Salary Increases for 2021

Salary increases are inexorably linked to inflation; where inflation is one of the most important determinants when deciding on the amount of the salary increase. Cognisance must be taken of the fact that inflation in South Africa is notoriously difficult to predict for the main reason that the currency exerts a significant influence on inflation; this year, the difficulty is exacerbated because of the Covid 19 pandemic. It should also be noted that most companies did not pass any increases for this year and that increases are not a given in law and any increases is passed at the discretion of the company taking into account the economy and financial state of the company and or organization.

Despite this additional complexity, there is a robust method by which to devise an informed and scientifically formulated forecast which can be employed during the budgeting process.

The departure point is to forecast the future inflation rate.

ACTUAL AND FORECAST INFLATION RATES							
	2015	2016	2017	2018	2019	2020	2021
January	4.4	6.2	6.6	4.4	4.0	4.5	**4.2**
February	3.9	7.0	6.3	4.0	4.1	4.6	**4.4**
March	4.0	6.3	6.1	3.8	4.5	4.1	**4.5**
April	4.5	6.2	5.3	4.5	4.4	3.0	**4.6**
May	4.6	6.1	5.4	4.4	4.5	2.1	**4.8**
June	4.7	6.3	5.1	4.6	4.5	2.2	**4.7**
July	5.0	6.0	4.6	5.1	4.0	3.2	**4.5**
August	4.6	5.9	4.8	4.9	4.3	**3.4**	**4.4**
September	4.6	6.1	5.1	4.9	4.1	**3.4**	**4.2**
October	4.7	6.4	4.8	5.1	3.7	**3.6**	**4.0**
November	4.8	6.6	4.6	5.2	3.6	**3.7**	**3.9**
December	5.2	6.8	4.7	4.5	4.0	**4.0**	**3.8**
AVERAGE	4.6	6.3	5.3	4.6	4.1	**3.5**	**4.3**

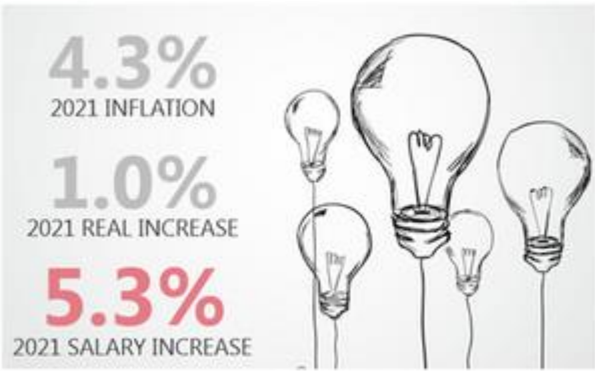
Our inflation forecast of 4.3% for 2021 is aligned with the Monetary Policy Committee who stated at their latest meeting that they expect inflation to average 4.3% in 2021. Further, although economists are predicting a wide range of inflation outcomes for 2021, our 4.3% prediction is close to the median of such forecasts.

The next process in the scientific methodology, is to establish the quantum of the “real increase”. A real increase is defined as the increase after inflation has been considered. As an example, if the salary increase is 6.0% and inflation is 4.0%, then a 2.0% real increase has been granted. The table below illustrates the real increases granted by South African companies over the last 18 years.

The historic methodology adopted in South Africa, when determining an equitable salary increase in the past, was to add a 2.0% real increase to the forecasted inflation figure. However, there has been a discernible trend over the last few years of lower real salary increases being granted. This assertion is corroborated by the 5-year moving average in the graph above, which has been steadily declining in recent years to 1.3% and the 15 year moving average of 1.1%. This trend can be attributed to lower GDP growth, declining consumer spending, political uncertainty and the resulting lower level of business confidence.

A 1% real salary increase is therefore the new normal!

Given this assertion, the calculation of the "scientific" salary increase formula is easy:



1. The UIF actuaries have recently modelled four scenarios, two where unemployment peaks at 41.4% and two where the zenith is 53.7%. An unemployment rate of 50% is concomitantly not outside the realm of possibility. This will impact future consumer spending and the ability of the economy to recover in a "hockey-stick" fashion.
2. The government is expecting GDP to record -7.3% in 2020 and then to rebound to 3.7% in 2021. We are less optimistic, and our model is currently predicting -7.70% in 2020 and a meagre 2.4% in 2021.
3. Business for South Africa recently stated that, "Against our latest modelling scenarios, we expect that it will take a minimum of two years for the South African economy to recover to pre-Covid 19 levels, keeping in mind that South Africa's economy was already weak at the start of 2020".
4. National debt could exceed 140% of gross domestic product by the end of the decade according to the emergency budget presented in June. Further, the recent ratings downgrade meant it would have been impossible to finance the government's Covid 19 initiatives without resorting to a R70 billion loan from the IMF. The consequences of the IMF loan are that the government will have to take steps to stabilise the country's finances which would include reducing government spending and improve the governance of state owned enterprises.
The result of the above factors is that the economy will struggle for the foreseeable future and from an affordability perspective, most companies will not be in a financial position to grant a real increase of 1.0% in 2021.

These four factors will in our opinion, limit salary increases for 2021 to only an inflation increase. A salary increase which is equitable to all stakeholders for 2021 is therefore:

4.5%