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# ADMINISTERED PRICES REMAINING THE ACHILLES HEEL OF SOUTH AFRICA...

By Mike Schüssler, Brenthurst Wealth Consulting Economist

Some economists would say that administered prices which the government either controls or regulates, reduces choice. So, when you buy electricity and water there is no alternative supplier.

Some economists go further and allude to the fact, that healthcare, at point of "sale" also allows for little choice.

In SA the narrow definition applies. We, therefore, mainly review concerns that impact the investor, pensioner or just the normal consumer.

## MUNICIPAL CHARGES ARE A BIG INFLATION DRIVER

**July's CPI release on 18 August 2021 incorporated the latest annual increases in municipal charges including water, electricity, sewer services, refuse removal and assessment fees. These are all considered administered prices, as they are determined by government and are not subject to market forces of supply and demand.**

**Historically, administered prices have been considered to push South Africa's inflation rate upwards and results in sticky inflation expectations, as a household or company's municipal account constitutes a big chunk of its costs and increases in this expense definitely forms the perception or rather reality of inflation. To provide the necessary background to the debate, the recent trends in price increases in administered prices are discussed below.**

**Municipal charges and rates weigh about 6.2% of the total inflation. However, they have contributed at least double that weight to inflation increases over the last decade or so.**



Brenthurst Wealth Management (PTY) LTD FSP No. 7833

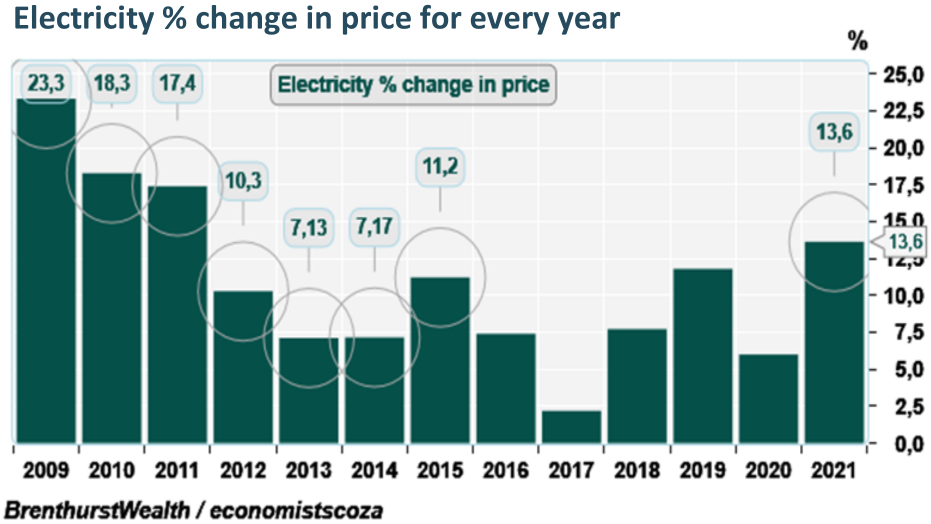
## ELECTRICITY TARIFFS (APPROX. 40% OF A TYPICAL HOUSEHOLD'S MUNICIPAL ACCOUNT)

**StatsSA reported that households will, on average, pay 13.7% higher for electricity effective 1 July 2021.** The increase is more than double that of the previous year and above the average increase of 10.8% since 2009.

The tariff increase for industrial customers that are supplied directly by Eskom was a significant 15.06% effective 1 April 2021, the biggest increase since 2011. No less than six different Regulatory Clearing Account allocations, a regulatory process whereby NERSA allows Eskom to recoup "prudent" expenses incurred in earlier financial years, contributed to this hefty increase. The energy intensive mining and manufacturing sectors have been hamstrung due to years of hefty tariff increases. Therefore, the latest developments that enable private power generation is indeed welcomed, as it would give the private sector the option to move away from Eskom as sole electricity supplier.

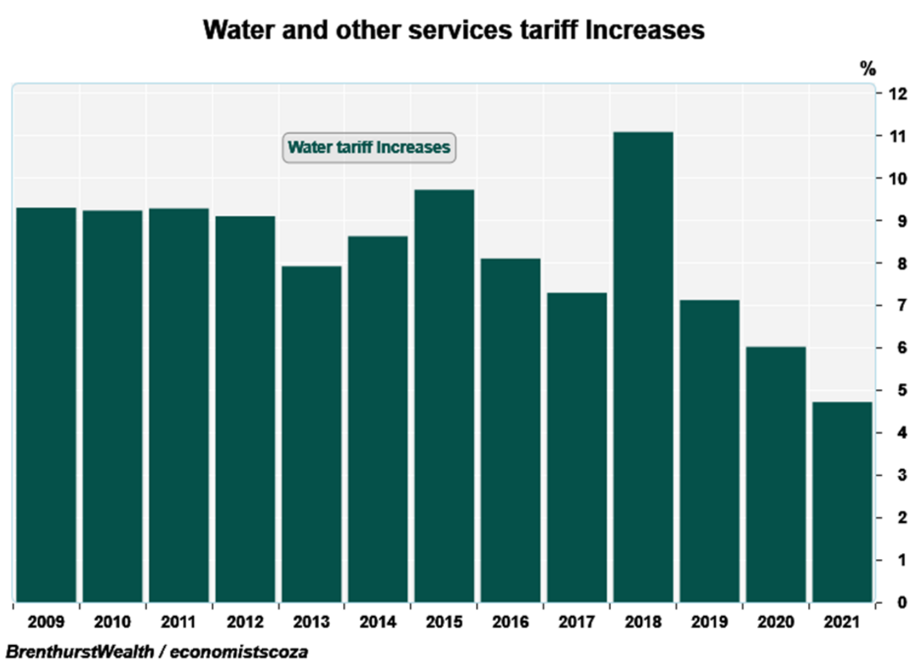
### GRAPH 1: ELECTRICITY PRICE INCREASES – ONE BIG SHOCK AFTER ANOTHER

**Electricity % change in price for every year**




## WATER TARIFFS (APPROX. 12% OF A TYPICAL HOUSEHOLD'S MUNICIPAL ACCOUNT)

### GRAPH 2: WATER TARIFF INCREASES




The average water tariff increase effective from 1 July 2021 is the lowest in the past 13 years at 6.8% y/y, though still notably above average headline inflation.

Wide discrepancies are evident between different provinces and areas, with the Free State having had the highest annual increase of 7.6% and Limpopo the lowest annual increase of 3.6%.

**The average annual increase over the past 13 years was a significant 10.2%.**

## ASSESSMENT FEES (APPROX. 26% OF A TYPICAL HOUSEHOLD'S MUNICIPAL ACCOUNT)

The average assessment fee increases moderated notably in the past few years with the average annual increase in 2021 at 3.2%, though significant discrepancies were evident. In Gauteng, average assessment fees increased by only 1.5% in 2021 compared to the Eastern Cape where the annual increase, effective 1 July 2021, was 8.4%.

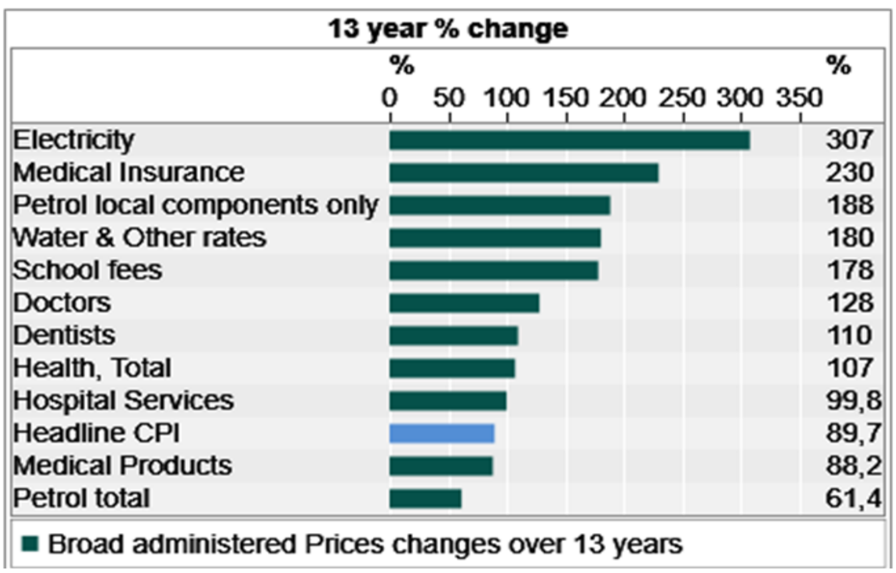
According to the Johannesburg Property Owners and Managers Association, commercial assessment rates increased at more than double the household rates. Their figures indicate that commercial rate for water and power also increased faster than household tariffs.

Refuse removal and sanitation services (approx. 22% of a typical household's municipal account) are not currently part of the CPI basket.

Comparing electricity and water tariff increases to the trend in general prices in the economy, as reflected in the headline inflation rate, revealed that these administered prices rose notably faster than general prices.

### GRAPH 3: NO CHOICE PRICE CHANGES OVER THE LAST TEN YEARS

**There are, however, numerous other items in the CPI basket that are classified as administered prices. The following items are included in Statistics South Africa's Administered Price Index, with a cumulative weighting of 16.2%: broader prices are in vogue.**





### TABLE 1: WEIGHTS OF ADMINISTERED PRICES

| Description | Weight 2016 |
|---|---|
| WATER SUPPLY | 1.1 |
| ASSESSMENT RATES | 1.3 |
| ELECTRICITY | 3.8 |
| PARAFFIN | 0.1 |
| UNLEADED PETROL | 3.3 |
| DIESEL | 1.3 |
| MOTOR VEHICLE REGISTRATION FEES | 0.1 |
| Toll fees | 0.1 |
| Driving licences | 0.1 |

| | |
|---|---|
| TRAIN FEES | 0.1 |
| TELEPHONE FEES | 0.1 |
| CELL PHONE FEES | 2.2 |
| TELEVISION LICENCE | 0.0 |
| PRIMARY SCHOOL FEES | 0.8 |
| SECONDARY SCHOOL FEES | 0.8 |
| UNIVERSITY FEES | 1.0 |
| UNIVERSITY BOARDING FEES | 0.1 |
| **Total** | **16.2** |

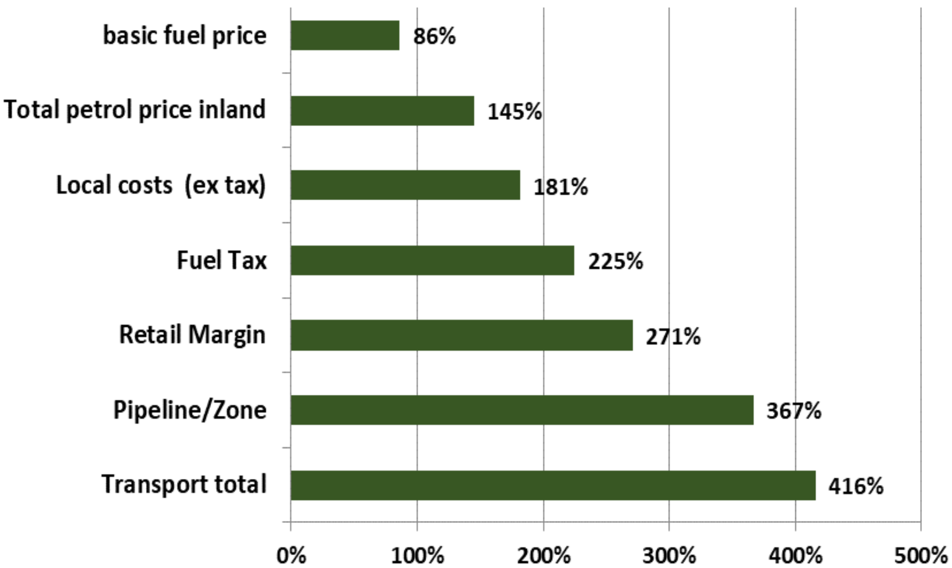
StatsSA has further classified the Administered Price Index into regulated and non-regulated items. The main components of the regulated price index, apart from water and electricity, are fuel related. The graph below depicts how the different components of the petrol price have increased since 2008.

**It is clear that taxes and the regulated components increased at a much faster pace than the Basic Fuel Price, that reflects the actual rand price of international product prices, which are the fundamental drivers of the fuel price.**

Fuel on it's own is 4.6% of total inflation and 28% of total administered prices. It is a large driver of inflation, and most has not come from the actual basic fuel or oil price, but from the increase in taxes, Road Accident Fund levies, transport costs (largely for use of stated owned pipelines), retail and wholesale margins. All these increases over the last decade or so are  reflected in the graph below.

## GRAPH 4: FUEL COMPONENTS INCREASE SINCE JANUARY 2008

**Increases in the petrol price components since Jan 2008**




*Economistacoza and StatsSA*

School fees and university fees are also controlled by government or at least presented to consumers by government bodies. This too has an unusual impact in that taxpayers often pay twice for their children's schooling. This may affect just 30% or so of children but does impact the middle class far more than most people believe.,


## TO SUMMARIZE…

**Administered prices are clearly keeping inflation in South Africa structurally higher and would constrain a move to a lower target band, as envisaged by the SA Reserve Bank in recent commentary.**

## GRAPH 5: ADMINISTERED PRICE CHANGES ARE FAR MORE VOLATILE THAN THE REST AND INCREASE FASTER

### INFLATION: Administered prices vs the rest of consumer inflation


It is clear from the above analysis that households and corporates are continuously constrained by the extent of tariff increases as reflected in monthly municipal accounts. If these tariffs, that are a growing expense for each homeowner, renting tenant or business, continue to rise at a pace much faster than average inflation and average wage increases, South Africans will be getting progressively poorer.

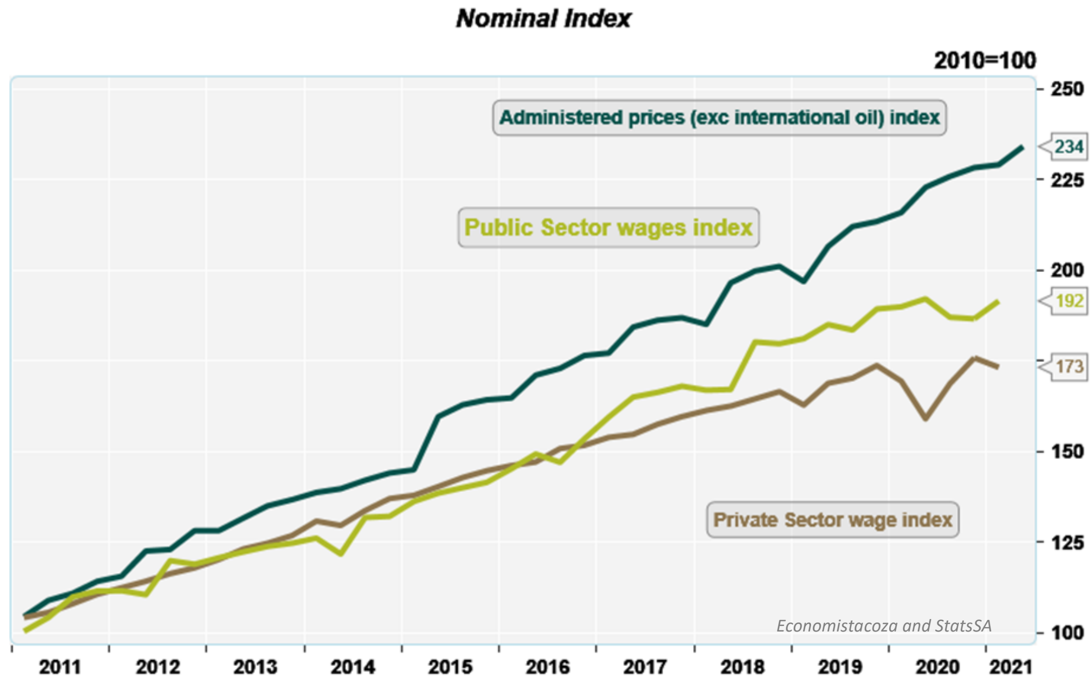
Less purchasing power in the pockets of the broader population will offset to lower spending and lower economic growth, a nasty cycle that South Africa can ill afford.

Household income can no longer keep up with administered prices and the country is struggling to compete in the world and at home against imports, as these administered prices are a cost push factor. SA firms cannot compete with these excessive increases that have been hanging around their necks for over a decade now.

**This is probably one of the top three reasons for South African enterprises struggling to compete and struggling to make money. Wage inflation is often blamed for SA not being competitive, but look at administered prices which are increasing significantly faster than both public and private sector wages.**

## GRAPH 6: IT IS NOT JUST WAGES THAT DRIVE COMPETITIVENESS

The graph below from official data shows that administered prices increased with 35% more than private sector wages since 2010. Electricity costs rose from 4% of mining cost in 2008 to 10% in 2020. Water shows a similar trend. Wages have not seen their share go up, but rather gone slightly lower as part of the overall cost.




### THE SQUEEZE: Wage and administered prices indexed.

Compiled by Brenthurst consulting economist **Mike Schüssler** and independent economist **Elize Kruger.**

***As part of Brenthurst Wealth commitment to review the best research available to serve our clients, we appointed award-winning independent economist Mike Schüssler as our consulting economist.***

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