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Briefing note: The national minimum wage and manufacturing

November 2016 saw the report of the National Minimum Wage Panel, which proposed a minimum wage of R3 500 phased in by mid-2019. This note analyses the implications for the main sectors of the economy and for manufacturing industries based on the available wage-survey data.

Setting a national minimum wage proved challenging because of the unusually large differences in pay level by sector as well as the extraordinarily high overall inequality in South Africa. A moderate pay increase for most formal workers would prove disruptive in the low-wage sectors of domestic, farm and contract cleaning work, where most workers earn under R2 500 a month. For this reason, the panel proposed that at least initially, farmworkers would get 90% of the minimum, or R3 150 a month, and domestic workers 75%, or R2 625. In manufacturing, if introduced as proposed in 2019, estimates indicate that the minimum wage would lead to an increase in labour costs of around 5%, and two out of five workers would benefit. In agriculture and contract cleaning, in contrast, the proposed minimum would affect well over half of workers and provide for an overall increase of over 15% (see Table 1).

Table 1: Estimated impact of minimum wage on formal employees by sector if implemented in 2019

Sector	number employed	% change	number affected	% affected	average increase for affected workers in rand
Agriculture	708 000	15%	570 000	80%	817
Mining	392 000	3%	83 000	21%	2 137
Manufacturing	1 306 000	5%	483 000	37%	1 561
Utilities	111 000	3%	24 000	22%	1 876
Construction	784 000	9%	348 000	44%	1 719
Trade	1 688 000	6%	670 000	40%	1 372
Logistics	521 000	4%	157 000	30%	1 792
Business services ex security and cleaners	1 006 000	2%	237 000	24%	1 368
Security guards	404 000	8%	148 000	37%	954
Contract cleaners	151 000	21%	98 000	65%	968
Public services (b)	1 835 000	4%	595 000	32%	1 722
Private community and personal services	777 000	5%	324 000	42%	1 382
Total	9 690 000	5%	3 725 000	38%	1 198

Note: Estimated using CPI forecasts from the 2016 national Budget Review, assuming no change in the allocation of employees between pay levels. (b) Government employees in the community, social and personal services sector. Source: Calculated from Statistics South Africa. 2015 Labour Market Dynamics. Electronic database. Series on formal employment, main industry group and monthly earnings for employees. Downloaded from www.statssa.gov.za in November 2016.

In manufacturing, the effects of the minimum wage on remuneration would vary significantly by industry. The average percentage increase would range from around 8% in clothing and food production to just 2% in machinery and auto. The share of workers affected differed similarly, from almost half in clothing to around a quarter in machinery and auto.

Table 2: Estimated impact of minimum wage on formal employees in manufacturing by industry if implemented in 2019

Industry	number employed, 2015	average % increase (total)	number affected	% benefiting	average pay rise for those affected (in 2015 rand)
food, beverages, tobacco	297 000	8%	124 000	42%	1 139
clothing and textiles	141 000	8%	69 000	49%	1 238
other chemicals, plastic, paper	122 000	5%	41 000	33%	1 360
glass and non-metallic minerals	80 000	5%	38 000	47%	1 397
machinery, appliances and transport equipment	204 000	2%	51 000	25%	1 511
metals	202 000	3%	52 000	26%	1 489
other manufacturing	259 000	6%	108 000	42%	1 217

Note: Estimated using CPI forecasts from the 2016 national Budget Review, assuming no change in the allocation of employees between pay levels. (b) Government employees in the community, social and personal services sector. Source: Calculated from Statistics South Africa. 2015 Labour Market Dynamics. Electronic database. Series on formal employment, industry and monthly earnings for employees. Downloaded from www.statssa.gov.za in November 2016

While the minimum wage proposal would bring a relatively modest average increase in remuneration, it would lead to a significant increase for the workers who benefited. That in turn should bolster demand for basic necessities, especially food, clothing and household furnishings, and public transport. The growth in agro processing points to the opportunities this affords for industrialisation, especially with the competitive rand. In contrast, increased demand for basic clothing and furnishings has largely been met by imports. The challenge for industrial policy is to identify where addressing binding constraints on manufacturing can enable South African companies to compete with imports without tariffs that would raise the cost of living for the poor.