BIZCOMMUNITY

March sees slowdown in salary increases

The average take-home pay, measured in the BankservAfrica Take-home Pay Index (BTPI), fell marginally in March due to various market and economic factors that have placed financial constraints on companies and pressure on salaries.

Source: [Pexels]

Among others, the weak level of the rand exchange rate and higher fuel prices have contributed to the strain in the economy during March.

“The average real take-home pay, adjusted for inflation, tracked lower at R14,236 in March and slightly below year-ago levels,” says Shergeran Naidoo, BankservAfrica’s head of stakeholder engagements. In nominal terms, the average salary moderated slightly to reach R16,043, still 5% up on a year-ago and 3.6% up on December’s R15,484.

A comparison of the average nominal BTPI in Q1 2024 to the corresponding quarter one year earlier showed a 6.2% increase. If this continues, 2024 could be a better year for salaries as the business environment is expected to improve somewhat, unlike the previous two years, when companies struggled to pay inflation-related increases due to the ongoing economic challenges, explains Elize Kruger of the *Independent Economist*.

Although mediocre economic growth of 1.1% is forecast for 2024, it is somewhat better than 0.6% in 2023. The improved outlook hinges on the assumption of reduced load shedding, a moderation in average inflation, and a start to the interest rate-cutting cycle.

Year to date, BankservAfrica data signals alignment with the South African Reserve Bank's (Sarb) forecast of an average salary increase of 6.1% for 2024.

A trend that has been developing recently, especially in the mining industry, is for companies to enter into longer-term wage agreements, mostly with above-inflation outcomes for salary earners. With the average headline CPI forecast to moderate to 5.3% in 2024 and 4.8% in 2025, workers locked into these agreements will receive considerable real increases if lower inflation outcomes do realise.

“Inflation has turned out to be quite sticky on the downward path, locally and globally, driven mostly by higher services and administered price inflation,” says Kruger.

Anticipated inflation trends

Headline inflation moderated notably from 7.1% in March 2023 to 5.3% one year later, but is forecast to remain around the 5.3% to 5.5% level until September, and below 5% by year end.

“Positive real increases in average salaries in 2024 would be a welcomed development as salaried workers' purchasing power will improve somewhat compared to the previous two years,” says Kruger. Together with lower interest rates, financially stressed households' spending ability and confidence levels could improve. However, this may only happen in the second half of the year.

The BankservAfrica Private Pensions Index ticked lower in nominal and real terms in March 2024 but remained comfortable above year-ago levels. The average nominal private pension moderated to R10,710 in March 2024 compared to the previous month's R10,811, still 6.5% higher than a year earlier, says Naidoo.

Similarly, the real average private pension increased by 1.1% in March 2024, compared to a year earlier, keeping its recent inflation-beating track record.

The BankservAfrica data signals that the purchasing power of pensioners represented in the BankservAfrica sample (predominantly ex-government employees) has mostly been preserved amid the still-elevated inflation environment.