Muddling through

SA's middle class has shrunk — and is poorer than it was before 2020, writes **Donwald Pressly**

Picture: 123RF — BELCHONOCK

SA's middle class is under siege. At the start of the lockdown last year, it was told bluntly: commit "class suicide". Since then it has imploded, shedding at least 200,000 jobs while South Africans in the working-class category have grown by about the same number, as thousands of middle-class people suffered income collapse.

President Cyril Ramaphosa himself put overall jobs lost as a consequence of the lockdown at 2-million, though the University of Cape Town Liberty Institute reports that it could be even higher: about 2.3-million.

Figures from the institute show that the "wealthy" – those earning a household income of more than R75,000 a month – had shed about 50% between 2017 and 2020, leaving just 400,000 of them.

Figures comparing February 2020 household incomes with October 2020 pay cheques show that the middle class earned R29,400 a month, down 2% in this time. The wealthy category was down 16% to R54,100 a month. Spending power of the middle rump was down 14% to R23bn from R27bn, while spending power for the upper end was down to R24bn from R31bn.

The two classes represent about 1.4-million people. The poorer "classes" – representing about 16-million people – were less badly hit in terms of spending power. Those earning R3,500 (or less) household income a month had spending power in October 2020 of R11.1bn, up from R10.8bn in February 2020, despite this sector losing 1.7-million jobs by January. Working-class jobs (household income of R8,000-R22,000) have "increased" as middle-class workers shifted downwards by the tune of 200,000 jobs to total 3.4-million jobs. The "working poor" has been bolstered in numbers since the lockdowns by 400,000 people. They now number about 5-million people, earning between R3,500 and R8,000 a month.

During the pandemic, the "white" middle class, in particular, was warned by a clutch of top ANC leaders: the end of "white monopoly capitalism" is nigh, though this tenor has lessened a wee bit with the recent slow weakening of the Jacob Zuma/Ace Magashule faction in the ruling party.

Minister of co-operative governance & traditional affairs Nkosazana Dlamini Zuma set the tone at the start of the lockdown, publicly supporting an Amílcar Cabral-like "class suicide" by suggesting the Covid crisis offered "an opportunity to accelerate the implementation of ... structural changes to enable reconstruction. These opportunities call for more sacrifices and – if needs be – what Cabral called 'class suicide' wherein we must rally behind the common cause."

President Cyril Ramaphosa has not underpinned this stance, referring only to how the ANC government had bolstered the black middle class. The president mentioned Cabral ahead of becoming ANC president in 2017: "To those who take refuge in ... impractical promises, whether sounding to the left or the right, we say, like Amílcar Cabral: 'Hide nothing from the masses of our people. Tell no lies ... mask no difficulties, mistakes, failures. Claim no easy victories.'"

While the future of the middle class is muddled and uncertain, one thing is sure, it has grown resilient, and there are signs that during the lockdown South Africans with assets have been ferreting their money away into a domestic honey pot – and putting a stash offshore for political rainy days at home.

In April 2020, the first month of the lockdown, South Africans saved nearly R100bn more than usual. They have more or less kept up this high savings rate – with a bit of a dip in recent months owing to the greater ease of shopping.

Economists.co.za director Mike Schüssler says that during the hard lockdown people stopped spending on consumer items, either because they could not go out "to buy a coffee", or because they were expecting a rocky road ahead. "They were [also] not buying washing machines, cars or houses. They were fearful." Instead, they chose to bank it.

According to the Reserve Bank, there was about R4.5-trillion in the middle-class purse – deposits by South Africans in pension and mutual funds and individual bank accounts – in May. This is slightly up from R4.45-trillion in February despite the easing of lockdown restrictions, which spurred consumer spending. It is still significantly up from R4.239-trillion in April 2020. If you add deposits by nonresidents, the figure held by banks goes up to R4.6-trillion for March and R4.7-trillion for May. This latter figure is up by about R400bn for local deposits since January 2020.

South Africans were conservative about using credit during the lockdown, though there are now signs of some spending again. The National Credit Regulator "Consumer Credit Market Report" indicates that credit granted to SA consumers dropped dramatically in 2020. Credit extended for mortgages, secured and unsecured credit and various credit facilities dropped from R145bn in the last quarter of 2019 to R54bn in the second quarter of last year. Credit was back up to R154bn in the last quarter of 2020 – and this trend is clearly continuing in the first quarter of 2021.

Middle-class people are being calculating with the little money they have. Brenthurst Wealth director Magnus Heystek says South Africans with assets have put their money in hedges domestically which pay a rand return for investments in stronger foreign currencies, or they have been taking their assets abroad. The rand has been strong against the dollar – trading under R14/$ – but Heystek believes it may have bottomed out. The recent trend now is a weakening against the dollar.

While the commodity price cycle appears favourable, the rand may stay relatively strong, but markets are unpredictable. Now is a good time for the middle class to shift some funds offshore, Heystek believes. It is hard to predict how the commodity cycle will perform, but it remains salutary that no new mining licences have been issued for 10 years – and SA is missing the commodity boom.

While last year he had advised clients to hedge in Fangs (Facebook, Amazon, Netflix and Google), cloud companies – "that kind of stuff" – and biotechnology stocks, he is now advising a shift to emerging-market value-style stocks. "Value stocks – or emerging-market stocks – have low price-to-book ratios," he says.

South Africans have about R2.1-trillion invested abroad. About R80bn was invested abroad in 2019 compared to R90bn in 2018. In 2020, because of the weak rand at the time, the foreign portfolio was reduced by about R26bn net – "probably due to some needing the money to tide them over the lockdown", says Schüssler, and because pension fund managers likely took the opportunity to bring "some money back".

Heystek says South Africans have read the political tea leaves and don't like what they see. He describes some government economic policy proposals as "madness", including the expropriation of land without compensation.

Even though the prescribed pension assets fear has faded somewhat, Heystek says many people got out of pension funds where they could. A change to regulation 28 of the Pension Funds Act allowing financial institutions like pension funds to invest up to 40% in infrastructure was seen as "through-the-back-door" prescription. Though not obligatory, it was a problem that this applied only to state – rather than private – infrastructure.

Bradley Bordiss, a lecturer in the history of economic thought at the University of Cape Town, provides a recipe for economic progress – and, indeed, a much-needed stimulus for middle-class confidence in SA's future.

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A robust, growing economy can be achieved if policy gurus got the recipe right, boosted economic nationalism, with an emphasis on a noncorrupt black empowerment, and switched on the economic levers to absorb millions of unemployed people in mining, construction and agriculture. He says there is an extraordinary lesson to be learnt from Afrikaner affirmative action and empowerment in the 1920s and 1930s.

"Afrikaner businesses were not built by destroying English businesses," he argues. An Afrikaner was exhorted by his political party, the National Party, to buy Sanlam insurance, to bank at Volkskas – the rival to the "British" bank, Standard – and buy his newspaper, Die Burger (and its equivalents inland), from Naspers. An Afrikaner collected his pennies and invested in Afrikaner business. Now the central bank needs to include developmental initiatives in its mandate. At the moment, monetary policy must, in effect, protect South Africans against rampant inflation only.

"Imagine what transformation would be achieved if the majority of South Africans bought the goods of African-owned producers." It may be a pipe dream, especially in the wake of this month's riots which have destroyed many businesses, particularly in KwaZulu-Natal and Gauteng.

It was, ironically, Zuma's nine-point plan, announced in the middle of his presidency, that could have resolved SA's fight to slip into a Third World economy: the focus was on a combination of monetary and fiscal policy which promoted domestic investment. Bordiss argues that what is needed for a turnaround and investor confidence and middle-class morale is for government policy implementation to favour investment, "not consumerism", as has been the case under the Washington Consensus followed by the ANC government over the years.

In terms of trade policy, it should raise barriers against cheap imports and prevent dumping. South Africans should be encouraged to buy more expensive goods made domestically and to create more jobs here. This could be dubbed "capitalism in one country". Instead of the central bank using its clout to strengthen the rand, for which "SA does not have the reserves", it should let the rand weaken and take steps to reduce the currency value to a level which helps SA exports and turbocharges SA competitiveness. Such a policy shift could ignite a patriotic consumerism – and bolster the middle class.

Political economist Ralph Mathekga says the middle class is under pressure. It gets little support from the governing ANC. But he doesn't believe that land expropriation without compensation, class suicide and other negative murmurings are seriously on the cards. It is ANC rhetoric reflecting a pandering to its working-class base. As the economy further opens up after the lockdowns, there will be investment opportunities in agriculture, industry and property. "The middle class will simply have to grab the opportunities [available]," he says.

Schüssler says the middle class is cautious about becoming indebted. Household debt at 75% to household income but only 35.6% of GDP is conservative compared to emerging markets where the average is 51% household debt to GDP.

Even though the middle class has shrunk – and is poorer – what is left of it is avoiding overextending itself.