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National Poverty Lines

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KEY FINDINGS

Changes in the cost of living (i.e. price changes for goods and services) require that we make regular adjustments to the national poverty lines (NPLs) to maintain their integrity and relevance over time. The most common change we make is to annually adjust the NPLs using the Consumer Price Index (CPI) series. Table 1 below shows the results of these adjustments and provides the 2018 line values for the three national poverty lines (linked to April 2018 prices).

Table 1: Inflation-adjusted national poverty lines for 2018 (per person per month in rands)

Poverty line	2018 line values
Food poverty line (FPL)	547
Lower-bound poverty line (LBPL)	785
Upper-bound poverty line (UBPL)	1 183

The national poverty lines were constructed using the cost-of-basic-needs approach which links welfare to the consumption of goods and services. The lines contain both food and non-food components of household consumption expenditure.

- *Food poverty line* – **R547** (in April 2018 prices) per person per month. This refers to the amount of money that an individual will need to afford the minimum required daily energy intake. This is also commonly referred to as the “extreme” poverty line;
- *Lower-bound poverty line* – **R785** (in April 2018 prices) per person per month. This refers to the food poverty line plus the average amount derived from non-food items of households whose total expenditure is equal to the food poverty line; and
- *Upper-bound poverty line* – **R1 183** (in April 2018 prices) per person per month. This refers to the food poverty line plus the average amount derived from non-food items of households whose food expenditure is equal to the food poverty line.

Table 2 and Figure 1 below shows the inflation-adjusted poverty line series for the period 2006 to 2018. These poverty line values are benchmarked to the most recent household expenditure data available, namely the Income and Expenditure Survey (IES) 2010/2011.

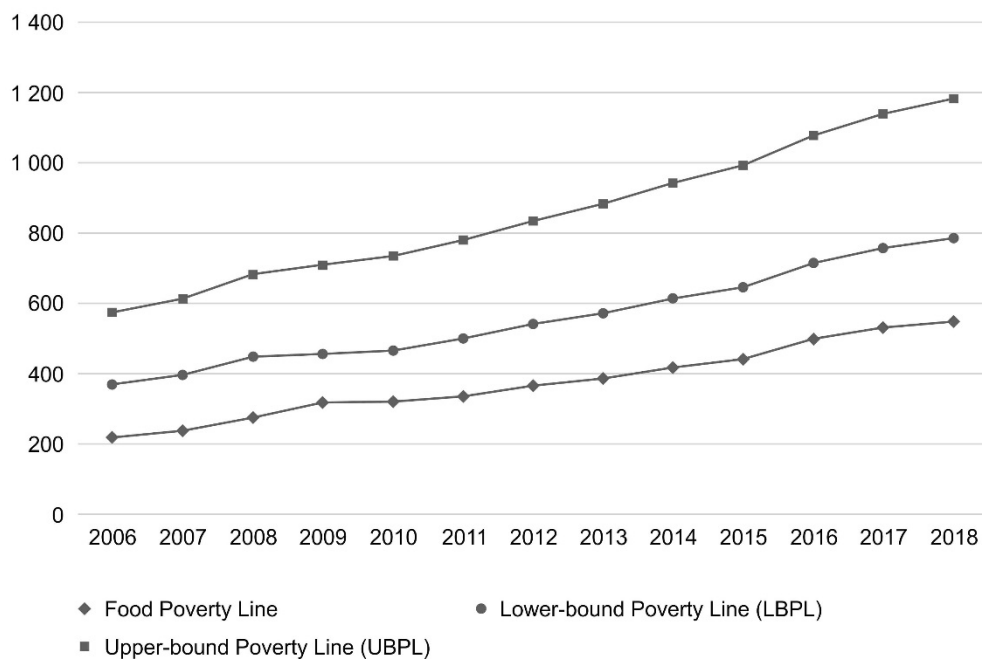
Table 2: Inflation-adjusted national poverty lines, 2006 to 2018 (per person per month in rands)

Year*	Food Poverty Line (FPL)	Lower-bound Poverty Line (LBPL)	Upper-bound Poverty Line (UBPL)
2006	219	370	575
2007	237	396	613
2008	274	447	682
2009	318	456	709

2010	320	466	733
2011	335	501	779
2012	366	541	834
2013	386	572	883
2014	417	613	942
2015 (April)	441	647	992
2016 (April)	498	714	1 077
2017 (April)	531	758	1 138
2018 (April)	547	785	1 183

* Unless otherwise indicated, the values are linked to March prices of their respective years

Figure 1: Inflation-adjusted national poverty lines, 2006 to 2018 (per person per month in rands)



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EXPLANATORY NOTES

1. Background

Poverty lines are important tools that allow for the statistical reporting of poverty levels and patterns, as well as the planning, monitoring and evaluation of poverty reduction programmes and policies. In 2007, Stats SA was officially tasked by government to establish a threshold that could be used in standardising the money-metric measurement of poverty for the country. After extensive stakeholder consultations, expert engagements and several discussion documents on the appropriate approach for poverty measurement in South Africa, Stats SA published the country's official national poverty lines in 2012. In developing the national poverty lines, Stats SA used an internationally recognised approach, namely the cost-of-basic-needs approach, which links welfare to the consumption of goods and services. In 2015, Stats SA published rebased NPLs using updated household expenditure data sourced from the IES 2010/2011.

2. Purpose of the national poverty lines

The primary purpose of the national poverty lines is to provide a tool for the statistical measurement of money-metric poverty. More specifically, the NPLs were developed to:

- a) Provide a consistent and constant benchmark against which progress on a money-metric/ expenditure-based dimension of poverty can be monitored;
- b) Improve the country's ability to target developmental policies and programmes, both towards specific groups and/or regions (through determining the poverty profile); and
- c) Increase knowledge production for policy development and reform around poverty reduction and eradication.

It is important to note that the national poverty lines were *not* designed to be used for:

- Determination of equitable share to provinces
- Setting the national minimum wage
- Determining eligibility thresholds
- Determining the amount to be paid for social grants

Nevertheless, the NPLs can help inform and serve as a possible input into some of these processes in ways that could create pro-poor dimensions.

3. Adjustments to the national poverty lines

Changes in the cost of goods and services, as well as changes in household consumption patterns are both key elements that need to be accounted for during maintenance of the NPLs. Both are expected to change over time, although in different ways and at different rates (for example, the cost of goods and services tends to change more rapidly and frequently compared to household consumption patterns). As time goes on, changes in the cost of living affect the purchasing power or value implied by the poverty lines. Therefore, to

maintain the integrity of the NPLs, two types of updates are required, namely 1) adjustment by means of an inflation index and 2) construction of new poverty lines.

The construction of new poverty lines is generally done once every 5 to 10 years or when there are notable changes observed in household consumption patterns. The latest rebasing of the NPLs was done using IES 2010/2011 data to create the benchmark 2011 national poverty lines. Since this last rebasing, Stats SA has used the CPI series to make annual price adjustments to the benchmark 2011 NPLs to ensure they are reflective of current prices (Section 4 goes into further detail about the most recent rebasing).

Because food and non-food prices do not always move in tandem with each other (that is, in the same direction and by the same magnitude), each component of the poverty line is adjusted separately. Meaning that the food portion of the NPLs is adjusted using the CPI for food items and the non-food portion of the NPLs (LBPL and UBPL) are adjusted using a CPI of non-food items.

4. Development of the national poverty lines

Following the release of the IES 2010/2011, Stats SA initiated a process to rebase the three national poverty lines (FPL, LBPL and UBPL) to bring them in line with the latest household expenditure data. The original set of poverty lines were benchmarked to information gathered from the IES 2000. The rebasing was completed in 2014 and the updated national poverty lines were published in 2015.

The need for rebasing the national poverty lines emanates from the fact that spending and consumption patterns change over time. This means the basket of goods and services on which the existing poverty lines were based may have changed, making it necessary to update estimates using recent consumption data in order to make sure that the lines remain relevant and accurate. In this way, the official poverty lines used in South Africa take account of changing needs, preferences and social conditions. Rebasing also allows for the calculation of poverty lines based on improved sampling frames and data collection methods.

4.1 Construction of the food reference basket

The IES 2010/2011 used a combination of recall and diary methods to collect data from sampled households, and a total of 752 different goods and services were reported. Of the 752 good and services reported, a total of 329 different food items can be identified.

The application of the cost-of-basic-needs approach can be broken down into three steps: (1) determination of a reference food basket on which the food component of welfare is anchored; (2) computation of the cost of the food basket that enables households to meet a normative nutritional standard (2 100 calories per person per day) to derive the food poverty line; and (3) adding to this cost an allowance for the consumption of non-food basic necessities (such as clothing, shelter, transportation, education, etc.) to determine the lower- and upper-bound poverty lines.

Earlier it was mentioned that there were over 300 different food items reported in IES 2010/2011. Two important conclusions can be drawn from this large number of foods reported. One is that the South African population has diverse food preferences and the second is that the normative per capita per day caloric requirement can be satisfied using a wide range of food baskets which may vary by location and over time. The multiplicity of possible food bundles that can be consumed by South African households to satisfy the minimum food-energy intake requirements necessitates construction of a reference basket that is representative of overall consumption patterns while also anchored in representative levels. This is the same approach that was used by Stats SA to derive the original reference food basket using the IES 2000.

Two stages are followed. The first stage involves determination of nationally common foods at household level, following the same criterion as that used for selecting the CPI food basket. This criterion combines information on food item expenditure-shares and information about the numbers of households reporting item expenditure. The threshold for food-expenditure share per item was set at 0,5% and the minimum number of households required to report on the food item for it to be considered common was set at 10%. A total of 31 food items were identified in stage 1 as being nationally representative.

The second stage of the construction of the reference food basket involves determination of a reference group of households that are fairly representative of national consumption patterns and levels at common prices. The motivation for seeking this reference group of households emanates from the fact that food preferences differ significantly by income and expenditure levels. Households with high income/expenditure tend to pay more per calorie for foods compared to households with low income/expenditure. This is because low-income/expenditure households tend to have smaller food baskets with consumption patterns that are characterised by high consumption levels of "survival foods" or relatively cheap calories, whilst high-income/expenditure households purchase more costly calories, may consume more protein-rich diets and may also consider other characteristics of food such as taste, convenience or simply the brand name.

In line with the original methodology, the rebasing process used households in the lower to middle range of consumption expenditure (households in deciles 2 to 4 of per capita expenditure) as the reference households for determination of the food basket. Thus, item expenditure-shares for the 31 food items determined in stage 1 were calculated for the reference households, and only items with at least 0,5% share of total consumption were retained, yielding a reference food basket comprised of 27 food items, and is shown in Table 3. This was after the exclusion of "clear beer" and "unspecified food" from the final basket (meaning the original basket consisted of 29 food items). Beer was excluded because it is not consumed by all members in a typical household; while unspecified food was excluded because it is not possible to determine its energy (calorie) content and its price per calorie.

The reference food basket shown in Table 3 contains a wide range of food groups, including meat, fish, poultry and their products; beverages; oils and fats; grain products; fruits and vegetables; dairy products; and other food items such as sugar, burgers, soup powders, and so forth. It is important to note that the basket presented below does not represent a recommended food plan for the South African population. It is simply an analytical tool based on the criteria specified above for selecting food items that are representative of food consumption patterns as reported in IES 2010/11.

Table 3: The reference food basket based on the IES 2010/2011

Expenditure category	Food Item
Grain products	Mealie meal/maize flour Brown bread White bread Rice Cake flour
Fish, meat, poultry and their products	Poultry (including heads and feet) Beef and veal (including heads and feet) Boerewors Canned pilchards Polony
Fruits and vegetables	Cabbage fresh Potatoes Tomatoes fresh Onions
Dairy products and eggs	Fresh full cream milk Large eggs Long-life full cream milk Sour milk/maas
Oils and fats	Edible oils (e.g. cooking oils)
Beverages	Aerated cold drinks Fruit juices not from food service places Instant coffee
Miscellaneous	Burger Powder soup Brown sugar White sugar

4.2 The food poverty line

Costing of the reference food basket was performed using information on item-specific consumption expenditure levels, household composition, and price data from the CPI. First, the amount of energy (calories per 100 grams or 100 millilitres in the case of liquids) of each food item contained in the reference food basket was obtained from the Medical Research Council (MRC) food composition tables and in consultation with the National Department of Health. Second, using information on mean annualised consumption expenditure on each food item and information on household size, it was possible to compute approximate per capita calories of each item consumed per day. Third, using the CPI data (averaged for the IES 2010/2011 data collection period covering September 2010 to August 2011), the cost per 100 grams/millilitres of relevant food items was calculated. Altogether, the three pieces of information make it possible to estimate the average per person per day amount of calories consumed of the reference food basket and the associated cost based on the reported item-specific expenditure levels and prevailing prices.

4.3 The lower and upper-bound poverty lines

Unlike food consumption, there are no universal standards for consumption of non-food basic needs. To derive the lower and upper bounds to a range of possible poverty lines, the same methodology as was used for the first set of poverty lines was followed (i.e. those developed using the IES 2000 data). In this method, two different sets of non-food expenditure are obtained from two separate reference groups of households and added to the food poverty line to yield the upper-bound and lower-bound poverty lines. As the names of the lines suggest, these two lines are regarded as the lower and upper bound to a range of possible 'total' poverty lines.

The cost-of-basic-needs approach bases the non-food component of a total poverty line on reported consumption expenditure. The main assumption behind the approach is that in cases where food expenditure is equivalent to the food line, households are considered able to meet basic foods and basic non-food needs. Therefore, by adding the average non-food expenditure of such households to the food poverty line, an upper-bound poverty line is obtained. The reference households for the upper-bound poverty line are determined by considering an interval around the food poverty line, starting with 1% of FPL and gradually increasing the interval in successive intervals of 1% up to a maximum of 5%. The average non-food expenditure for the reference households is obtained by averaging (using simple mean) the median non-food expenditures for the households in each of the successive intervals around the food poverty line.

The lower-bound poverty line is obtained in a similar way, but with a different set of reference households. The choice of reference households in this case is based on the assumption that households whose total expenditure is close to the food poverty line live on "survival foods" and therefore, sacrifice some basic food-needs in order to meet their non-food requirements. This implies that the non-food expenditure of such households represents an austere minimum expenditure on non-food basic needs.

For further information regarding the construction and rebasing of the national poverty lines, please refer to the following two technical reports published by Stats SA's, namely report D0300 entitled "Measuring poverty in South Africa: Methodological report on the development of the poverty lines for statistical reporting" and Report No. 03-10-11 entitled "Methodological report on rebasing of national poverty lines and development of pilot provincial poverty lines".

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