8 January 2024

Prof Adriaan van der Walt
Chairperson of the National Minimum Wage Commission

Re: Written representation to the National Minimum Wage Commission on the Proposal for the 2024/25 NMW Adjustment.

The Pietermaritzburg Economic Justice & Dignity Group's [PMBEJD] submission concentrates on the National Minimum Wage Act mandate to The Commission *"on the specific considerations of: inflation, the cost of living and the need to retain the value of the national minimum wage."*

We are open to a conversation now and in the future, if useful. Thank you for the important work you do. We wish you well with the ongoing deliberations.

Yours sincerely,

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ECONOMIC JUSTICE & DIGNITY
Economic justice through the lens of human dignity

Summary of suggestions on using the CPI as a guideline for NMW adjustments and how these suggestions can be applied to the current deliberations on the 2024/25 Adjustment.

If the CPI is used as a guideline for NMW adjustments then we suggest that the disaggregated expenditure decile 3 be used. That the final inflation rate selected is the average inflation of decile 3 for the previous year. That because CPI tracks backwards, a forecast is done to estimate how much future inflation is likely to be on worker-specific expenses. That this forecast further includes a rigorous study of the Rand-value cost of basic worker expenses and inflation on these expenses. That once the inflation rate for workers is accurately determined, that the rate be adjusted upwards to account for the differential in the wage vs. expenses, the wage being lower and therefore requiring a higher percentage increment to cover the inflation of worker expenses.

If we applied some of these suggestions to the current deliberations on the NMW 2024/25 Adjustment period, and omitting forecasting for future inflation (not ideal, but pragmatic given how adjustments are currently made), and using our PMBEJD expenditure data than the NMW 2024/25 will be as follows:

Applying the average Decile 3 inflation rate over the past 12 months of 8% to the total average cost of the 3 worker expenses of transport, electricity, and food over the past NMW adjustment period 2023/24 of R5 986,64, the inflationary increase of 8% results in a R478,93 increase in worker expenses. See *Table* below.

***Table*: An inflation rate of 8% on the 3 core worker expenses.**

Worker expenses	2023/24: Mar 2023 to Feb 2024	Inflation rate of 8%	New total cost of expenses
Public transport to work and back (average)	R1 555,33		
Prepaid electricity (ave. 350kWh) (average)	R867,11		
Household food basket (4 ppl) (average)	R3 564,19		
Total cost for 3 core expenses (average)	**R5 986,64**	**R478,93**	**R6 465,57**

Based on the 8% increase in the average total cost of the 3 core worker expenses of transport, electricity, and food, the 2024/25 NMW Adjustment would need to be **11,2%.**

Note: Because the Rand-value cost of the total 3 core worker expenses is higher than the Rand-value of the NMW, the 2024/25 adjustment is higher than the percentage increase on worker expenses.

To cover the R478,93 increase in the average total cost of the 3 core worker expenses for the 2024/25 period, **the NMW would need to increase by 11,2% (R2,85 per hour), with the hourly rate adjusted to R28,27.**

- The adjustment will be R2,85 per hour (R478,93/21 days [average working-days per month in 2024/25]/8 hours).
- The hourly rate will be R28,27 (R25,42 + R2,85).
- The daily rate for 8-hours worked will be R226,16 (R28,27 x 8 hours).
- For workers working the full month, the monthly rate will be R4 749,36 (R28,27 x 21 days [average working-days per month in 2024/25] x 8 hours).
- Full the full 2024/45 period, the average NMW will be R4 692,82, with the average deficit in the NMW to meet the full costs of transport, electricity and food being -27%.

Note that an 11,2% adjustment will not retain the current value of the NMW, nor will it progressively improve the lives of workers.

This adjustment of 11,2% will be in line with The Commissioners who supported a CPI plus 3% if average inflation for decile 3 in the CPI is used.

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1. ***Analysing the past three years of NMW adjustment periods: 2021/22, 2022/23 and 2023/24 against the three core worker expenses of transport, electricity, and food.***

Before giving our forecast for inflation for the 2024/25 NMW adjustment period, we provide historical monthly data on the cost of the three core worker expenses of transport, electricity, and food over the past three NMW adjustment periods: 2021/22, 2022/23 and 2023/24. We focus on transport, electricity, and food because these 3 goods and services are critical basic needs, form the largest proportion of expenditure for workers on low wages, and, for the past several years, have been the core drivers of high rates of inflation on expenditure.

Note that the figures used in Table 1 are averaged over each NMW adjustment period. This is because goods and services are subject to different patterns of inflationary pressures over the year viz. electricity tariffs are hiked in July of each year, taxi fares are typically hiked in August of each year, and prices of certain foods in the household food basket fluctuate seasonally (locally and globally) and to different production processes and retail strategies over different times over the year. The NMW data also has its own pattern: wages are higher when there are more working-days per month, and lower when there are less. Meaning that not every month is uniform, and therefore year-on-year data, which privileges one selected month for its year-on-year analysis, misses out a lot of what has really happened over the year, including limiting accurate analysis to understand inflationary pressures on the workers' wage both in the past, current and for future analysis. See Table 1 below.

Table 1: **Cost of and inflation on three monthly core worker expenses over the past 3 NMW adjustment periods: 2021/22, 2022/23 and 2023/24.**

Cost of and inflation on three (3) core worker expenses	2021/22: Mar 2021 to Feb 2022	2022/23: Mar 2022 to Feb 2023	2023/24: Mar 2023 to Feb 2024	Year-on-year: 2021/22-2022-23		Year-on-year: 2022/23-2023-24	
				Change in ZAR	Change in %	Change in ZAR	Change in %
Public transport to work and back (average)	R1 289,67	R1 431,33	R1 555,33	R141,67	11%	R124,00	9%
Prepaid electricity (ave. 350kWh) (average)	R703,50	R768,83	R867,11	R65,33	9%	R98,28	13%
Household food basket (4 ppl) (average)	R2 923,65	R3 234,98	R3 564,19	R311,33	11%	R329,21	10%
Total cost for 3 core expenses (average)	**R4 916,82**	**R5 435,14**	**R5 986,64**	**R518,33**	**11%**	**R551,49**	**10%**
National Minimum Wage (average)	**R3 629,46**	**R3 865,00**	**R4 236,67**	R235,54	6,5%	R371,67	9,6%
Shortfall in ZAR to cover 3 core expenses (average)	*-R1 287,36*	*-R1 570,14*	*-R1 749,97*				
Shortfall in % to cover 3 core expenses (average)	***-26%***	***-29%***	***-29%***				

Averaged monthly data shows that: inflation on the three core worker expenses of transport, electricity, and food (totals) increased by 11% (R518,33) in the 2022/23 NMW adjustment period and 10% (R551,49) in the 2023/24 NMW adjustment period. Inflation on these 3 expenses was very high. The Rand-value increases on these expenses were higher than the Rand-value increase on the NMW for each period of adjustment e.g.

- **2021/22-2022/23** the average total cost of expenses increased by R518,33 vs. the average NMW adjustment of R235,54.
- **2022/23 – 2023/24** the average total cost of expenses increased by R551,49 vs. the average NMW adjustment of R371.67.

The data shows that the annual NMW adjustments over the past several years (using CPI/CPI + small increments as the basis for adjustment) have not been enough to retain the value of the NMW year-on-year viz. not enough to absorb the very high levels of inflation on transport, electricity and food experienced by workers earning the NMW.

The data further shows that the value of the NMW has very little correlation to the actual cost of expenses workers have to pay to survive even at the lowest level. The baseline value of the NMW is just too low. The data shows that the NMW is not enough for workers to secure their 3 most basic expenses

– the average monthly NMW being lower than the average cost of worker's most basic needs of transport, electricity and food (required to be a productive worker and a human being) e.g. the 2023/24 NMW, if a worker worked the full working days per month, is R4 236,67 vs. the R5 986,64 cost of basic expenses.

The last 2 rows of the table show that annual adjustments to the NMW are not making any headway in closing the shortfall (deficit) in the NMW in relation to the cost of the 3 core worker expenses viz. the past three years show deficits of -26%, -29% and -29%. ***This means that the annual adjustments on the NMW are also not gradually progressing to improve the lives of low paid workers.***

2. *Forecasting inflation for the 2024/25 NMW Adjustment Period*

For our forecast we again limit our focus to the 3 core worker expenses of transport, electricity, and food. For the 2024/25 NMW Adjustment Period our forecast is an 9,8% (R586,02) increase on the average total cost of these three core worker expenses. See *Table 2* below.

Table 2: **Forecasting inflation for the 2024/25 NMW Adjustment Period on the three core worker expenses.**

Cost of and inflation on three (3) core worker expenses	2023/24: Mar 2023 to Feb 2024	Forecast 2024/25: Mar 2024 to Feb 2025	Year-on-year: 2023/24-2024-25	
			Change in ZAR	Change in %
Public transport to work and back (average)	R1 555,33	R1 757,33	R202,00	13,0%
Prepaid electricity (ave. 350kWh) (average)	R867,11	R983,83	R116,71	13,5%
Household food basket (4 ppl) (average)	R3 564,19	R3 831,50	R267,31	7,5%
Total cost for 3 core expenses (average)	**R5 986,64**	**R6 572,66**	**R586,02**	**9,8%**

Our 2024/25 forecast for the 3 core worker expenses of public transport, electricity and food is based on the following:

Public transport (specifically local taxi fare adjustments): we have analysed the taxi fare data in the Household Affordability Index over the past 3 years (2021 to 2023): in 2021 taxi fares increased by 7% (by R1, from R15 to R16); in 2022 taxi fares increased by 12,5% (by R2 from R16 to R18); and in 2023 taxi fares increased by 11,1% (by R2 from R18 to R20). Although we used Pietermaritzburg-based data, local taxi fares in Johannesburg, Durban and Cape Town are very similar and their increases have followed the same trends. The local fare increases for 2024, which is likely to be effected in August 2024, may be between R2 and R3. **For our forecast we have selected the lower R2 or 10% adjustment**, from R20 to R22. We have selected the lower figure because as much as the Private Taxi Industry gets a bad rap, they are one of the few industries that do consider the affordability constraints of their customers and do try and keep their fares low.

Workers have told us that typically 4 taxis are taken to get to work and back per day (from home to the local CBD hub and from the hub to the place of employment, return). **The total fare per day is R88.** The figure in *Table 2* is calculated on a 12-month basis and on the number of working days in each month, with the current R80 running till July, and the R88 effective from August. **The taxi fare averaged for the full year on which the new NMW adjustment will come into effect, disaggregated as a monthly average is R1 757,33.** *Important to note that whilst the forecast is a 10% increase, the year-on-year change is **13%** because both 2023/24 and 2024/25 include two different fares per year viz 2023/24 has a R18 fare for the first part of the year and an R20 fare for the second part of the year; whereas the 2024/25 forecast has a R20 fare until July and a R22 fare from August and for the remaining NMW adjustment period.*

Electricity (prepaid, at 350kWh): the approved 2024/25 electricity increase passed by NERSA for local municipalities, and to be effected on 1 July 2024 is 12,72%. Whilst municipalities may add on to this basic figure, for our forecast we have selected the 12,72% increase as it stands. We use Pietermaritzburg-based data for the cost of 350kWh on a prepaid system, because although prepaid tariffs differ across jurisdictions, electricity tariffs are complex, with many hidden costs. Whilst we keep track of and know the electricity tariffs for Joburg, Durban and Cape Town, we know the Pietermaritzburg costs very well, and have been tracking them for many years, and therefore use the Pietermaritzburg costs as an accurate and consistent proxy of household electricity prices. **The average monthly electricity price is R983,83.** *Similarly, with taxi fares above, we use the same methodology of using two tariffs (pre, and post adjustment), as it reflects with far greater accuracy the price of electricity over the NMW adjustment period, and therefore also is why whilst the tariff increase for 2024/25 is 12,72%; the actual increase year-on-year is **13,5%.***

Food (for household size of 4 persons):
Forecasting for food price inflation is notoriously difficult. Food value chains are simply too long, complex, and are exposed to far too many variables both local (South Africa) and global. Over the past 2 NMW adjustment terms (2022/23 and 2023/24), the average Nutritional Food Basket as tracked in The PMBEJD Household Affordability Index increased by 11% and 10% respectively. Data from the past 6 months shows the basket's year-on-year inflation of 9,2% in July 2023, 9,8% in August, 9,6% in September, 13% in October, 13% in November and 11,5% in December 2023. **In December 2023, our latest data, the cost of the Nutritional Food Basket was R3 687,12.** We expect food prices to come down in 2024 off the very high prices we have seen over the past several years, however any prediction of future prices is just a best guess.

The South African Reserve Bank in its *November Statement of the Monetary Policy Committee* (23 November 2023) forecasts food inflation at 5,5% for 2024. However, it too, cites that food price inflation for 2024 is volatile and carries a high degree of uncertainty and risk; given geopolitical tensions, currency weakness, electricity price and supply, and logistical constraints, climate change, national interests, diseases etc. *The Monetary Policy Committee regularly updates its forecasts in line with the latest data, so their November forecast may well change as the year progresses.*

We proceed with caution in selecting a food inflationary figure for the NMW adjustment period. Our guess given analysis of historical data and the year ahead is a **7,5% increase on food prices**. It is a prudent figure, necessary given the uncertainty in food prices and the essential requirement that workers and their families can afford basic food. **A 7,5% increase on the average cost of the household food basket of 2023/24 (R3 564,19) is R3 831,50 for the 2024/25 period of the new NMW adjustment.**

Our inflationary forecast for the 2024/25 NMW Adjustment period on the three core worker expenses of transport, electricity and food is therefore a 9,8% increase, and R586,02 in Rand-value. The average total cost of the three core worker expenses is forecast to increase from the R5 986,64 of 2023/24 to R6 572,66 in 2024/25.

3. ***At what level would the 2024/25 NMW Adjustment need to be to retain the current value of the NMW?***

Based on our forecast of an 9,8% increase in the average total cost of the 3 core worker expenses of transport, electricity, and food, the 2024/25 NMW Adjustment would need to be 13,7% to retain its current value.

Note: Because the Rand-value cost of the total 3 core worker expenses is higher than the Rand-value of the NMW, the 2024/25 adjustment is higher than the percentage increase on worker expenses.

To cover the forecasted R586,02 increase in the average total cost of the 3 core worker expenses for the 2024/25 period, **the NMW would need to increase by 13,7% (R3,49 per hour), with the hourly rate adjusted to R28,91.**

- The adjustment will be R3,49 per hour (R586,02/21 days [average working-days per month in 2024/25]/8 hours).
- The hourly rate will be R28,91 (R25,42 + R3,49).
- The daily rate for 8-hours worked will be R231,28 (R28,91 x 8 hours).
- For workers working the full month, the monthly rate will be R4 856,88 (R28,91 x 21 days [average working-days per month in 2024/25] x 8 hours).

- Full the full 2024/45 period, the average NMW will be R4 799,06, with the average deficit in the NMW to meet the full costs of transport, electricity and food being -27%.

4. ***At what level would the 2024/25 NMW Adjustment need to be to eliminate the deficit in the NMW to cover the total cost of the three core worker expenses?***

To eliminate the deficit between the average total cost of the three core worker expenses of transport, electricity, and food (R6 572,66) and the NMW for the 2024/25 NMW adjustment period, **the NMW will have to increase by 53,9% (R13,70 per hour), with the hourly rate adjusted to R39,12.**

- The adjustment will be R13,70 per hour (R6 572,66/21 days [average working-days per month in 2024/25]/8 hours, and then -R25,42).
- The hourly rate will be R39,12 (R25,42 + R13,70).
- The daily rate for 8-hours worked will be R312,96 (R39,12 x 8 hours).
- For workers working the full month, the monthly rate will be R6 572,16 (R39,12 x 21 days [average working-days per month in 2024/25] x 8 hours).

- Full the full 2024/45 period, the average NMW will be R6 493,92, with the average deficit in the NMW to meet the full costs of transport, electricity and food being zeroed (-1%).

5. ***Some comments on the deficit in the low wage and what it means for workers, society, and the economy.***

Our analysis of the NMW has only focussed on 3 core worker expenses. This is a significant limitation in our submission, of which we are acutely aware. Workers have other critical expenses and needs beyond just the 3 core expenses in our analysis, *viz*. burial insurances, domestic and hygiene products, cell phone expenses, scholar transport, school fees, stationery, uniforms and school shoes, transport to attend children's school parent-teacher meetings or support your child's sporting or school music events, clothes, footwear, savings for emergencies and other crises and shocks, savings for investment, retirement, medication and medical services, debt repayments, rent, home maintenance, transport to go home to visit family and friends, church tithes, religious or cultural or social or sporting events, to etc. Whilst we used the three critical expenses of transport, electricity, and food as a proxy to try and make sense of the NMW, and the adjustments required, and while we have shown that the NMW is not enough to cover even the most basic of essential needs, the deficit in the wage is real and a problem now. *The deficit in low paid workers wages must be managed by workers and their families. It is their reality.*

Workers have other critical expenses despite not earning enough and must find a way to secure them. Burial insurance, domestic and hygiene products, cell phone airtime, school uniforms, stationery and shoes, small school fee payments, transporting children safely to school and back, church tithes, money for crises/shocks/emergencies … these are some of the critical expenses families on low incomes still need to meet despite the lack of money. What it means is that families cut deeper into their food budgets because transport to work and back and electricity are very difficult to forgo. Families underspend on food and this has severe implications for nutrition, health and wellbeing, and severe consequences for productivity, society, the economy and all our developmental outcomes and government expenditure on health, education, and infrastructure. Cutting back on proper nutritious food is not enough to meet the gap in wages, workers must take on more and more debt. A highly indebted workforce, being severely underfed, and extremely stressed, enflames so much risk, even just ignoring our humanity, our need to be human, – our low wages are a problem.

Our analysis of what the gap is between the low wage and expenses, and how much the baseline wage needs to increase by to just meet 3 essential needs for millions of South African workers and their families shows us how much more is required of us when approaching the NMW. It is clear to us that small single-digit percentage increments off such a low base, resulting in low Rand-value annual increases is not taking the working class, and particularly the lowest paid workers, much further in attempting to improve our life situations and start dealing decisively with inequity so that our futures and the future of our children may be better than it is now. The NMW is just set far too low. We can argue about annual increments every year, but until we increase the baseline wage substantially, annual adjustments are not going to change the affordability crisis in our homes or lessen the massive risk this crisis creates for society, stability, economic productivity and growth, and safety and security. We have a major problem – the NMW is not the panacea but we do have to find a way to deal with low baseline wages, the affordability crisis in our homes and our untenable unemployment crisis, we are ignoring it and deferring it but it is not going to go away, it will continue to deepen, and as it deepens it will gather its own momentum, and it will come back and hurt us, the question is simply when and how it will unfold?

6. Some comments on how the CPI is approached in NMW adjustments.

Our data has shown that past adjustments using Headline CPI-linked inflation figures for annual NMW adjustments neither retains the value of the NMW from one year to the next, and nor does it progressively improve the value of the low baseline wage. Our data further on what is required to eliminate the deficit on just three essential worker expenses of transport, electricity, and food – an adjustment of 53,9%, makes even the idea of using the CPI a bit silly. Using the Headline CPI to guide adjustments is only useful if baseline wages and the total cost of basic worker expenses are correlated (and when income inequality is eliminated from society, or when the weighting of low paid workers in the CPI is properly understood). In the NMW vs. cost of worker expenses case currently, there is no correlation – the NMW Rand-value is far below the cost of monthly worker expenses. Nonetheless, The Commission does use the CPI to guide annual NMW adjustments, with this year's Commissioners arguing variously for a Headline CPI +3%, Headline CPI + 0,75%, and just Headline CPI, therefore we make some general comments around how the CPI is approached.

6.1 The CPI tracks backwards.

CPI tracks backwards. It tells us what inflation was in the past, and while it may be a guide for the future, forecasting what inflation on goods and services is likely to be for the period of adjustment *is* required. The annual Eskom/NERSA electricity tariff hikes, and global political tensions are a good example of this.

6.2 How the inflation rate is translated into the NMW adjustment.

Because the Rand-value of the NMW is lower than the Rand-value of worker expenses when using the CPI, you must add on an increment to maintain the value of the wage. The scenario below explains how the inflation rate chosen is applied to the NMW and why this method of application does not maintain the value of the wage each year.

Scenario: If the current monthly NMW is R4000 and current worker expenses are R6000, and the inflation rate adjustment is 10%.

The adjustment of 10% is applied to the NMW of R4000, making the adjustment R400, with the new total monthly wage being R4 400.

But a 10% inflationary increase on worker expenses of R6 000 is R600, taking the total to R6 600.

The NMW adjustment is R400, whilst the inflation on the worker expenses is R600, which means that workers are R200 short.

Instead, and to maintain the value of the NMW from one year to the next, the NMW adjustment would need to be 15%, taking the total to R4 600.

Until the Rand-value of the NMW (and all wages just as a principle) and the Rand-value of worker expenses is at the same level, CPI-linked adjustments <u>will always</u> have to include an additional increment to maintain the value of the wage. What it means is that it is not enough just to take Headline CPI or even the disaggregated decile 3 and 4 at which to peg the annual adjustment because the baseline wage and the cost of worker expenses is not the same (the wage being lower). The disaggregated CPI decile 3 and 4 can serve as a guide but additional research is needed to work out the actual Rand-value cost of worker expenses because the adjustment will always have to be higher than the disaggregated CPI figure to account for the differential in the (low) wage vs. (high) expenses.

6.3 Selecting one moment in time for the inflation rate or using average inflation over the year?

It is not clear to us why one moment in time (one month's year-on-year), rather than the average CPI for the past year or for the previous NMW adjustment period is used to guide the final NMW inflation rate chosen for adjustments?

Goods and services are subject to different patterns of inflationary pressures over the year (as shown in Section 1). Between December 2022 and November 2023, the monthly Headline CPI fluctuated by 2,5% (7,2% and 4,7%), decile 3 by 2,7% (9,2% and 6,5%) and decile 4 by 2,5% (8,2% and 5,7%). Averaging the monthly inflation rate for the past year is more likely to reflect past inflation than just one month's year-on-year inflation rate. See *Table 3 below.*

Table 3: **CPI rates from December 2022 to November 2023.**

Months	Dec_2022	Jan_2023	Feb_2023	Mar_2023	Apr_2023	May_2023	Jun_2023	Jul_2023	Aug_2023	Sep_2023	Oct_2023	Nov_2023	Average
Headline CPI	7,2	6,9	7	7,1	6,8	6,3	5,4	4,7	4,8	5,4	5,9	5,5	**6,1**
Expenditure decile 3	8,6	9	9	9,2	9,2	8,1	7,6	7,4	6,5	6,8	7,1	7,1	**8,0**
Expenditure decile 4	7,7	7,9	7,9	8,2	8	7,2	6,5	6,3	5,7	5,9	6,5	6,4	**7,0**

The Commission indicates that the inflation rate that will be implemented will be the rate six weeks prior to the Minister's approval. The expected release date for the December CPI is the 24th of January and the January CPI is the 21st of February 2024. The CPI inflation rate chosen may therefore likely be the December CPI, or less likely January, both of which are strange months.

In December, the end of the year and the festive season, people have a bit more money in their pockets; businesses optimise on this period and prices on certain goods and services may be abnormally high or low, either because of specials/sales or profiteering. January, the start of the New Year, and new school and work year, people have a lot less money in their pockets; but again, prices on certain goods and services may be abnormally high or low. Both these months may not be the best reflection of the past year's inflation, nor for forecasting future inflation. It is risky to use just one month's year-on-year inflation rate, even if the thinking is that it is the closest inflation rate to the adjustment approval target. Inflationary patterns differ during the year – if the CPI is to be used as a guideline, averaging for the year provides a better picture of inflationary pressures.

6.4 Arguments around using decile 3 and decile 4, and Headline CPI.

South Africa is one of the most unequal countries in the world. The extreme structural inequalities in our society (of race, class, and gender) run through and skew all our statistics, and all our statistical instruments that use statistics, including The Consumer Price Index. The CPI is a product of inequality and is skewed towards high-paid workers (big spenders). Stats SA knows this and they disaggregate data as best they can. Every month, along with Headline CPI, Stats SA publishes its disaggregated expenditure data for low paid workers and the weighting of low paid workers' expenditure in the basket, on page 4. The disaggregated CPI data is not openly acknowledged by government and business – perhaps because it reveals the horrifying picture of inequity and if acknowledged exposes how poorly we are doing, perhaps it is just not well understood? One of the results of this is that by not using disaggregated data as a default nor not having a much broader societal understanding of how inflation works in South Africa, our ability as a country to make good policy decisions based on what is actually happening in the lives of the majority of South Africans, who are low paid workers (employed and unemployed) is severely restricted.

Table 4: **Weighting and expenditure for deciles 3 and 4, and 10 in the CPI basket.**

Expenditure deciles	Weighting in CPI basket	Annualise expenditure of decile	Monthly expenditure of decile
3	1,85%	R33 620 up to R48 673	R2 801,67 up to R4 056,08
4	2,78%	R48 674 up to R65 213	R4 056,17 up to R5 434,42
	Total weighting 4,63%		
10	48,71%	R312 247 and more	R26 020,58 and more

Table 4 above shows that expenditure deciles 3 and 4 (the spending level of workers paid at the NMW rate) are weighted at 1,85% and 2,78% in the basket, respectively. Combined their weighting in the CPI basket is 4,63%. That is 4,63% out of 100%. In comparison, the highest expenditure decile 10 is weighted at 48,71%. It means that Headline CPI does not reflect inflation experienced by workers paid at the NMW level – headline CPI is not designed to reflect low paid workers. The spending of high-paid workers dwarfs the spending of low-paid workers almost out of the basket. This is more clearly seen in *Table 5* below, which shows the weights of the 3 core worker expenses in the Headline CPI basket.

Table 5: **Weights of three core worker expenses in the Headline CPI basket (current, November 2023).**

Group in Headline CPI basket	Weight
Public transport	2,43%
Electricity	3,7%
Food & non-alcoholic beverages	17,14%
Total weigh in Headline CPI basket	23,27%

In comparison, to the weights in the basket, if we look at our data for the cost of the three core NMW worker expenses, as a proxy for proportional spend, the weights are much higher than that reflected in the Headline CPI basket. See <u>*Table 6*</u> below. On the current average NMW (2023/24), the proportional spend on public transport is 36,7%, electricity spend is 20,5% and food is 84,1% (the food proportion is exaggerated as there is a shortfall in the NMW, so it will be lower than 84,1%).

<u>Table 6:</u> **Proportional spend (cost) of 3 core worker expenses on the NMW for 2023/24.**

National Minimum Wage (average)	R4 236,67	
Worker expenses	**Average Rand-value cost of worker expenses for 2023/24: Mar 2023 to Feb 2024**	**% of average NMW**
Public transport to work and back (average)	R1 555,33	36,7%
Prepaid electricity (ave. 350kWh) (average)	R867,11	20,5%
Household food basket (4 ppl) (average)	R3 564,19	84,1%
Total cost for 3 core expenses (average)	**R5 986,64**	141,3%

Because the weights in the CPI are skewed towards high spenders (high earners), it means that the Rand-value implications of the (CPI) inflation rate is not accurately reflected for workers. For example, if inflation on electricity tariffs increased by 10%, then this 10% in the CPI headline basket will be levied on the weight of the 3,7% spend vs. the 20,5% proportional spend for low paid workers. An inflationary increase of 10% on 3,7% is much lower in Rand-value than an inflationary increase of 10% on 20,5%.

If the CPI is to be used as an instrument on which to guide annual NMW adjustments then we must disaggregate and use deciles 3 and 4, and not Headline CPI. If we do not, not only will we peg wage adjustments for NMW workers at lower levels than the inflation in Rand-value experienced on their expenditure but we risk dismissing that income inequality exists in society.

6.5 The question of whether NMW workers be classified as decile 4?

We have been consistently citing both expenditure deciles 3 and 4, and not 4 alone as indicated in the investigative report. We have done so because the data we have looked at is not sufficiently convincing to classify NMW workers as decile 4, and not also decile 3 as well or even just decile 3 by itself.

The report states that of the approximately 3,8 million workers covered by the NMW, 87% are full-time and 13% part-time. Part-time workers (494 000 workers) will fall into expenditure decile 3, these workers are also more vulnerable than full-time workers, and need to be protected.

<u>Table 7:</u> **The monthly NMW per month earned for the full working days per month (2023/24).**

Months (2023/24)	Mar_2023	Apr_2023	May_2023	Jun_2023	Jul_2023	Aug_2023	Sep_2023	Oct_2023	Nov_2023	Dec_2023	Jan_2024	Feb_2024	Average	Total
Working days per month	22	17	22	21	21	22	20	22	22	18	22	21	20,83	250
NMW per month	R4 473,92	**R3 457,12**	R4 473,92	R4 270,56	R4 270,56	R4 473,92	**R4 067,20**	R4 473,92	R4 473,92	**R3 660,48**	R4 473,92	R4 270,56	R4 236,67	**R50 840,00**

<u>*Table 7*</u> above which covers the current NMW adjustment period for 2023/24 shows the maximum NMW for the full working days per month from March 2023 to February 2024. <u>Just a note</u>: The expenditure decile captures spending, not income, so although workers paid at the NMW level are likely to spend their entire wage per month and therefore it is reasonable to equate spending with income, expenditure may be lower than income, particularly as NMW workers are likely to share part of their wage with family and friends and further a proportion of the wage will go to servicing debt – meaning that spending in real life may be less than the monthly income earned. In April 2023 and December 2023, with fewer working days per month, NMW workers fell into expenditure decile 3, the NMW being below R4 056,17. In September 2023, the wage was R4 067,20 which is just R11,03 away from decile 3. ***This shows that for <u>a quarter of the last NMW adjustment period</u> workers earned at a level which put them in***

***decile 3*. The average NMW over the 2023/24 period is R4 236,67. This is only R180,50 above the threshold where workers will fall into decile 3.**

Because the NMW falls at the lower end of decile 4 with the full working-days month hovering dangerously close to the upper end of decile 3, a worker missing one day's work per month due to illness or a family crisis can quite easily end up in decile 3. NMW workers are vulnerable also to all manner of shenanigans of employers not wanting to pay them what is due and are also more vulnerable to being dismissed with little cause and no warning.

The margins between decile 3 and 4 are just too tight, and we would suggest that it would be more prudent to classify NMW earners in decile 3 because the likelihood of missing a few days of work during the month due to illness and crisis is a very real possibility, NMW workers are extremely vulnerable in their jobs to abuse, income may not definitively equate with spending, and further to ensure that part-time workers are protected. The inflation rate for workers spending at decile 3 ran at an average 8% over the past 12 months tracked (see Table 8).

***Table 8:* CPI rates from December 2022 to November 2023** *(repeated table).*

Months	Dec_2022	Jan_2023	Feb_2023	Mar_2023	Apr_2023	May_2023	Jun_2023	Jul_2023	Aug_2023	Sep_2023	Oct_2023	Nov_2023	Average
Headline CPI	7,2	6,9	7	7,1	6,8	6,3	5,4	4,7	4,8	5,4	5,9	5,5	**6,1**
Expenditure decile 3	8,6	9	9	9,2	9,2	8,1	7,6	7,4	6,5	6,8	7,1	7,1	**8,0**
Expenditure decile 4	7,7	7,9	7,9	8,2	8	7,2	6,5	6,3	5,7	5,9	6,5	6,4	**7,0**

7. Summary of suggestions on using the CPI as a guideline for NMW adjustments and how these suggestions can be applied to the current deliberations on the 2024/25 Adjustment.

If the CPI is used as a guideline for NMW adjustments then we suggest that the disaggregated expenditure decile 3 be used. That the final inflation rate selected is the average inflation of decile 3 for the previous year. That because CPI tracks backwards, a forecast is done to estimate how much future inflation is likely to be on worker-specific expenses. That this forecast further includes a rigorous study of the Rand-value cost of basic worker expenses and inflation on these expenses. That once the inflation rate for workers is accurately determined, that the rate be adjusted upwards to account for the differential in the wage vs. expenses, the wage being lower and therefore requiring a higher percentage increment to cover the inflation of worker expenses.

If we applied some of these suggestions to the current deliberations on the NMW 2024/25 Adjustment period, and omitting forecasting for future inflation (not ideal, but pragmatic given how adjustments are currently made), and using our PMBEJD expenditure data than the NMW 2024/25 will be as follows:

Applying the average Decile 3 inflation rate over the past 12 months of 8% to the total average cost of the 3 worker expenses of transport, electricity, and food over the past NMW adjustment period 2023/24 of R5 986,64, the inflationary increase of 8% results in a R478,93 increase in worker expenses. See *Table 9* below.

***Table 9*: An inflation rate of 8% on the 3 core worker expenses.**

Worker expenses	2023/24: Mar 2023 to Feb 2024	Inflation rate of 8%	New total cost of expenses
Public transport to work and back (average)	R1 555,33		
Prepaid electricity (ave. 350kWh) (average)	R867,11		
Household food basket (4 ppl) (average)	R3 564,19		
Total cost for 3 core expenses (average)	**R5 986,64**	**R478,93**	**R6 465,57**

Based on the 8% increase in the average total cost of the 3 core worker expenses of transport, electricity, and food, the 2024/25 NMW Adjustment would need to be **11,2%.**

Note: Because the Rand-value cost of the total 3 core worker expenses is higher than the Rand-value of the NMW, the 2024/25 adjustment is higher than the percentage increase on worker expenses.

To cover the R478,93 increase in the average total cost of the 3 core worker expenses for the 2024/25 period, **the NMW would need to increase by 11,2% (R2,85 per hour), with the hourly rate adjusted to R28,27.**

- The adjustment will be R2,85 per hour (R478,93/21 days [average working-days per month in 2024/25]/8 hours).
- The hourly rate will be R28,27 (R25,42 + R2,85).
- The daily rate for 8-hours worked will be R226,16 (R28,27 x 8 hours).
- For workers working the full month, the monthly rate will be R4 749,36 (R28,27 x 21 days [average working-days per month in 2024/25] x 8 hours).

- Full the full 2024/45 period, the average NMW will be R4 692,82, with the average deficit in the NMW to meet the full costs of transport, electricity and food being -27%.

Note that an 11,2% adjustment will not retain the current value of the NMW, nor will it progressively improve the lives of workers.

This adjustment of 11,2% will be in line with The Commissioners who supported a CPI plus 3% if average inflation for decile 3 in the CPI is used.

There is a logic to using the CPI to guide wage adjustments, and particularly because it adds legitimacy in the public domain to accept that the adjustments given to workers are reasonable. However, the CPI and how inflation effects low paid workers differently, and what income inequality means, is not well understood in society generally, and adjustments given, particularly to NMW workers – given the very low baseline wage on which the adjustment falls, do require higher adjustments than the CPI inflation rate, including a mix of forecasts and research. Ultimately it means that the final adjustment, if the wage is to be maintained and perhaps even progressively improved, will look very different to the Headline CPI rate. Explaining the rationale of how the adjustment was arrived at and why the adjustment is higher than Headline CPI, including trying to better educate the public (including business people and financial media, the academy and even Labour Unions and civil society) on how inflation works, would be an important intervention to enable more sectors in society to understand why low paid workers require higher adjustments to their wages than high paid workers (usually the people complaining about adjustments on the NMW), and hopefully better accept and support these adjustments. Because they must be done.