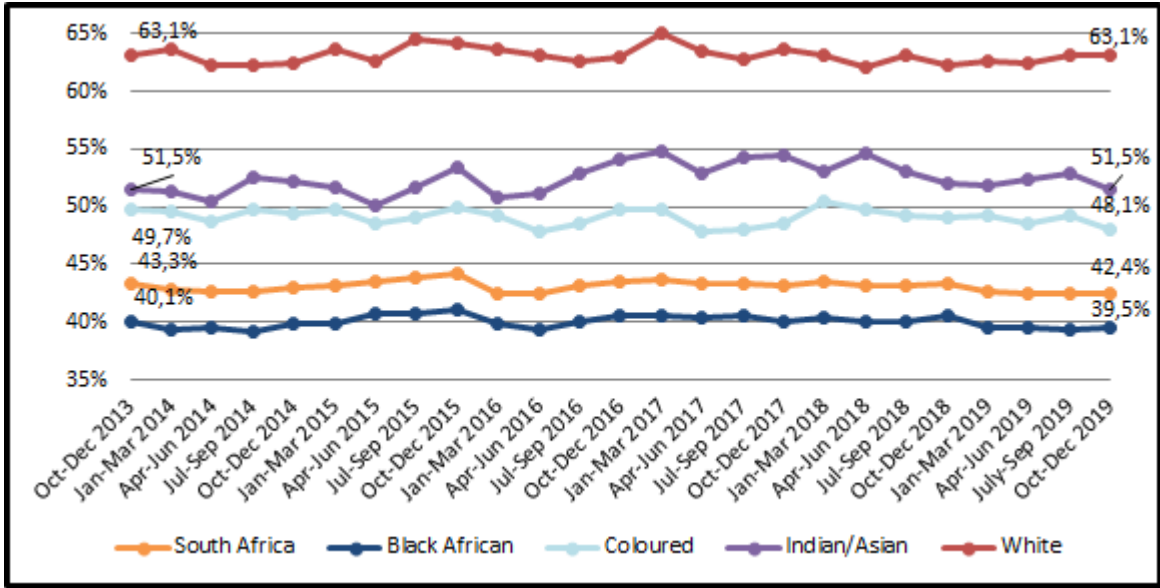


Figure 2: Labour absorption rate by population group (2013 to 2019).

Of 31,3 million Black South Africans of working age (15-64 years); only 12,4 million are employed; it means that out of 10 Black South Africans of working age; only 4 have a job (the labour absorption rate is 39,5%).^v

The wages of 12,4 million Black South Africans are required to support 47,4 million persons (the racial dynamics of our households have not changed much). The wage of one worker must support a reductive average of 3,8 persons.

The number of persons supported by the wage is high. This means that the level of the wage is very important.

Statistics South Africa’s Labour market dynamics in South Africa (2017)^{vi} trends in median wages show that the wages paid to Black South African workers are extremely low and have stagnated at these low levels over a prolonged period. The median wage for Black South Africans is R3 200 a month.

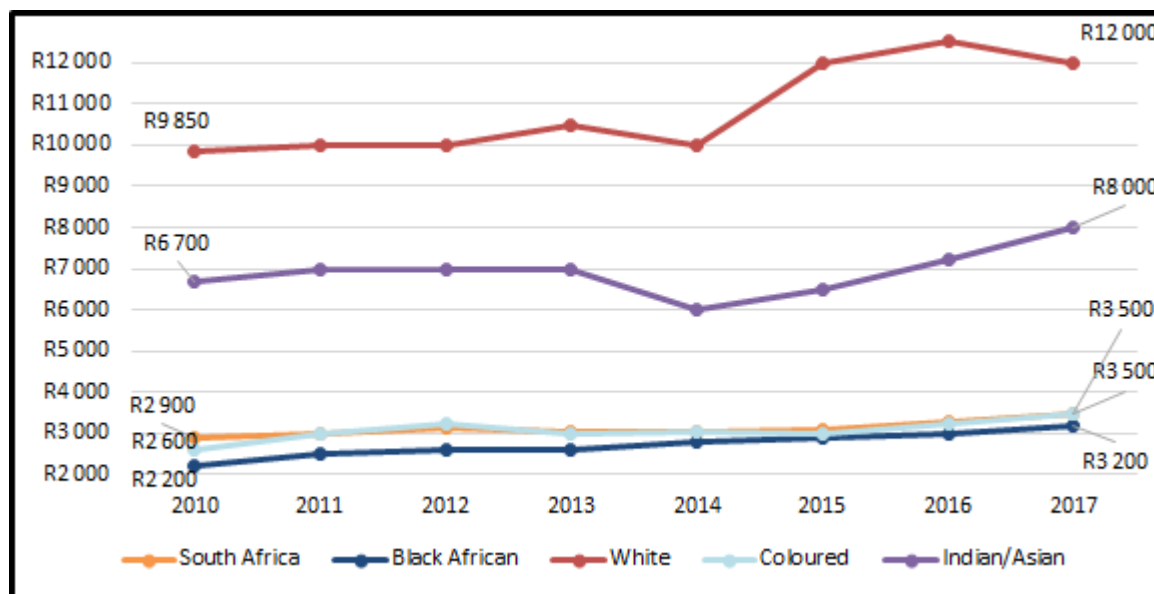


Figure 3: Median monthly earnings by population group (2010 to 2017).

PMBEJD’s latest food price data shows that the cost of a basic nutritional basket of food for a family of four cost R2 464,04 in February. Food is not prioritised first in the household budget as it is really the only expense that households have some level of control over, nevertheless – if food *was* prioritised first then households would only have R735,96 for all other household expenditure, including for a worker to pay for transport to get to work and back, and to pay for electricity.

ⁱ Statistics South Africa (2017). **South Africa Demographic and Health Survey 2016: Key Indicator Report**. Statistics South Africa. Pretoria. P27-28. See link: <https://www.statssa.gov.za/publications/Report%2003-00-09/Report%2003-00-092016.pdf> (this link takes a long time to open, if you get impatient rather *google*: “South Africa Demographic and Health Survey 2016: Key Indicator Report”).

ⁱⁱ STATSSA (2017). **Vulnerable Groups Indicator Report, 2015**. Report 03-19-02. Statistics South Africa. P79. See Link <http://www.statssa.gov.za/publications/Report-03-19-02/Report-03-19-022015.pdf>

ⁱⁱⁱ Statistics South Africa is a treasure to South Africa. The institution must be properly funded.

^{iv} STATSSA (2020). **Quarterly Labour Force Survey, Quarter 4, 2019**. Statistical release P0211. Statistics South Africa. Pretoria. P21-22, 39-40. See Link: <http://www.statssa.gov.za/publications/P0211/P02114thQuarter2019.pdf>

^v STATSSA (2020). **Quarterly Labour Force Survey, Quarter 4, 2019**. Statistical release P0211. Statistics South Africa. Pretoria. P21-22, 39-40. See Link: <http://www.statssa.gov.za/publications/P0211/P02114thQuarter2019.pdf>

^{vi} STATSSA (2017). **Labour market dynamics in South Africa, 2017**. Report no. 02-11-02 (2017). Statistics South Africa. Pretoria. P58. See Link: <http://www.statssa.gov.za/publications/Report-02-11-02/Report-02-11-022017.pdf>