

MAR
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BARGAINING BENCHMARKS

A resource for trade union
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. Also, much of the available information is not in a form that is easily understood by negotiators.

Bargaining Benchmarks is a 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.

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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.
HOUSEHOLD AFFORDABILITY INDEX	Measure of an average household's ability to purchase food items in a particular region.

Price inflation: Cost of living

Inflation is the increase in prices over a certain time period. It is usually presented as an annual percentage increase covering the previous 12 months (for example, December 2018 to December 2019).

Inflation is backward looking. As an example, if the latest inflation number is for December 2019 and it is reported to be 4%, then this tells us what happened to prices over the last 12 months, from December 2018 to December 2019.

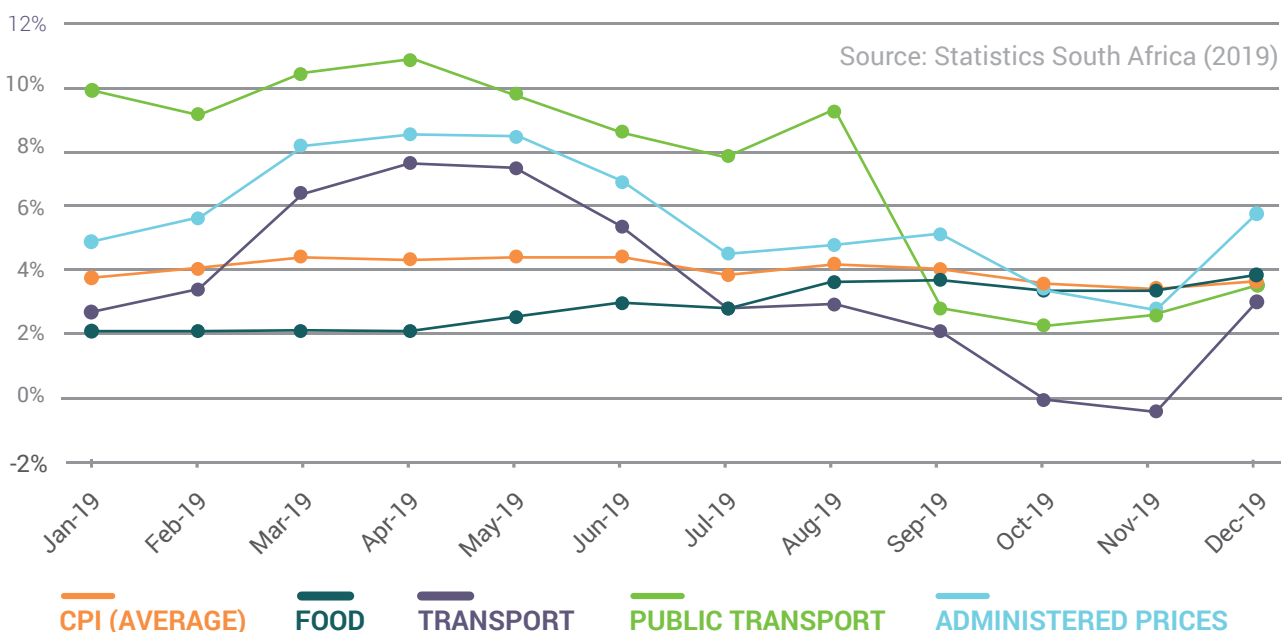
The easiest way to understand inflation is to think of buying power. If a worker receives a 10% increase, but the price of the goods that the worker buys also increase by 10%, then that worker will not be able to buy anything beyond what they bought previously, even though they appear to have more money.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

The inflation rate describes a rate of increase. If 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 Consumer Price Index (CPI) represents the overall increase in prices of all goods and services in the basket of goods and services that are measured. The inflation rate as measured by the CPI was 4% at December 2019. This means that the price of goods and services increased by 4% from December 2018 to December 2019. You can find this monthly release at www.statssa.gov.za/

INFLATION
The increase in prices over a certain time period. It is usually presented as an annual percentage increase covering the previous 12 months (for example, December 2018 - December 2019).

Figure 1: Consumer Price Index (CPI) and selected price categories Jan 2019 to Dec 2019.



Overall CPI is made up of different categories of goods and services. So for example, while overall CPI increased by 4%, the price of transport and transport-related items increased by 3.3% and the price of public transport increased by 3.7%. Administrative prices (school fees, telephone, electricity, trains, and petrol/paraffin) increased by 5.9% to December 2019, while the price of food increased by 3.8% in the same period.

The next table shows the contribution of the main kinds of expenditure to the inflation rate for December 2019. You can see that the price of housing and utilities, miscellaneous goods and services, food & non-alcoholic beverages, and transport prices were the biggest contributors to the annualized inflation rate of 4%.

Group	Contribution (Sep-19)
Housing and utilities	1.1
Miscellaneous goods and services	0.8
Food and non-alcoholic beverages	0.7
Transport	0.5
Alcoholic beverages and tobacco	0.3
Education	0.2
Restaurants and hotels	0.1
Recreation and culture	0.1
Household contents and services	0.1
Health	0.1
Clothing and footwear	0.1
Residual	-0.1
All Items	4

Source: Statistics South Africa (2019)

Although the CPI came at 4% in December 2019, other items recorded increases above the consumer price index. For example, bread and cereal (8%), fish (8.2%), Sugar, sweets and deserts (4.7%), electricity and other fuels (11.8%), water and other services (7.1%) and education (6.7%).

Table 1:
Contribution of the different groups to the annual change December 2019.



Inflation by expenditure group

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 price increases affect them differently.

Table 2:
Annualised inflation by expenditure group, December 2019.

	Monthly expenditure	Dec-19
Average annual CPI		4%
Decile 1	Up to R1477 per month	5.5%
Decile 2	R1477 up to R2456 per month	4.9%
Decile 3	R2456 up to R3549 per month	4.3%
Decile 4	R3549 up to R4742 per month	4.2%
Decile 5	R4742 up to R6151 per month	3.9%
Decile 6	R6151 up to R7907 per month	3.6%
Decile 7	R7907 up to R10352 per month	3.7%
Decile 8	R10352 up to R14419 per month	3.7%
Decile 9	R14419 up to R22492 per month	4.1%
Decile 10	R22492 and more...	4.2%

Source: Statistics South Africa (2019)

The very low expenditure group (Decile 1) experienced an inflation rate of 5.5%, which was higher than the headline inflation rate of 4%, while the very high expenditure group (Decile 10) had an inflation rate of 4.2%.

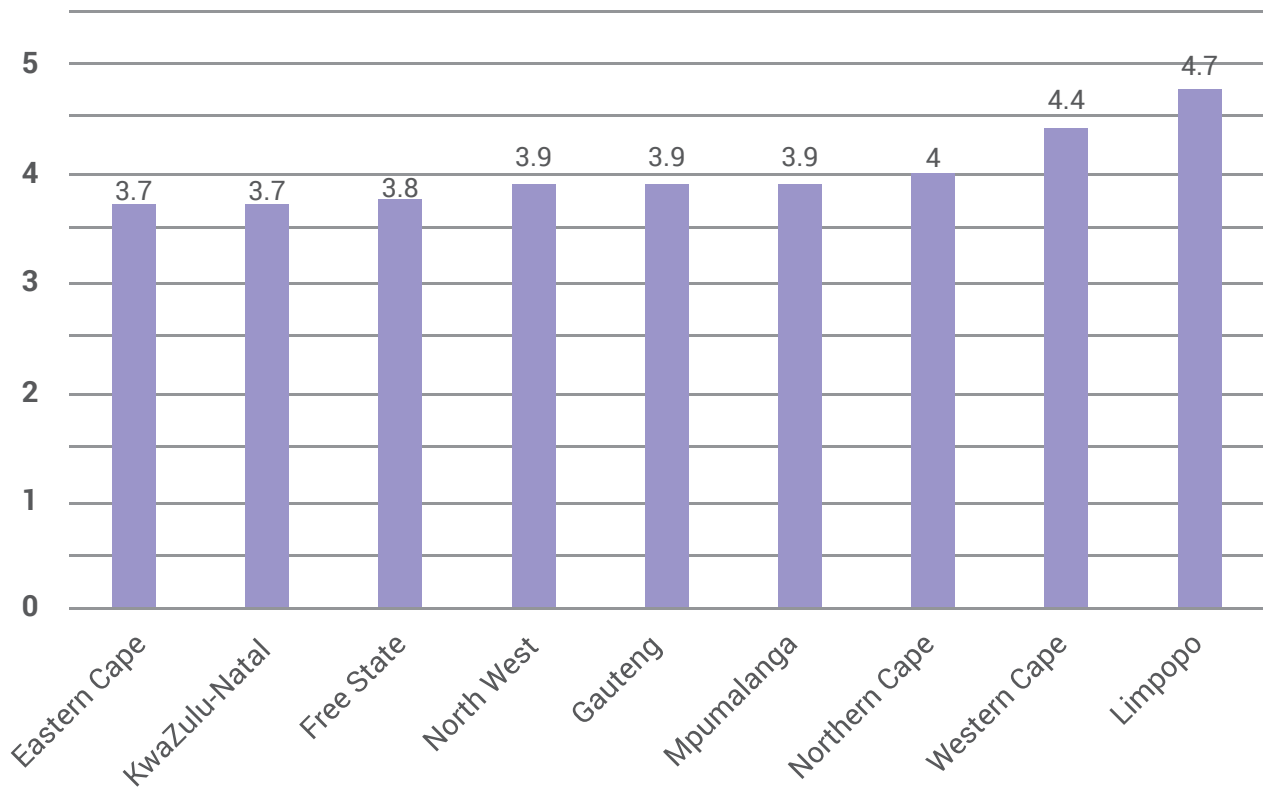
Inflation rate by province

Most provinces show annual inflation rates lower than or equal to headline inflation. The provinces with an annual inflation rate higher than the average were the Western Cape (4.4%) and Limpopo (4.7%).

Figure 2:
Annualised Inflation Rates by Province
December 2019.



Source: Statistics South Africa (2019)



Producer price index

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 might do in the short term.

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

The chart below shows that PPI increased to 3.4% in December 2019 from 2.3% in November 2019. CPI increased to 4% in December 2019 from 3.6% in November 2019.

Figure 3: Consumer Price Index (CPI) and selected price categories Q4 2019.



Source: Statistics South Africa

Employment

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 42.6% in the first quarter of 2019 and declined to 42.4%. In the second and third quarter of 2019. The employment rate remained unchanged (42.4%) in quarter four 2019.

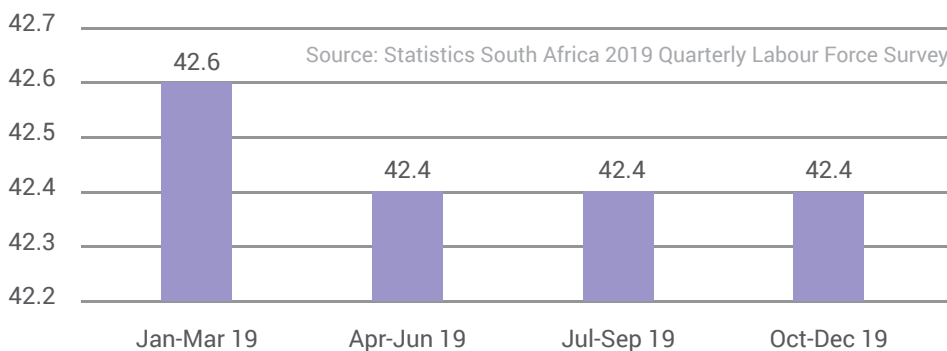


Figure 4: Employment rate (%) Q4 2019.

The table below shows employment gains were found in the following industries: Transport (4.7%), Community and Social Services (4.6%) and Agriculture (4.2%). Sectors that experienced decline in employment were Utilities (-10.5%), Construction (-8.8%), Private Household (-3.5%), Manufacturing (-2.6%), Trade (-2.1%), Mining (-1.8%) and Finance (-1.7%).

	Oct-Dec 18 (thousand)	Oct-Dec 18 (thousand)	Year on Year % Change
Community & Social Services	3 624	3 792	4.6%
Trade	3 320	3 249	-2.1%
Finance	2 611	2 568	-1.7%
Manufacturing	1 766	1 720	-2.6%
Construction	1 481	1 350	-8.8%
Private Household	1 332	1 286	-3.5%
Transport	965	1 011	4.7%
Agriculture	842	885	4.2%
Mining	438	430	-1.8%
Utilities	134	120	-10.5%

Table 3: Employment Rate by Industries Q4 2019.

Economic growth and GDP

The graph below shows that Gross Domestic Product fell by 3.2% in the first quarter of 2019 following an increase of 1.4% in the fourth quarter of 2018. The GDP grew by 3.1% in the second quarter from -3.2% recorded in the first quarter of 2019. The GDP declined to -0.6% in quarter three and -1.4% in quarter four 2019.

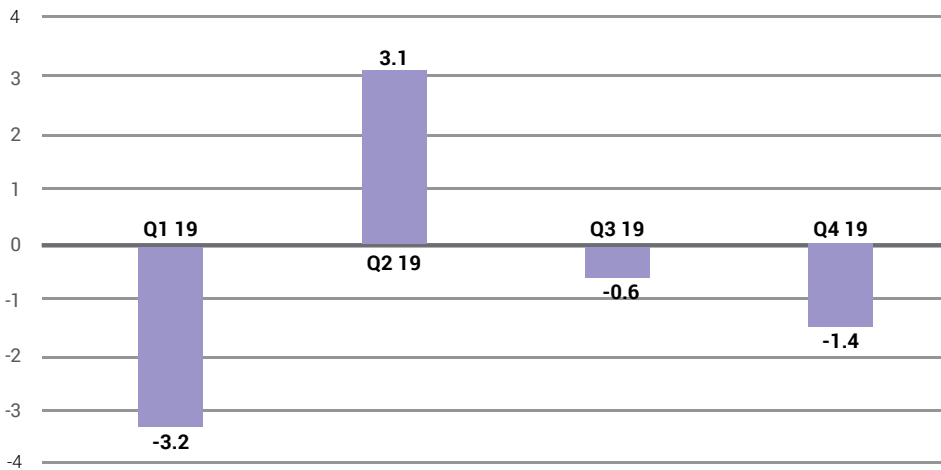


Figure 5:
Growth in GDP
% Q2 2019.

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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 sectors that contributed positively to growth in GDP in the fourth quarter of 2019 were finance (0.6%), mining (0.1%) and personal services (0.0%). The biggest negative contributors to growth in GDP in the fourth quarter 2019 were transport (-0.6%), trade (-0.5%), taxes/subsidies (-0.3%), manufacturing (-0.2%), agriculture (-0.2%), construction (-0.2%), government (-0.1%) and electricity (-0.1%).

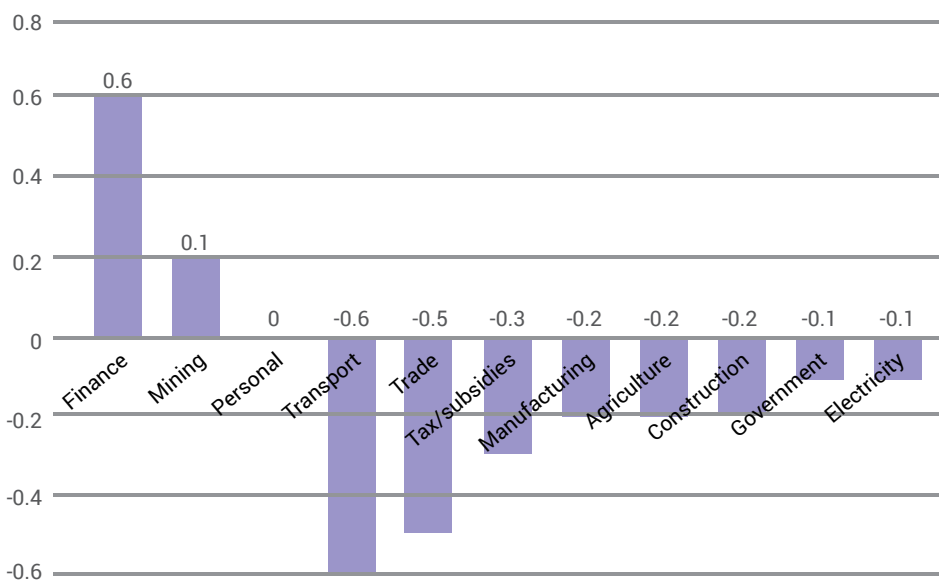


Figure 6:
Contributions to growth (%) in GDP by Industries in Q2 2019.

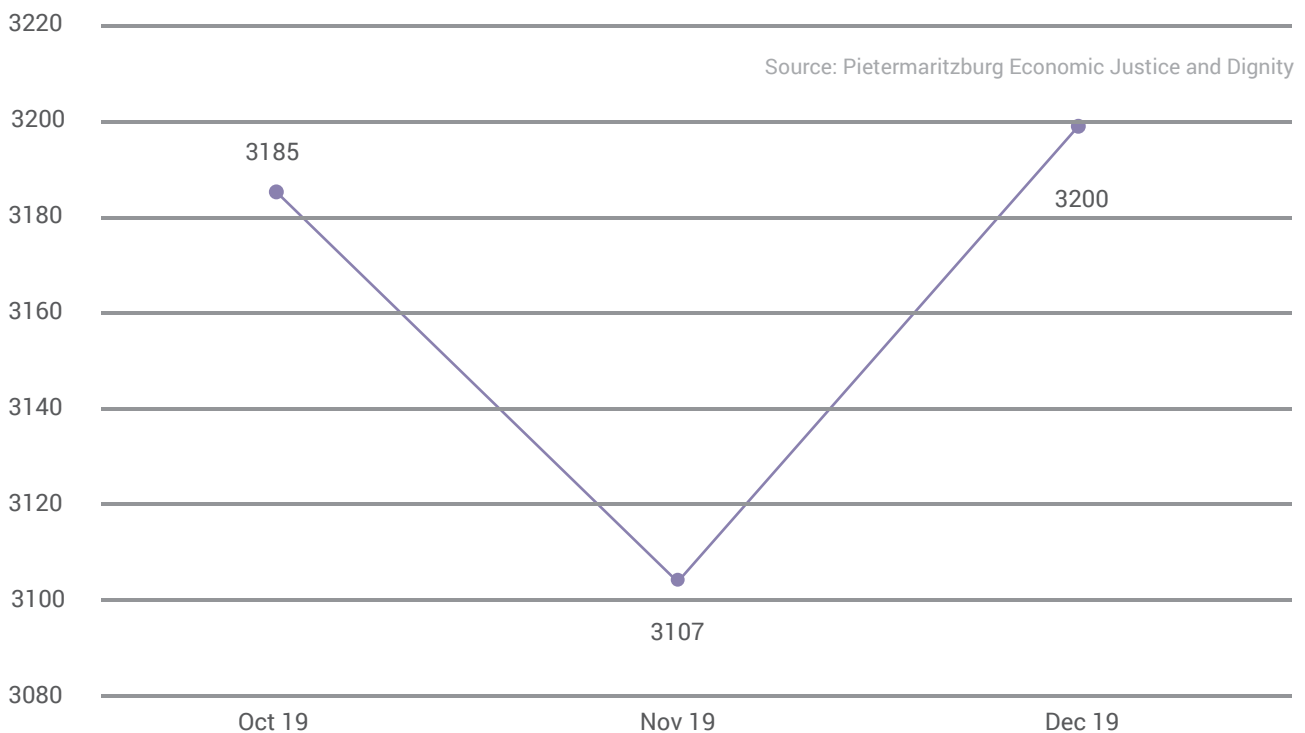


Household Food Basket Index

The household food index is specifically designed to measure food price inflation as experienced by households living on low incomes in Pietermaritzburg, but may be used to give insight on food price inflation as experienced by households living on low incomes in South Africa.

The graph below shows that the cost of the household food basket came to R3185 in October 2019 and declined to R3107 in November 2019, translating to a decrease of R78 or -2.4%. In December 2019, the cost of household food basket increased to R3200, an increase of R93 or 2.9% between November and December 2019.

Figure 8:
The Cost of the Household Food Basket Q4 2019.



Median Wage Settlement by industries

The LRS Actual Wage Rates Database (AWARD) samples between 500-700 agreements in any given year to determine the median wage increase across various industries. Such information provides valuable insight on negotiation trends that can be used to build effective bargaining cases.

The median settlement level in Q4 2019 was 7%. The highest median wage settlements were in mining, agriculture, manufacturing, electricity and transport, although the range is between 7-9% overall.

Industry	Median increase % by industry
Mining & Quarrying	9
Agriculture, Hunting, Forestry & Fishing	8
Manufacturing	8
Community, Social & Personal Services	7
Construction	7
Electricity, Gas & Water	8
Financing, Insurance, Real Estate & Business Services	7
Transport, Storage & Communication	8
Wholesale & Retail Trade, Catering & Accommodation	7
AWARD Benchmark (All agreements)	7

Table 4: Median Wage Settlement by Industry Q4 2019.



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.

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