

Why Headline CPI Increases the Wage Gap?



Bryden Morton - November 2017

What is Inflation?

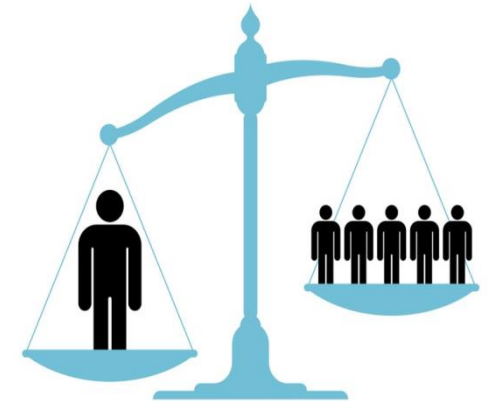
- Increase in prices
- Affects our cost of living
- Time value of money



- In the absence of annual increases we would get poorer every year

Income Inequality

- South Africa has the worst Gini Coefficient in the world – 0.64
- Gini Coefficient excluding unemployed – 0.45
- Inflation as a concept affects the poor more than the rich
- More poor than rich people



Why Would Cost of Living Differ?

- Different income levels
- Different baskets of goods and services
- Different percentage allocation of funds
- Different inflation rates of items



Headline CPI

- Measures inflation in the economy as a whole
- 48.57% of Headline CPI is weighted by richest 10%
- 0.5% of Headline CPI is weighted by poorest 10%
- Richest 20% account for nearly two-thirds of the weighting



Headline CPI Weights by Expenditure Decile

Expenditure Decile	Weighting
1	0.50%
2	1.13%
3	1.89%
4	2.81%
5	3.93%
6	5.61%
7	7.91%
8	11.30%
9	16.35%
10	48.57%



Percentage Spend on Goods by Expenditure Decile

Group	Expenditure Decile									
	1	2	3	4	5	6	7	8	9	10
Food and Non-alcoholic beverages	48.1%	47.0%	38.7%	31.7%	29.6%	25.6%	23.9%	21.6%	16.9%	10.7%
Alcoholic Beverages and Tobacco	3.9%	3.0%	4.2%	5.8%	5.1%	5.9%	6.1%	6.3%	6.9%	5.6%
Clothing and Footwear	8.8%	8.8%	7.7%	5.7%	6.3%	5.2%	5.0%	4.8%	4.0%	2.7%
Housing and Utilities	17.3%	15.3%	25.3%	35.2%	36.4%	39.2%	37.6%	32.8%	27.7%	16.4%
Household Contents and Equipment	2.6%	3.0%	2.8%	2.5%	2.6%	2.4%	2.4%	2.9%	3.8%	5.7%
Health	0.7%	0.7%	0.6%	0.5%	0.5%	0.5%	0.5%	0.7%	0.8%	1.8%
Transport	1.2%	2.0%	2.5%	3.4%	3.6%	5.8%	7.4%	8.9%	11.7%	21.1%
Communication	7.0%	5.7%	4.7%	3.4%	3.1%	2.7%	2.5%	2.6%	2.7%	2.4%
Recreation and Culture	1.9%	2.3%	2.6%	3.1%	3.1%	3.5%	3.5%	4.3%	4.5%	6.3%
Education	0.3%	0.4%	0.6%	0.6%	0.8%	0.9%	1.3%	1.9%	2.9%	3.4%
Restaurants and Hotels	3.8%	5.1%	4.0%	3.3%	3.1%	2.7%	2.6%	2.7%	2.3%	3.5%
Miscellaneous Goods and Services	4.5%	6.7%	6.5%	4.9%	5.9%	5.7%	7.2%	10.5%	16.0%	20.3%

Inflation Rate per Expenditure Decile 2009 - 2016

Expenditure Decile	2009	2010	2011	2012	2013	2014	2015	2016	Avg
1	9.0%	3.1%	6.0%	7.0%	6.3%	6.2%	5.4%	7.6%	6.2%
2	9.0%	3.1%	6.0%	7.0%	6.3%	6.2%	5.4%	7.6%	6.2%
3	9.1%	3.2%	5.8%	6.8%	5.9%	6.2%	5.1%	7.5%	6.1%
4	9.1%	3.2%	5.8%	6.8%	5.9%	6.2%	5.1%	7.5%	6.1%
5	8.9%	3.3%	5.6%	6.6%	5.9%	6.1%	4.9%	6.9%	5.9%
6	8.9%	3.3%	5.6%	6.6%	5.9%	6.1%	4.9%	6.9%	5.9%
7	8.0%	4.0%	5.7%	6.4%	6.0%	6.1%	4.4%	6.3%	5.8%
8	8.0%	4.0%	5.7%	6.4%	6.0%	6.1%	4.4%	6.3%	5.8%
9	6.6%	4.6%	4.7%	5.3%	5.7%	6.0%	4.6%	6.1%	5.5%
10	6.6%	4.6%	4.7%	5.3%	5.7%	6.0%	4.6%	6.1%	5.5%
Headline CPI	7.1%	4.3%	5.0%	5.6%	5.8%	6.1%	4.6%	6.3%	5.6%

What does this mean for the Wage Gap?

- Headline CPI Does not apply to individuals
- Rich get richer and the poor get poorer if headline CPI is universally applied
- Real income must be considered when passing increases
- Universally applying headline CPI impacts the Wage Gap negatively

Tips for Consulting Inflation Figures for Annual Increases

- Headline CPI applies to the economy – not individuals
- More figures need to be consulted to get a full view
- Real income must always be kept in mind
- At the minimum – not increasing the Wage Gap should be a priority



Thank you for this Opportunity to Present to You

