



### Box 1 Household wage and income statistics<sup>1, 2</sup>

The sources and methodology applied to compile wage and household disposable income statistics in the national accounts are discussed in this box. These statistics are important, as the moderation in nominal wage growth in recent years has resulted in a slowdown in growth in the nominal disposable income, which has negatively affected households' ability to spend and borrow. Salaries and wages payable in cash or in kind drive the compensation of employees which, in turn, contributes almost 80% to households' nominal disposable income. Growth in households' nominal disposable income is a key driver of domestic demand and therefore their nominal consumption expenditure which, in turn, contributes about 60% to South Africa's nominal gross domestic product (GDP).

Gross earnings<sup>3</sup> statistics reflect total nominal salaries and wages in the formal non-agricultural sector, as compiled by Statistics South Africa (Stats SA) and published as the *Quarterly Employment Statistics (QES)* survey.

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- 1 This box relates to the statistics in the production, distribution and accumulation accounts of South Africa for households and non-profit institutions serving households, available on page S-134 in this edition of the *Quarterly Bulletin; Quarterly Employment Statistics (QES)* statistical release P0277 and *Annual Financial Statistics (AFS)* statistical release P0021, both published by Statistics South Africa; as well as the quarterly *Wage Settlement Survey* published by Andrew Levy Employment Publications. See [http://www.statssa.gov.za/?page\\_id=1854&PPN=P0277&SCH=7642](http://www.statssa.gov.za/?page_id=1854&PPN=P0277&SCH=7642), [http://www.statssa.gov.za/?page\\_id=1854&PPN=P0021&SCH=7681](http://www.statssa.gov.za/?page_id=1854&PPN=P0021&SCH=7681) and <https://www.andrewlevy.co.za>
  - 2 The compilation of South Africa's household disposable income statistics within the national accounts framework adheres to the guidelines of the *System of National Accounts 2008 (2008 SNA)* as the international standard for the measurement of economic activity. See <https://unstats.un.org/unsd/nationalaccount/docs/SNA2008.pdf>
  - 3 Statistics South Africa, in its QES, defines gross earnings as "the total sum of the earnings, including performance and other bonuses, as well as overtime payments for the three months of the reference quarter" and in more detail as "the payments for ordinary-time, standard or agreed hours during the reference period for all permanent, temporary, casual, managerial and executive employees before taxation and other deductions for the reference period. This includes salaries and wages; commission if a retainer, wage or salary was also paid; employer's contribution to pension, provident, medical aid, sick pay and other funds; allowances; etc., but excludes earnings of sole proprietors or partners of unincorporated businesses; commission where a retainer, wage or salary was not paid; payments to subcontractors and consultants who are not part of the enterprise; and severance, termination and redundancy payments." See [http://www.statssa.gov.za/?page\\_id=1854&PPN=P0277&SCH=7642](http://www.statssa.gov.za/?page_id=1854&PPN=P0277&SCH=7642)

The QES is a quarterly enterprise-based sample survey of private businesses as well as national, provincial and local government entities and public enterprises in the South African economy per industry.<sup>4</sup>

Gross earnings statistics from the QES survey, combined with employment cost sourced from the *Annual Financial Statistics (AFS)* survey, are applied to estimate the broader measure of households' nominal compensation of employees<sup>5</sup> in the national accounts framework, which includes the agriculture and informal sectors. This measure of the compensation of employees is a major input in deriving both households' gross and net disposable income, as shown in the accompanying table.

#### Household disposable income in the national accounts framework

		Accounts <sup>1</sup>	Balancing items <sup>5</sup>	High-level items	2019 R millions <sup>15</sup>		
Real economic activity	Current <sup>2</sup>	Production <sup>4</sup>		Output at basic prices <sup>8</sup>	1 455 349		
					Intermediate consumption <sup>9</sup>	596 250	
				<b>Gross value added at basic prices</b>		<b>859 099</b>	
		Generation of income			Compensation of employees <sup>10</sup>	-164 241	
					Net taxes and subsidies on production	-30 826	
				<b>Gross operating surplus/mixed income</b>		<b>664 032</b>	
		Distribution <sup>3</sup>	Allocation of primary income		Compensation of employees <sup>11</sup>	2 416 194	
					Net property income received/paid	300 187	
				<b>Gross primary income</b>		<b>3 380 413</b>	
			Secondary distribution of income			Current taxes on income and wealth	-536 625
						Net social benefits/contributions	176 053
					Net current transfers received/paid <sup>12</sup>	51 443	
			<b>Gross disposable income<sup>6</sup></b>		<b>3 071 284</b>		
		Use of disposable income			Adjustment for change in pension entitlements <sup>13</sup>	57 278	
					Residual	-4 247	
					Total available household resources <sup>14</sup>	3 124 315	
			Consumption of fixed capital	-73 378			
		<b>Net disposable income<sup>7</sup></b>		<b>3 050 937<sup>16</sup></b>			

- 1 These accounts are listed according to the accounting framework of the sequence of accounts in the 2008 SNA.
- 2 The current account records the production of goods and services, the generation of income by production, the subsequent distribution and redistribution of income, as well as the use of income for consumption and saving.
- 3 This refers to the distribution of income between labour and capital.
- 4 The production account is the starting point and records the use of inputs to produce output and imputed rental of owner-occupied dwellings. Household production includes goods for own use but excludes services for own consumption, except paid domestic staff and own-account housing services by owner-occupiers.
- 5 Balancing items are an accounting construct carried forward from one account to the next.
- 6 Gross disposable income excludes holding gains and losses.
- 7 Net disposable income is total available household resources *minus* the imputed consumption of fixed capital (depreciation).
- 8 Output at basic prices is the amount receivable for output *minus* tax payable and subsidies receivable, and is measured on an accrual basis.
- 9 This is the value of goods and services consumed as inputs, excluding depreciation.
- 10 This is the compensation of paid employees of household unincorporated enterprises.
- 11 Compensation of employees is the total remuneration, in cash or in kind, paid by enterprises to employees.
- 12 This means the current transfer of goods or services without receiving anything in return.
- 13 As individuals accrue pension entitlements, it becomes their assets.
- 14 Total available household resources are calculated as gross disposable income after adjustment for the change in pension entitlements and the residual.
- 15 The statistics referred to in this table are published on page S-134 in this edition of the *Quarterly Bulletin*, except for net disposable income.
- 16 Net disposable income is published on page S-137 in this edition of the *Quarterly Bulletin*.

Source: SARB

- 4 The industries consist of enterprises engaged in the same or similar kind of economic activity. The definition of industries is based on the 2008 SNA and is in line with the *Standard Industrial Classification of all Economic Activities (SIC)*, fifth edition, Report No. 09-09-02 of January 1993. See [http://www.statssa.gov.za/additional\\_services/sic/sic.htm](http://www.statssa.gov.za/additional_services/sic/sic.htm)
- 5 The 2008 SNA defines compensation of employees as "the total remuneration, in cash or in kind, payable by an enterprise to an employee in return for work done by the latter during the accounting period. Compensation of employees has two main components: (a) Wages and salaries payable in cash or in kind, including enhanced payments and special allowances (e.g. overtime), regular supplementary allowances (e.g. housing), ad hoc bonus payments, as well as commissions, gratuities or tips received by employees; and (b) Social insurance contributions payable by employers, which include contributions to social security schemes; actual social contributions to other employment-related social insurance schemes and imputed social contributions to other employment-related social insurance schemes."



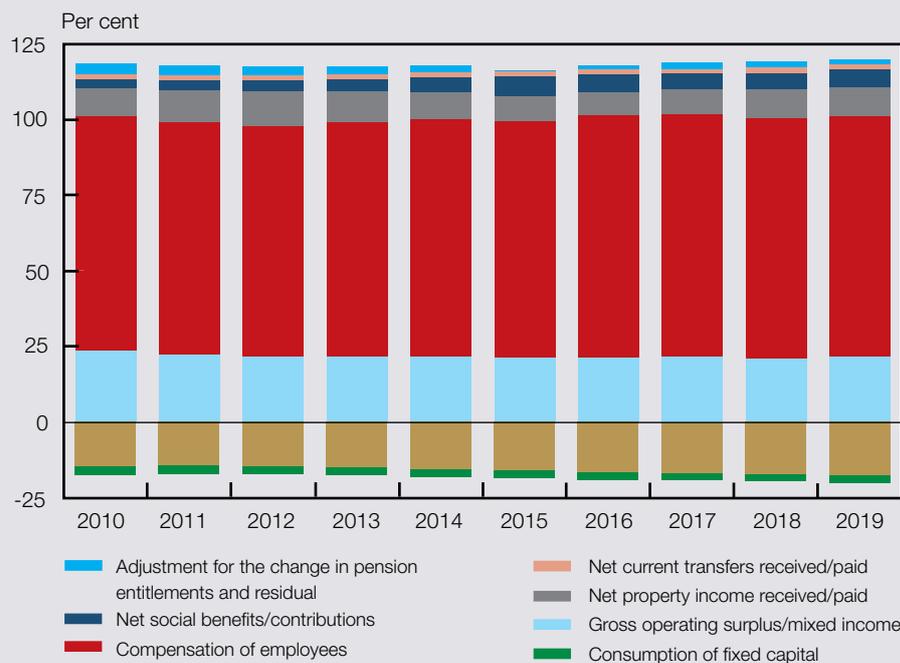


The methodology to derive net household disposable income, as depicted on the previous page, builds on the discussion of the compilation of household saving and net lending/borrowing.<sup>6</sup> The production of goods and services by unincorporated enterprises owned by households is recorded in the production account and includes imputed rental for owner-occupied dwellings minus intermediate consumption, inclusive of the maintenance of dwellings. This renders gross value added, from which both compensation paid to employees of household unincorporated enterprises and net taxes on production<sup>7</sup> are deducted, to derive mixed income. Employed members of households earn income from other sectors in the economy, measured as the compensation of employees which, together with net property income received/paid (interest, dividends and rent on land and subsoil assets), constitutes gross primary income. Households then pay tax on income received and make social contributions, such as those paid by employers on their behalf, while also receiving social benefits such as social security. This, combined with net current transfers received/paid (goods and services without quid pro quo), leaves households with gross disposable income, which is then adjusted for accrued pension entitlements to derive the total available household resources. When consumption of fixed capital is deducted from total available household resources, it renders net disposable income, which is available for final consumption expenditure and saving, followed by gross fixed capital formation and net lending/borrowing.

The importance of the compensation of employees statistic is evident from the contribution that it makes to net disposable income, which is used when expressing, for example, household saving, debt and net wealth to income.<sup>8</sup>

From 2010, the contribution of both net social benefits/contributions and net current transfers received/paid to net disposable income increased, while current taxes on income and wealth subtracted more from disposable income. Except for notable increases in net property income received/paid in 2011 and 2012 due to lower levels of interest paid, its contribution remained more or less unchanged.

### Contributions to net nominal disposable income of households



Source: SARB

6 See 'Box 1: Methodology underlying the compilation of household saving and net lending/borrowing' in the December 2019 edition of the *Quarterly Bulletin*.

7 Net taxes on production are derived as taxes less subsidies.

8 See these ratios on page S-156 in this edition of the *Quarterly Bulletin*.

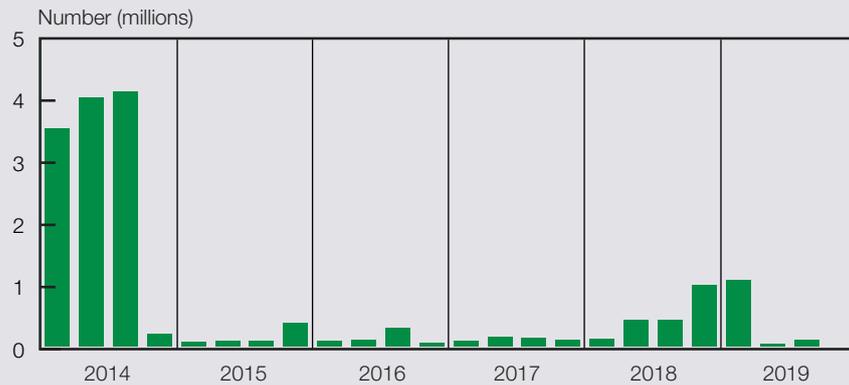
An analysis of the QES survey data shows that year-on-year growth in the total nominal salaries and wages in the formal non-agricultural sector slowed notably from a peak of 8.4% in the first quarter of 2014 to 3.8% in the third quarter of 2019.<sup>9</sup> The trend in this indicator has often been masked by considerable volatility, which has usually resulted from base effects due to the delayed implementation of annual wage increases (such as in the public sector in 2019) or the no-work-no-pay principle applied during labour strikes (such as the protracted platinum mining strike in the first half of 2014).

### Total nominal salaries and wages in the formal non-agricultural sector



Sources: Stats SA and SARB

### Number of workdays lost due to strike action



Source: Andrew Levy Employment Publications

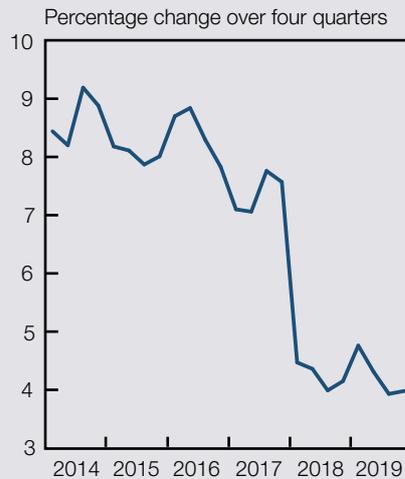
Similar to gross earnings, an analysis of national accounts statistics shows that growth in the nominal compensation of employees slowed markedly from 11.6% in 2010 to 8.7% in 2014, and further to 4.2% in 2019. This contributed to households' nominal disposable income growth moderating to 4.6% in 2019 from a recent high of 10.6% in 2011.

<sup>9</sup> The gross earnings time series have been statistically linked by the South African Reserve Bank (SARB) to account for the various structural breaks in the QES data. See 'Box 1: Statistical linking of formal non-agricultural employment and earnings time series' in the March 2017 edition of the *Quarterly Bulletin* for the methodology underlying the linking of this statistic. See the related statistics on page S-139 in this edition of the *Quarterly Bulletin*.



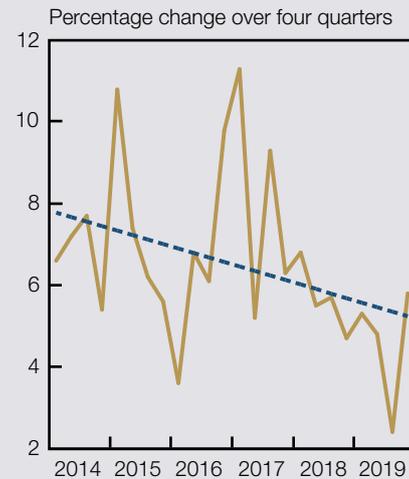


### Total nominal compensation of employees



Source: Stats SA

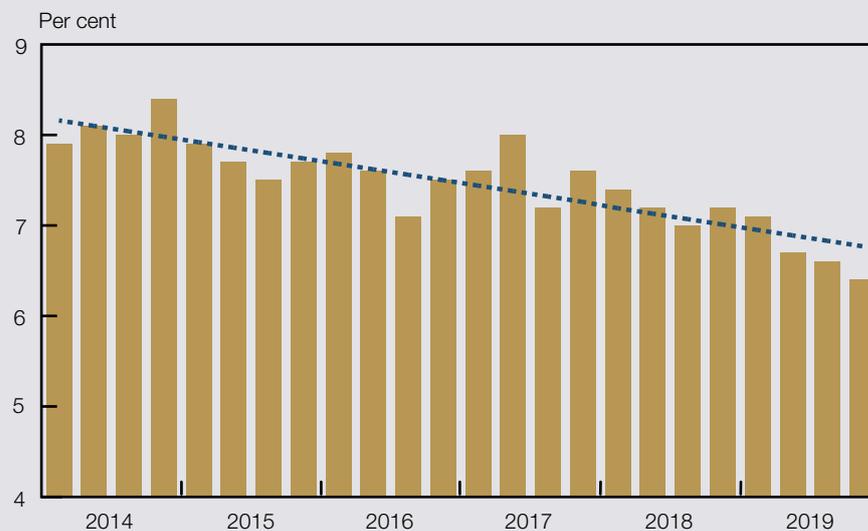
### Nominal disposable income of households



Source: SARB

The slowdown in nominal wage and income growth observed in the official statistics in recent years is corroborated by the decline in the average wage settlement rate in collective bargaining agreements.<sup>10</sup> These settlements reflect annual wage increases and exclude bonuses and overtime payments. This measure provides an indication of wage increases for employees who are part of the surveyed collective bargaining units but excludes centralised bargaining agreements through sectoral bargaining councils. The average wage settlement rate moderated from a peak of 8.4% in the fourth quarter of 2014 to 6.4% in the fourth quarter of 2019.

### Wage settlement rates in collective bargaining agreements



Sources: Andrew Levy Employment Publications and SARB

<sup>10</sup> The wage settlement rate data are sourced from Andrew Levy Employment Publications. All the surveyed bargaining units' settlement rates are averaged, but not weighted, and are published each quarter as a cumulative average for the year up to the end of that specific quarter. The SARB derives quarterly estimates from the cumulative averages.