

Income & expenditure of households

2005/2006

Analysis of results

General information

Statistics South Africa contact information:	Physical address:	170 Andries Street Pretoria 0002 South Africa
	Postal address:	Statistics South Africa Private Bag X44 Pretoria 0001 South Africa
	Main switchboard:	(012) 310 8911
	Website:	www.statssa.gov.za
Income and Expenditure Survey enquiries:	Tel:	(012) 310 8610
	Fax:	(012) 310 8501
	Email:	IES2005@statssa.gov.za
General statistical enquiries:	Tel:	(012) 310 8600
	Fax:	(012) 310 8500
	Email:	info@statssa.gov.za

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Analysis of results

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Pali Lehohla
Statistician-General

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Fax number:	(012) 310 8501 (technical enquiries)
Email address:	IES2005@statssa.gov.za distribution@statssa.gov.za (orders)
Postal address:	Private Bag X44, Pretoria, 0001

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1. Main findings

1.1 Highlights

- Expenditure on housing, transport and food continues to dominate household consumption in the South African economy (close to 60% of the total).
- Transport (20% of total) grew fastest as a result of accelerated purchases of motor vehicles in 2004–2006.
- There was a substantial reduction in expenditure on food in relation to total consumption from 2000 to 2005/2006.
- Real income per capita increased in all income deciles from 2000 to 2005/2006.
- Ten percent of the total population continues to receive over half of household income (based on income from work and social grants).
- Social grants play an increasingly important role in reducing inequality as they are a major source of income for the poor.

1.2 Consumption expenditure patterns

With two notable exceptions, expenditure shares in total consumption in South Africa are broadly similar for the three survey periods – 1995, 2000 and 2005/2006. The two significant exceptions are transport (substantially higher share in 2005/2006) and food and non-alcoholic beverages (substantially lower share in 2005/2006). Both of these should be seen in the context of the economic growth and rise in incomes that South Africa experienced between 2000 and 2005/2006.

While the rand values of household expenditure on both food and transport tend to increase as income increases, they typically move in opposite directions when measured as a *proportion* of total consumption expenditure. When incomes increase food expenditure tends to fall as proportion of the total and transport expenditure tends to rise as a proportion of the total.

In the case of food expenditure as a proportion of total consumption, the decline from 2000 to 2005/2006 was evident across all income groups, across all population groups, and across all provinces. This report discusses the changes in measurement methodology which contributed to the magnitude of the decline. However, within the food category itself the percentage contributions of the main groupings (e.g. meat, vegetables) were relatively stable over the three surveys.

In the case of transport expenditure the main contributor to its much higher share in 2005/2006 was the purchase of motor vehicles. These purchases increased rapidly in the period 2004–2006. As the economy grew in real per capita terms and employment increased, many more households acquired their own vehicles and found the means to finance them. The increase in transport's proportion was evident across all income groups, across all population groups, and across all provinces.

Apart from transport there were also sizeable increases in expenditure on communication (e.g. telephone equipment and services, postal services), recreation and culture, insurance, and financial services (e.g. banking costs) as a proportion of total consumption.

1.3 Consumption expenditure by income group, population group and province

As expected the poorest 20% of households allocated a considerably higher proportion of their expenditure to food and non-alcoholic beverages and clothing and footwear than the richest 20% of households. The magnitude of the spread, however, is a matter of social concern. The former allocated approximately 37% of their consumption expenditure to food and non-alcoholic beverages while the latter allocated approximately 10%.¹

The richest 20% of households allocated at least twice as much of their relative expenditure to recreation and culture than the poorest 20%.

The different spending patterns of the different population groups are largely explained by the persisting income differences among them. Black African households allocated a considerably higher proportion of their expenditure to food and non-alcoholic beverages and clothing and footwear than white households, and a considerably lower proportion of their expenditure to transport, recreation and culture and miscellaneous goods and services than white households (insurance constituted over half of the miscellaneous category in 2005/2006). In these respects, the results of the three surveys are remarkably similar.

Expenditure by province reveals substantially different spending patterns among provinces. As expected inter-provincial differences in income appear to play an important explanatory role. Expenditure on food and non-alcoholic beverages (as a proportion of consumption expenditure) was highest in the low-income provinces of Limpopo and Eastern Cape, and lowest in the high-income provinces of Gauteng and Western Cape. This pattern is consistent with the analysis of expenditure by income group, and a similar pattern is evident in the case of clothing and footwear.

1.4 Share of consumption expenditure by population group

From 2000 to 2005/2006, black African households' share of consumption expenditure rose from 42,9% to 44,3% (and their share of the population rose from 78,3% to 79,4%). White households' share of consumption expenditure fell from 44,1% in 2000 to 42,9% in 2005/2006 (and their share of the population fell from 10,1% to 9,2%). Black African households experienced increases in their share of expenditure in each expenditure category except for miscellaneous goods and services, with the largest percentage point increases occurring in:

- food and non-alcoholic beverages (+8 percentage points);
- furnishings, household equipment and maintenance (+10,7 percentage points); and
- communication (+9,7 percentage points).

There was little change in the shares of the coloured and Indian/Asian population groups (share of expenditure as well as share of population).

1.5 Income and inequality

Mean real per capita income increased in all income deciles between 2000 and 2005/2006 (based on income excluding imputed rent). But the increases were uneven, with above-average increases occurring in deciles 1, 2, 3 and 10, and below-average increases occurring in deciles 4 to 9 (where decile 1 refers to the 10% of the population with the lowest income and decile 10 refers to the 10% of the population with the highest income).

Of the various sources from which households derive their income, the largest by far continues to be income from work, including employment, self-employment and business income. The importance of grants as a source of income among lower-income households is increasingly significant.

While 10% of the population continues to earn more than 50% of household income in the country, the poorest 40% of the population accounts for less than 7% of household income, with the poorest 20% accounting for less than 1,5% of income (based on income from work and social grants).

¹ As explained in the report, these percentages exclude imputed rent.

Inequality continues to remain high between population groups and within individual population groups. The Gini coefficient based on disposable income (from work and social grants) for the whole country was 0,72. Within individual groups the Gini coefficient was highest at 0,63 among black African households, with the other population groups ranging between 0,56 and 0,59. If social grants and taxes are excluded, the Gini coefficient for the whole country would be 0,80 rather than 0,72, i.e. the reduction of inequality through redistributive policies reduces the Gini coefficient by 8 percentage points.

2. Purpose and limitations of the Income and Expenditure Survey (IES)

2.1 Introduction

This analysis of household income and expenditure is based on the results of a survey conducted by Statistics South Africa (Stats SA) between September 2005 and August 2006 – the Income and Expenditure Survey (IES). The IES is a survey administered to a representative sample of households with national coverage,² and it is designed chiefly to update the basket of goods and services required for the compilation of the Consumer Price Index (CPI). The current IES (2005/2006) is the third of its kind, and follows in the footsteps of similar surveys undertaken in 1995 and 2000. The 1995 survey, though, is not comparable with its successors because it was based on a more limited geographic coverage.

Although the IES targets consumption expenditure it also makes intensive use of household income. Not only is income one of the key variables used to classify the expenditures of households, along with household size, population group and province, but it is also an important source of information for studies of relative income inequality and poverty.

Comparisons are often made between the IES and previous IESs, other household surveys, business surveys of retail trade, and the national accounts. However, the data compared differ in definition and measurement methodology. This analysis aims to alert users to the main limitations and caveats associated with making such comparisons.

2.2 The IES and South Africa's national accounts

Stats SA uses the national accounts as its main framework to organise basic economic statistics. The merit of the national accounts is that although they do not constitute an alternative primary source of information, they do force all economic statistics into a balancing framework through an elaborate set of accounting identities. In the analysis that follows the broad aggregates that resulted from the IES are compared with their counterparts in the national accounts and reference is made to all those cases where there are significant differences.

2.3 Biases in the IES

The IES is a complex survey. Its reliability is intimately bound with the accuracy and completeness with which respondents consent to share sensitive information with the survey takers. Not surprisingly, the survey is affected by many biases among which the following should be noted:

- a) Complex data were collected on non-consumption items such as savings, debts and capital losses. But households failed to report reliably on these.
- b) Biases arose on the income side whenever respondents under-reported their earnings either through forgetfulness or out of a misplaced concern that their reported data could fall into the hands of the taxation authority.
- c) Poor reporting of many of the more complex income items resulted not necessarily from excessive respondent sensitivity but rather from the difficulties of conveying to householders an adequate understanding of non-wage income. The upshot of this failure is inadequate data on income from capital.
- d) It is highly unlikely that respondents reported 100% of their expenditure. For example, fatigue from recording expenditure details may have led to significant portions of monthly expenditure going unrecorded. In many cases the fieldworkers provided substantial assistance to respondents with the entering of expenditure records in the survey diaries, but even this procedure would have been compromised in cases where receipts (till slips) were accidentally lost or destroyed.

² The households selected for administering the IES constitute a probability sample. The IES estimates were calculated after blowing the sample up to population levels using sampling weights derived from the mid-2006 population projections.

- e) Both international evidence as well as our own shows that high-frequency items that appear in the expenditure diary only and not in the main survey questionnaire appear to be under-reported. But recall methods often lead to an exaggerated reporting of expenditure.
- f) The IES is not a continuous survey. It does not measure change explicitly. It is used to take a household income and expenditure snapshot once every five years. Change could be measured if the surveys were rigorously identical. However, an explicit decision was made to introduce progressive improvements even if they resulted in some loss of comparability. For example, the quality of the consumption component of the survey improved through the introduction of the diary collection method for the first time in 2005/2006. This method is used internationally in both developed and developing countries, but it creates its own set of biases.
- g) There are other reasons why measures of change are subject to uncertainty. For example:
- The ratio of household income as recorded in the national accounts to that estimated by the different IESs differs significantly from one survey to another.
 - The totals for tax paid reported in all the IESs diverge by widely different degrees from what is registered by the South African Revenue Service.
 - Income from capital, without which the upper tail of the income distribution cannot be reliably estimated, was poorly reported in all the IESs. Moreover, the apparent coverage of these items varied from survey to survey.
 - Income and expenditure flows cannot be reconciled at the household level and the extent to which they fail to match differs from one survey to another.

These biases have opposite signs but do not necessarily cancel each other. The following analysis focuses on those aspects of the IES which strike us as most credible and reflects our judgment on the extent to which known biases may have affected the survey's outcome.

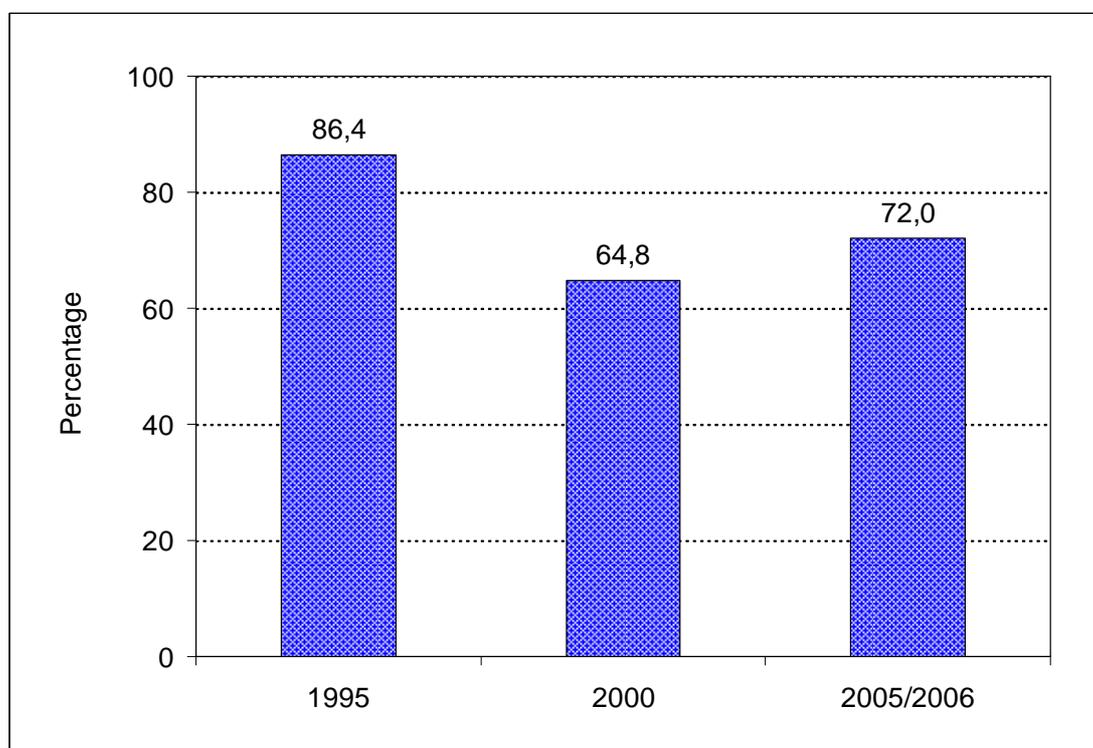
3. Income aggregates

3.1 Changes in income

Household incomes as measured in the IES and in the national accounts respectively are not completely comparable in terms of their components. A detailed breakdown of income is provided in section 3.3. At the aggregate level household surveys typically report lower income and expenditure than the national accounts estimates. The relative coverage of household income is shown in Figure 1 for IES 2005/2006 as well as for its predecessors in 1995 and 2000.

Figure 1 shows that the relationship between household surveys and the national accounts can vary considerably, and some of the difficulties in extracting reliable income data from respondents were referred to in section 2.3. The IES / national accounts ratio (for household income) declined from 86% in 1995 to 65% in 2000, with 2005/2006 falling in between at 72%. This variability carries important implications for comparing the IES and national accounts household income growth rates, shown in Table 1.

Figure 1 – Household income¹: IES as a percentage of national accounts



¹ Excluding imputed rent

Source: IES 1995, IES 2000, IES 2005/2006, South African Reserve Bank

Household income as reported by the IES increased by 24% from 1995 to 2000 (Table 1). This increase was significantly lower than the increase of 66% based on the national accounts, but this difference is to be expected given the decline in the ratio shown in Figure 1. However, the IES increase of 24% was well below the 38% increase in the Consumer Price Index (CPI) over the same period. This implies a decline in household income in real terms between 1995 and 2000, which does not appear plausible.

The changes as measured from 2000 to 2005/2006 and from 1995 to 2005/2006 appear more plausible than the change from 1995 to 2000. The changes to 2005/2006 were well above the CPI in both the IES results and the national accounts, i.e. both measures indicate that household income increased in real terms. Of course the differences between the growth rates in the IES and national accounts measures must be seen in the context of the changing IES / national accounts ratio in Figure 1.

Table 1 – Percentage changes in nominal household income: comparison between national accounts and IES results

	Household income ⁽¹⁾ (nominal) (see Table 3 for breakdown of components)		Consumer Price Index
	National accounts	IES	
	% change	% change	% change
1995 to 2000	66	24	38
2000 to 2005/2006	68	87	31
1995 to 2005/2006	178	132	81

⁽¹⁾ Excluding imputed rent

Source: IES 1995, IES 2000, IES 2005/2006, South African Reserve Bank

3.2 Components of household income

IES 2005/2006 estimated the annual gross income of South African households at R929,2 billion (Table 2).

- The bulk of this (74,3% of gross income) was derived from work activities, with salaries and wages totalling R599,9 billion (64,6% of gross income) and self-employment and other business income totalling R90,9 billion (9,8% of gross income).
- Social insurance and grants accounted for 6,1% of gross income, equivalent to R56,8 billion. Within this category, state old age and war pensions (R25,3 billion) and family and other allowances and grants (R20 billion) were the most important (together accounting for 4,9% of gross income).
- Households also reported earning R19,8 billion in income from pensions from previous employment and a further R4,5 billion from investment annuities (together accounting for 2,6% of gross income).
- Imputed rent, the estimated value of the use of owner-occupied dwellings, was the second largest component of gross income, totalling R88,2 billion (9,5% of gross income). An explanation of imputed rent is provided in section 4.8.
- Other income totalled R58,3 billion, accounting for 6,3% of gross income, and included income from various sources. The main ones were the sale of vehicles and property (R15,8 billion), gratuities and other lump-sum payments (R4,8 billion) and sidelines and other part-time activities (R3,1 billion). Income from capital – comprising interest, dividends, rent and royalties – accounted for a very small proportion of reported gross income at 1,2% or R10,8 billion.

Disposable income available to households was R860,5 billion, after the deduction of income taxes (R64,7 billion) and UIF contributions (R4 billion) from gross income.

Table 2 – Components of household income, IES 2005/2006

	Rand (billion)		Share of gross income
Income from work		690,8	74,3
Salaries and wages	599,9		64,6
Self-employment and business income	90,9		9,8
Income from capital		10,8	1,2
Interest	4,2		0,5
Dividends	1,6		0,2
Rent income	4,9		0,5
Royalties	0,1		0,0
Private pensions and annuities		24,3	2,6
Pensions from previous employment	19,8		2,1
Annuities from own investment	4,5		0,5
Social insurance and grants		56,8	6,1
Old age and war pensions	25,3		2,7
Disability grants	10,4		1,1
Family and other allowances, incl. CSG	20,0		2,2
Various funds (UIF, Workmen's Compensation, etc.)	1,1		0,1
Other income		58,3	6,3
Alimony, palimony and other allowances	11,1		1,2
Other income from individuals	3,9		0,4
Other income	37,9		4,1
Benefits, donations and gifts, and cash	3,7		0,4
Tax refunds received	1,7		0,2
Imputed rent		88,2	9,5
Gross income		929,2	100,0
Less taxes		68,7	7,4
Income tax	64,7		7,0
UIF contributions	4,0		0,4
Disposable income		860,5	92,6

Note: Category headings are compatible with those in System of National Accounts (SNA), 1993
 Source: IES 2005/2006

3.3 Consistency with other data

In Table 3 comparisons are made between the results of IES 2005/2006 and the corresponding estimates shown in the national accounts. A number of factors account for the differences between the two, but in unknown proportions.

- Numbers may differ because of definitional differences (e.g. unlike the IES the national accounts concept of the household institutional sector includes unincorporated business enterprises of households).
- Numbers may differ because of reluctance (or ignorance or pure memory lapse) to share information on the part of the householder when faced with a specific question (e.g. information on various sources of earnings).
- Numbers may differ because they relate to a relatively small number of households and as a result the sampling error attached to them may be so large as to swamp the data being compared (e.g. savings data).

Table 3 presents an attempt to align income and tax items from IES 2005/2006 with national accounts aggregates. The latter are presented on the left side of the table, with the IES 2005/2006 aggregates on the right. The ratios in the column on the far right represent the ratios of the IES 2005/2006 aggregates to the national accounts aggregates. The comparability of the IES 2005/2006 data to the national accounts data in each major category is shown in Table 3. The estimates cover income from work, income from capital and property, social security grants, and taxes.

3.3.1 Income from work

The category for which the IES and national accounts are best aligned is income from work. Compensation of employees in the national accounts was just under R720 billion, compared with R691 billion reported in the IES for salaries and wages plus self-employment and business income. Households in the IES reported approximately 96% of the national accounts value.

3.3.2 Income from capital and property

Income from capital was generally poorly reported by households in the IES. This is evident when compared with the national accounts even though the categories are not defined in the same way. For example, rent in the national accounts refers to land only, whereas the IES includes land and buildings.

3.3.3 Social grants and income tax

Definitions of social grants in the IES and the national accounts differ significantly. We are specifically interested in public social benefits and therefore compare with published data from other official sources on social grants disbursed (Table 4). These are obtained from the National Treasury's *Estimates of National Expenditure* (2007).

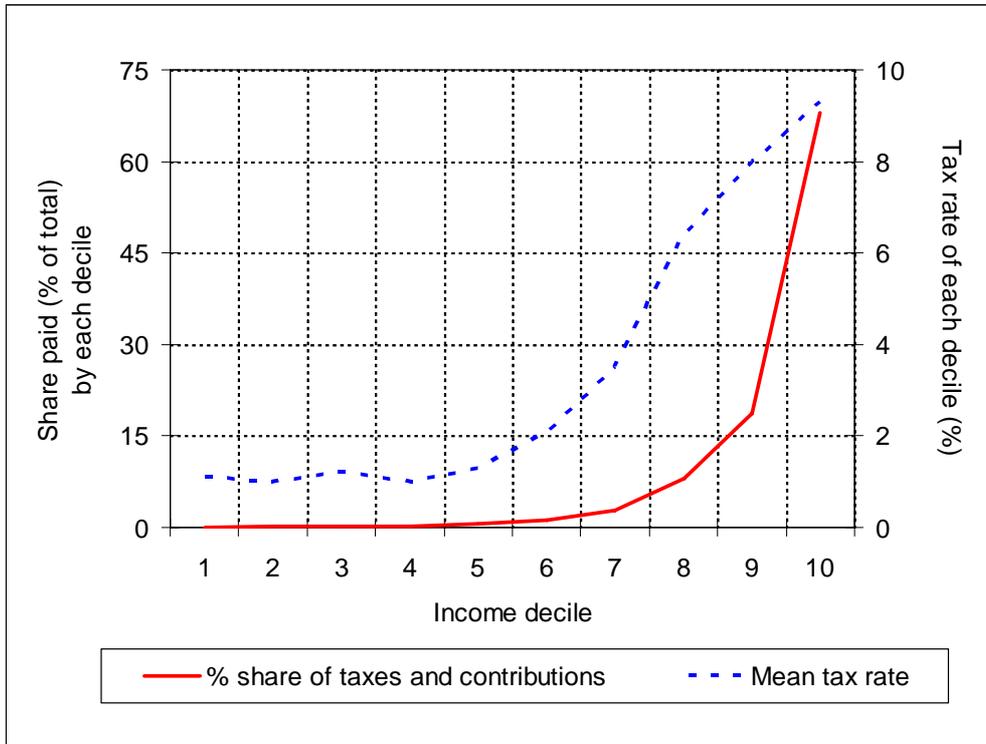
When we compare the aggregates the match between IES 2005/2006 and official figures on disbursements from National Treasury is relatively close, with the overall total from the IES of social grants received exceeding the National Treasury total for social grants disbursed by approximately 10% (Table 4). Within the three groups of grants there is possible misclassification of grant income, with an underestimate of disability grant income and overestimates of other grant incomes. This could be partly explained by the relatively little guidance given in the IES questionnaire to help respondent households to classify grant income. This may be particularly true in the case of family and other allowances as a "catch all" category.

Income tax reported in IES 2005/2006 is low compared with official tax data. The ratio is just 51%. Our suspicion is that respondents, particularly the self-employed, could not give accurate estimates of taxes paid.

The, IES, however, provides a credible distribution of income tax across households. From Figure 2 it is evident that the bulk of personal income tax was paid by the most affluent 10% of households: 68% of reported income tax was paid by income decile 10 households, with 19% paid by decile 9 households and 8% by decile 8 households. Thus, the 30% of households at the top of the income scale accounted for approximately 95% of income tax reported in the IES, while the 50% of households receiving the lowest

incomes accounted for just 1,4% of income tax. This distribution is consistent with South Africa’s high levels of income inequality and its relatively progressive tax system.

Figure 2 – Incidence of income tax and mean effective tax rate, IES 2005/2006



Note: The mean effective tax rate is calculated as income taxes paid divided by gross income minus imputed rent
 Source: IES 2005/2006

The mean effective tax rate is defined here as the share of income tax within gross income minus imputed rent. Figure 2 confirms that the mean effective tax rate rises from around 1% in deciles 1 through 5, to 3,5% in decile 7, and 9,3% in decile 10, reflecting the progressive nature of the South African personal income tax system. While the pattern is expected, the level of personal income tax reported in IES 2005/2006 appears low. In summary, although the IES estimate of personal income tax paid is substantially lower than the amounts reported by SARS, the survey provides a plausible distribution of income tax across households when analysed in terms of household income.

Table 3 – Comparison of IES 2005/2006 with national accounts data (R billion)

National Accounts	2005/2006		2005/2006		Income and Expenditure Survey	Ratio
Income from work		718,2	690,8		Income from work	0,96
Compensation of employees	718,2			599,9 90,9	Salaries and wages Self-employment and business income	
Income from capital and property		244,8	10,7		Income from capital and property	0,04
Interest (income)	36,2			4,2	Interest	0,12
Dividends	111,9			1,6	Income from dividends	0,01
Rent (income)	0,2			4,9	Rent received	29,41
Property income attributed to insurance policy holders	96,5					
Social benefits		120,0	81,1		Social benefits	0,68
Social benefits received	120,0			19,8 4,5 25,3 10,4 20,0 1,0	Pensions from previous employment Annuities from own investment Old age and war pensions Disability grants Family and other allowances, incl. CSG Various funds, e.g. UIF, Workmen's Compensation	
All other income		85,3	58,4		All other income	0,68
Non-life insurance claims	57,7			11,1	Alimony, palimony and other allowances	
Miscellaneous current transfers	27,6			3,9 37,9 0,1 3,7 1,7	Other income from individuals Other income Royalties Benefits, cash, donations and gifts Tax refunds received	
Gross income (excluding imputed rent)		1 168,3	841,0		Gross income (excluding imputed rent)	0,72

Table 3 (continued)

National Accounts	2005/2006		2005/2006		Income and Expenditure Survey	Ratio
Gross income (excluding imputed rent)		1 168,3	841,0		Gross income (excluding imputed rent)	0,72
Taxes		132,7	64,7		Taxes	0,49
Current taxes on income and wealth	132,7			12,5 48,1 4,1 0,1	SITE PAYE Income tax according to assessment Amnesty tax	
Social contributions paid		121,8	4,0		Unemployment insurance fund	0,03
Disposable income (excluding imputed rent)		913,8	772,3		Disposable income (excluding imputed rent)	0,85

Note: National accounts aggregates are a weighted average of 2005 and 2006 data; since IES 2005/2006 covered the period September 2005 to August 2006, a weighted average of national accounts data was constructed for comparison: one-third of 2005 (4 out of 12 months) and two-thirds of 2006 (8 out of 12 months)
 Source: IES 2005/2006, South African Reserve Bank

Table 4 – Comparison of IES 2005/2006 with official data sources (R billion)

Official data source		2005/2006		2005/2006		Income and Expenditure Survey	Ratio
Social grants			50,8	55,7		Social grants	1,10
Estimates of National Expenditure:	Old age and war veterans	19,6			25,3	Old age and war pensions	1,30
	Disability	14,1			10,4	Disability grants	0,74
	Family and other	17,1			20,0	Family and other allowances, incl. CSG	1,17
Income tax			125,6	64,7		Income tax	0,51
Budget Review:	Personal income tax	125,6			12,5 48,1 4,1 0,1	SITE PAYE Income tax according to assessment Amnesty tax	

Source: IES 2005/2006, National Treasury

4. Household consumption expenditure

4.1 Introduction

In IES 2005/2006 respondents were requested to record all their acquisitions during the survey period. The term “consumption expenditure” is used to distinguish between expenditure on goods and services that are intended for immediate use (as well as continuing use in the case of semi-durables and durables) and disbursements which are intended to provide resources for the future such as retirement funding, financial investments and other forms of saving. The different types of consumption expenditure discussed in this report are listed by main group in Table 5.

The information on household consumption expenditure from IES 2005/2006 may be used in various comparisons and analyses of spending patterns, e.g. across income groups, population groups and regions. While comparisons can also be made with findings on expenditure from the IESs of 1995 and 2000, several important caveats should be taken into account. This report provides a brief commentary on the main findings regarding household consumption expenditure in IES 2005/2006, and sets out the context in which particular expenditure categories should be considered (e.g. changes in measurement methodology and socio-economic circumstances). It also sets out limitations on making direct comparisons with the findings of previous IESs in certain expenditure categories. Further explanation regarding methodology and limitations of the survey may be found in the statistical release Income and expenditure of households 2005/2006 (P0100).

4.2 Consumption expenditure patterns

Table 5 provides a snapshot of the composition of consumption expenditure from IES 2005/2006, showing expenditure by group as a percentage of total household consumption expenditure. It is important to emphasise that no two households consume in precisely the same way; what the table represents is the *average* expenditure pattern of the nation.

Table 5 – Distribution of household consumption expenditure by main expenditure groups, IES 2005/2006

	Rand per household (12-month period)	% of total
Food and non-alcoholic beverages	8 105	14,4
Alcoholic beverages and tobacco	647	1,2
Clothing and footwear	2 781	5,0
Housing, water, electricity, gas and other fuels	13 245	23,6
Furnishings, household equipment and routine maintenance of the house	3 868	6,9
Health	933	1,7
Transport	11 180	19,9
Communication	1 969	3,5
Recreation and culture	2 582	4,6
Education	1 356	2,4
Restaurants and hotels	1 232	2,2
Miscellaneous goods and services	8 081	14,4
Other unclassified expenses	172	0,3
Total	56 152	100,0

Source: IES 2005/2006

Apart from the miscellaneous goods and services category (which includes insurance), the three expenditure groups that are clearly dominant are housing, water, electricity, gas and other fuels (23,6% of the total); transport (19,9%); and food and non-alcoholic beverages (14,4%). Together these three categories accounted for approximately 60% of consumption expenditure in 2005/2006, and each is discussed separately below. Note that the health category excludes health insurance (medical aid, etc.), which is included in miscellaneous expenditure.

4.3 Changes in consumption expenditure

There are limitations to making comparisons among the three data sets shown in Table 6 below. As explained in greater detail in the housing section of this report, “imputed rent” (rather than mortgage payments) was included in the measurement of housing expenditure in IES 2005/2006 for the first time.³ Accordingly, to compare spending patterns with those shown in previous IESs, Table 6 excludes imputed rent and mortgage payments from housing. The table shows the main expenditure groups as a percentage of total household consumption expenditure, excluding imputed rent, mortgage payments and other unclassified expenses, for 1995, 2000 and 2005/2006. This convention is extended to subsequent tables to make comparisons over time.

In IES 2005/2006, expenditure on food was reported using a daily expenditure diary whereas previously respondents relied on their ability to recall their food expenditure. The effects of this change in methodology are discussed further below. Note also that the 1995 IES data set contains a substantial “other unclassified expenses” category (approximately 13% of consumption expenditure excluding mortgages); consequently Table 6 and subsequent tables exclude this category (no impact in 2000 and negligible impact in 2005/2006).

Accordingly, in the remainder of this analysis of consumption expenditure, unless otherwise indicated, comparisons between IES 2005/2006 and the earlier IESs are based on the exclusion of imputed rent, mortgage payments and other unclassified expenses (but miscellaneous goods and services are included).

Table 6 – Distribution of household consumption expenditure (percentage of total) by main expenditure group, excluding imputed rent, mortgage and other unclassified expenses

	IES 1995	IES 2000	IES 2005/2006
	%	%	%
Food and non-alcoholic beverages ⁽¹⁾	28,5	27,4	16,6 ⁽¹⁾
Alcoholic beverages and tobacco	2,5	2,5	1,3
Clothing and footwear	7,4	5,3	5,7
Housing, water, electricity, gas and other fuels	12,7	13,5	12,6
Furnishings, household equipment and routine maintenance of the house	10,9	8,6	7,9
Health	1,2	1,5	1,9
Transport	13,4	13,2	22,9
Communication	3,6	3,3	4,0
Recreation and culture	3,6	4,4	5,3
Education	1,8	2,8	2,8
Restaurants and hotels	2,2	3,5	2,5
Miscellaneous goods and services	12,2	14,0	16,5
Total	100,0	100,0	100,0

⁽¹⁾ Owing to the methodological changes explained in this report, the food and non-alcoholic beverages expenditure category is not comparable between IES 2000 and IES 2005/2006.

Source: IES 1995, IES 2000, IES 2005/2006

³ An explanation of imputed rent is provided in section 4.8.

For most categories the expenditure shares are broadly similar across the surveys, with two notable exceptions: transport (substantially higher share in 2005/2006) and food and non-alcoholic beverages (substantially lower share in 2005/2006). These are discussed later in separate sections, but some preliminary observations are made below.

In the case of transport expenditure the main contributor to the substantially higher share in 2005/2006 was the purchase of motor vehicles, which increased rapidly in the period 2004–2006. As the economy grew in real per capita terms and employment increased, more households acquired their own vehicles and found the means to finance them. Indeed the propensity to own a vehicle is strongly positively associated with income in IES 2005/2006, as shown by an analysis by income decile.

Conversely, food expenditure tends to decline as a proportion of consumption expenditure as household incomes increase. There is a clear inverse relationship within IES 2005/2006 when analysed by income decile (see Figure 5 in the separate section on food below), and the relationship is also reflected in the drop in food as a proportion between IES 2000 and IES 2005/2006. However, the new reporting methodology introduced in IES 2005/2006 makes comparison with 2000 difficult. Unlike most expenditure items, food and beverages were reported in the 2005/2006 survey diaries only and not in the survey questionnaire; personal care expenditure was also reported in the diaries only.⁴ Whereas items such as vehicles are low-frequency purchases and are unlikely to go unreported by survey respondents, food purchases are high-frequency in nature and may have been under-reported in the household expenditure diaries that were introduced in IES 2005/2006. International comparisons indicate that the proportion of consumption expenditure devoted to food in IES 2005/2006 is low for a country at South Africa's level of development. The under-reporting of food in IES 2005/2006 is discussed in section 4.9.

As a proportion of consumption expenditure, communication expenditure (e.g. telephone equipment and services, postal services) increased from 3,6% in 1995 to 4% in 2005/2006, and recreation and culture expenditure increased from 3,6% in 1995 to 5,3% in 2005/2006.

The miscellaneous category rose from 12,2% of consumption expenditure in 1995 to 14% in 2000 and 16,5% in 2005/2006.⁵ Insurance (dwellings, health, transport and other) accounted for over half of the miscellaneous category in 2005/2006. As a proportion of total consumption expenditure, insurance increased from 5,7% in 2000 to 9,1% in 2005/2006. As with vehicle purchases, the increasing share of insurance should be seen in the context of economic growth and rising household income in real terms. The propensity for households to devote more of their budgets to insurance is clearly evident in the breakdown of expenditure by income decile.

Expenditure on financial services, which includes banking costs and is also classified under miscellaneous goods and services, increased from 0,6% of consumption expenditure in 2000 to 1,6% in 2005/2006. Personal care expenditure (e.g. soap, hairdressing), which is classified under miscellaneous, decreased from 4,3% of consumption expenditure in 2000 to 1,4% in 2005/2006. Similarly to food, personal care expenditure may have been under-reported in IES 2005/2006 (high-frequency, reported in diaries only).

4.4 Consumption expenditure by income group

Income is an important determinant of expenditure patterns. Typically, low-income earners have expenditure patterns that are very different from those of high-income earners. Table 7 compares the expenditure patterns of the lowest income quintile (quintile 1; the 20% of households with the lowest income) and the highest income quintile (quintile 5; the 20% of households with the highest income).⁶

⁴ A note on the survey instruments is provided in Income and expenditure of households 2005/2006 (P0100).

⁵ The main components of miscellaneous expenditure in IES 2005/2006 are insurance (56,2% of miscellaneous), financial services (9,8%), personal care (8,6%) and personal effects (3,2%).

⁶ In this report the analysis by income group is presented in some cases by income decile and in others by income quintile. Income deciles provide greater detail, but income quintiles facilitate the presentation of information in tabular form.

In IES 2005/2006, the main differences in expenditure proportions between quintile 1 and quintile 5 were in the following categories:

- Food and non-alcoholic beverages
- Clothing and footwear
- Transport
- Recreation and culture
- Miscellaneous goods and services

Low-income (quintile 1) households allocated a considerably higher proportion of their expenditure to food and non-alcoholic beverages and clothing and footwear than high-income (quintile 5) households in each of the three IESs. For example, in the case of food and non-alcoholic beverages in 2005/2006 the proportions were approximately 37% in quintile 1 and approximately 10% in quintile 5 (excluding imputed rent and other unclassified expenses). Note, however, that in money terms (as opposed to proportions) the expenditure on food and non-alcoholic beverages by quintile 1 households was approximately R4 000 per household over the twelve months of IES 2005/2006, whereas the corresponding average for quintile 5 households was approximately R15 000.

Table 7 – Distribution of household consumption expenditure (percentage of total) by income quintile, excluding imputed rent, mortgage and other unclassified expenses

	IES 1995		IES 2000		IES 2005/2006	
	Income quintile 1	Income quintile 5	Income quintile 1	Income quintile 5	Income quintile 1	Income quintile 5
	%	%	%	%	%	%
Food and non-alcoholic beverages	51,0	20,6	41,0	19,4	36,9	9,6
Alcoholic beverages and tobacco	3,0	2,2	2,0	2,2	1,5	1,0
Clothing and footwear	8,9	5,4	5,6	4,1	9,4	4,0
Housing, water, electricity, gas and other fuels	15,6	12,0	13,1	13,2	11,8	12,5
Furnishings, household equipment and maintenance of the house	7,7	10,6	8,2	9,6	8,1	7,6
Health	0,5	1,6	1,2	1,6	1,7	2,0
Transport	4,0	18,3	7,7	17,0	10,6	28,3
Communication	0,8	4,6	2,2	4,1	3,0	4,3
Recreation and culture	1,0	4,9	3,1	5,7	2,6	6,3
Education	1,1	2,0	2,4	3,0	2,2	2,6
Restaurants and hotels	0,7	3,0	2,4	4,4	1,5	2,7
Miscellaneous goods and services	5,7	14,9	11,0	15,9	10,5	19,2
Total consumption expenditure	100,0	100,0	100,0	100,0	100,0	100,0

Note: Income quintile 1 refers to the 20% of households with the lowest income
 Income quintile 5 refers to the 20% of households with the highest income

Source: IES 1995, IES 2000, IES 2005/2006

Low-income (quintile 1) households allocated a considerably lower proportion of their expenditure to transport, recreation and culture, and miscellaneous goods and services than high-income (quintile 5) households in each of the three IESs. In 2005/2006 approximately two-thirds of miscellaneous expenditure consisted of insurance and financial services.

If imputed rent were added back to housing, water, electricity, gas and other fuels expenditure in 2005/2006, this would be another category to show a large difference between quintile 1 and quintile 5 households. Imputed rent accounts for an increasing proportion of expenditure as income increases. With the inclusion of imputed rent in 2005/2006 the total housing category rises to approximately 18% in quintile 1 and approximately 26% in quintile 5 (housing as a proportion of consumption expenditure).

The broad pattern of change from 2000 to 2005/2006 that was noted in Table 6, namely a substantial increase in transport and a substantial decrease in food and non-alcoholic beverages (as proportions of the total), is also evident across all income quintiles. For instance, in the middle quintile (quintile 3; not shown in Table 7), transport increased from 7,5% (2000) to 16,1% (2005/2006), and food and non-alcoholic beverages decreased from 40,2% (2000) to 26,3% (2005/2006). The changes in quintile 1 and quintile 5 can be seen in Table 7.

4.5 Consumption expenditure by population group

Like its predecessors, IES 2005/2006 shows large differences in expenditure patterns between the population groups (black African, coloured, Indian/Asian and white). Given the wide differences in income between the population groups in South Africa, and the large impact of income on spending patterns (see previous section), the finding of large differences in expenditure patterns between the population groups is to be expected.

Based on average household income, the largest difference in income between population groups is that between white and black African households, with white households earning over seven times more than black African households in IES 2005/2006. The expenditure patterns for these two groups is shown in Table 8.

Table 8 – Distribution of household consumption expenditure (percentage of total) by population group, excluding imputed rent, mortgage and other unclassified expenses

	IES 1995		IES 2000		IES 2005/2006	
	Black African	White	Black African	White	Black African	White
	%	%	%	%	%	%
Food and non-alcoholic beverages	35,9	19,8	34,6	19,9	23,2	9,4
Alcoholic beverages and tobacco	2,6	2,4	2,6	2,2	1,5	1,0
Clothing and footwear	9,9	4,6	7,3	3,2	8,0	3,2
Housing, water, electricity, gas and other fuels	10,1	14,8	11,9	14,4	11,3	13,4
Furnishings, household equipment and maintenance of the house	13,2	8,9	7,7	9,9	8,8	7,5
Health	0,7	1,9	1,2	1,8	1,6	2,3
Transport	9,8	17,6	10,8	16,0	19,0	26,8
Communication	2,1	5,0	2,3	4,2	3,6	4,4
Recreation and culture	2,4	4,8	3,0	5,9	3,8	6,7
Education	1,7	1,9	2,8	2,9	2,9	2,7
Restaurants and hotels	1,6	2,9	3,3	4,1	2,5	2,7
Miscellaneous goods and services	9,9	15,2	12,6	15,5	13,8	20,0
Total consumption expenditure	100,0	100,0	100,0	100,0	100,0	100,0

Source: IES 1995, IES 2000, IES 2005/2006

In IES 2005/2006, the main differences in expenditure proportions between black African and white households were in the same categories listed in the previous section regarding the differences between quintiles 1 and 5:

- Food and non-alcoholic beverages
- Clothing and footwear
- Transport
- Recreation and culture
- Miscellaneous goods and services

In each of the three IESs black African households allocated a considerably higher proportion of their expenditure to food and non-alcoholic beverages and clothing and footwear than white households, and a considerably lower proportion of their expenditure to transport, recreation and culture, and miscellaneous goods and services than white households. The expenditure proportions of the white population group in Table 8 are closely aligned with those of income quintile 5 in Table 7.

Table 8 shows changes over time in the expenditure patterns of the black African and white population groups. Comparing 2005/2006 with 2000, each group considered in isolation experienced changes strikingly similar to those in Table 6. For each group there was a substantial rise in the share of expenditure on transport and a substantial decline in the share of expenditure on food and non-alcoholic beverages.

The changes (from 2000 to 2005/2006) for black African and white households were reasonably close in the following categories: health (increase); recreation and culture (increase); alcohol and tobacco (decrease); restaurants and hotels (decrease); and education (mixed).

The proportions of expenditure on clothing and footwear and on communication increased in black African households but were essentially unchanged in white households. Housing, water, electricity, gas and other fuels decreased in both population groups. The miscellaneous category (a large part of which is insurance) increased for both groups, but much more so in white households.

The only broad category in which there were opposite movements in Table 8 was furnishings, household equipment and maintenance of the house (increase in black African households and decrease in white households).

Another perspective of changes in consumption expenditure according to population group is each group's share of each expenditure category. The changes for black African and white households and the breakdown by expenditure category are shown in Table 9.

Table 9 – Composition of consumption expenditure categories (percentage of each category) by population group

	IES 2000		Total (including the shares of the other population groups)	IES 2005/2006	
	Black African	White		Black African	White
<i>Share of population:</i>	78,3%	10,1%	100,0%	79,4%	9,2%
	%	%	%	%	%
Food and non-alcoholic beverages	54,1	32,0	100,0	62,1	24,3
Alcoholic beverages and tobacco	44,9	38,1	100,0	49,1	31,2
Clothing and footwear	58,9	26,8	100,0	62,2	24,0
Housing, water, electricity, gas and other fuels	37,9	47,0	100,0	39,8	45,7
Furnishings, household equipment and maintenance of the house	38,4	51,0	100,0	49,1	40,5
Health	34,6	54,6	100,0	37,3	52,5
Transport	35,1	53,4	100,0	36,7	50,3
Communication	29,9	56,0	100,0	39,6	46,4
Recreation and culture	29,4	58,5	100,0	32,2	54,1
Education	42,6	46,1	100,0	47,1	42,5
Restaurants and hotels	39,5	51,4	100,0	43,1	45,8
Miscellaneous goods and services	38,6	48,9	100,0	37,1	51,9
Total consumption expenditure	42,9	44,1	100,0	44,3	42,9

Source: IES 2000 and IES 2005/2006

From IES 2000 to IES 2005/2006 black African households' share of consumption expenditure rose from 42,9% to 44,3% (and black Africans' share of the population rose from 78,3% to 79,4%). Black African households experienced increases in their share of expenditure in each expenditure category except for miscellaneous goods and services, with the largest percentage point increases occurring in food and non-alcoholic beverages (+8 percentage points); furnishings, household equipment and maintenance (+10,7 percentage points); and communication (+9,7 percentage points).

White households' share of consumption expenditure fell from 44,1% in 2000 to 42,9% in 2005/2006 (and the white population fell from 10,1% to 9,2%). White households experienced decreases in their share of expenditure in each expenditure category except for miscellaneous goods and services, with the largest percentage point decreases occurring in food and non-alcoholic beverages (-7,7 percentage points); furnishings, household equipment and maintenance (-10,5 percentage points); and communication (-9,6 percentage points).

There was little change in the shares of the coloured and Indian/Asian population groups. Coloured households' share of consumption expenditure decreased slightly from 8,5% in 2000 to 8,2% in 2005/2006 (and their share of the population was unchanged at 8,8%). Indian/Asian households' share of consumption increased slightly from 4,5% to 4,6% (and their share of the population decreased slightly from 2,6% to 2,5%).

4.6 Consumption expenditure by province

An analysis of expenditure by province reveals substantially different spending patterns between the provinces, and as expected inter-provincial differences in income appear to play an important role. Table 10(a) provides proportions of expenditure for selected expenditure categories in five of the nine provinces in IES 2005/2006, arranged by level of income.

Table 10 – Distribution of household consumption expenditure (percentage of total for selected categories) by province, excluding imputed rent, mortgage and other unclassified expenses

10(a) – IES 2005/2006	Low income		Middle income	High income	
	Limpopo	Eastern Cape	KwaZulu-Natal	Gauteng	Western Cape
	%	%	%	%	%
Food and non-alcoholic beverages	24,8	20,0	19,1	14,0	15,3
Clothing and footwear	7,5	6,4	6,3	5,4	4,2
Transport	16,4	21,5	20,8	24,0	26,1
Recreation and culture	4,0	3,8	5,2	5,7	6,5
Other	47,3	48,3	48,6	50,9	47,9
Total consumption expenditure	100,0	100,0	100,0	100,0	100,0

Source: IES 2005/2006

10(b) – IES 2000	Low income		Middle income	High income	
	Limpopo	Eastern Cape	KwaZulu-Natal	Gauteng	Western Cape
	%	%	%	%	%
Food and non-alcoholic beverages	36,9	32,8	29,3	22,1	22,9
Clothing and footwear	5,9	5,7	5,4	4,9	5,3
Transport	10,7	10,7	13,2	15,4	12,7
Recreation and culture	2,5	3,5	3,3	5,3	6,0
Other	44,0	47,3	48,8	52,3	53,1
Total consumption expenditure	100,0	100,0	100,0	100,0	100,0

Source: IES 2000

Food and non-alcoholic beverages (as a proportion of consumption expenditure) was highest in the low-income provinces of Limpopo and Eastern Cape, and lowest in the high-income provinces of Gauteng and Western Cape. This pattern is consistent with the analysis of expenditure by income group, and a similar pattern is evident in the case of clothing and footwear.

In transport and recreation and culture the pattern is reversed, as would be expected given the preceding analysis by income group. For instance, transport’s proportion was lowest in Limpopo (low income) and highest in Western Cape (high income).

Similar patterns are evident in IES 2000, shown in Table 10(b), although transport in Western Cape was an exception (slightly lower than KwaZulu-Natal).

Regarding changes in proportions from 2000 to 2005/2006 the provincial changes generally followed the national trend (Table 6), as was also observed in the analysis by income group and population group. There were large decreases in food and non-alcoholic beverages (as a proportion) and large increases in transport (as a proportion) across all provinces. Other categories in which the changes in proportion were consistent with the national direction of change were alcoholic beverages and tobacco; communication; and recreation and culture. In health the only province that showed a decrease was Mpumalanga, and in miscellaneous expenditure the only province that showed a decrease was Western Cape.

4.7 Transport

As a proportion of household consumption expenditure, transport increased from 13,2% in 2000 to 22,9% in 2005/2006 (Table 6). This sharp increase was largely the result of vehicle purchases. Measured as a proportion of transport alone, the purchase of vehicles component increased from 38,8% in 2000 to 57,6% in 2005/2006. The main components of transport are shown in Table 11.

Table 11 – Composition of transport expenditure

	% of total transport	
	IES 2000	IES 2005/2006
Purchase of vehicles	38,8	57,6
Operation of personal transport equipment	43,4	25,3
Transport services	17,9	17,1
Total	100,0	100,0

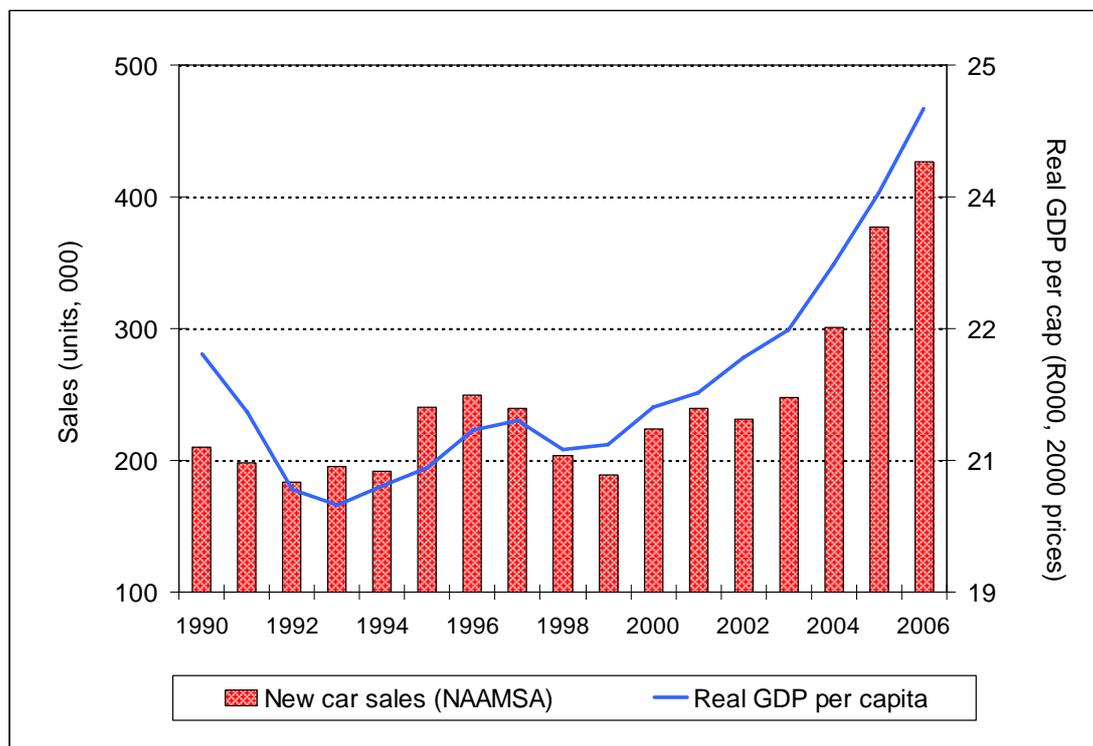
Source: IES 2000 and IES 2005/2006

Vehicle purchases include both new and used vehicles. New car sales were relatively stagnant over the period 1990–2003, but grew strongly over 2004–2006. Annual sales of new passenger cars reported by the National Association of Automobile Manufacturers of South Africa (NAAMSA) increased by 20% per year on average in the three years 2004–2006 (Figure 3).

Brisk growth in vehicle purchases during 2004–2006 reflected improving living standards as measured by real Gross Domestic Product (GDP) per capita, which on average increased by 3,7% per year in this period (see Figure 3). White households accounted for 60% of vehicle purchases in 2005/2006 (down from 67% in 2000), and black African, coloured and Indian/Asian households accounted for 40% (up from 33% in 2000), giving an indication of the relative growth in purchases by black African, coloured and Indian/Asian households in the middle/upper income groups.

The sensitivity of vehicle purchases to income is also evident in the 2005/2006 IES results by income decile in both absolute and relative terms. In the lowest income decile, vehicle purchases accounted for just 2,6% of consumption expenditure compared with 20,5% in the highest income decile and an average for all income deciles of 13,1% (excluding imputed rent).

Figure 3 – New car sales (NAAMSA) and real Gross Domestic Product per capita



Source: NAAMSA, South African Reserve Bank

Note that there was a change in methodology in the reporting of purchase of vehicles between IES 2000 and IES 2005/2006. In IES 2005/2006 expenditure was based on acquisitions, i.e. the price of a vehicle that was purchased by a household was recorded as expenditure regardless of whether it was by cash or credit. In IES 2000 expenditure was based on payments, i.e. an instalment payment was recorded as expenditure in respect of a vehicle that was purchased (acquired) in a previous time period. The impact of this change in measurement methodology is unknown, although the acquisitions approach may be more sensitive to the business cycle than the payments approach.

4.8 Housing, water, electricity, gas and other fuels

Owing to methodological changes in the measurement of housing costs, it is difficult to make comparisons with previous IESs for this category. Previous IESs reported mortgage payments as part of housing costs, but owing to the difficulty of measuring these reliably the IES switched to the concept of imputed rent in 2005/2006. It is this change in methodology (explained further below) that accounts for the exclusion of imputed rent and mortgage payments from the housing expenditure category in many of the expenditure tables and comparisons provided in this analysis.

The monthly mortgage payments of home owners comprise capital payments and interest payments. The split between the two changes over time and the monthly payment is sensitive to the mortgage interest rate. In IES 2005/2006 respondents were generally unable to report their capital and interest payments separately. Reliable separate reporting would have been desirable as it distinguishes between investment expenditure (capital) and consumption expenditure (interest). Home owners were also requested to estimate the hypothetical rental value of their homes, but their responses were considered unreliable. This has been the experience in household expenditure studies not only in South Africa but in most countries.

Consequently, IES 2005/2006 introduced the common international practice of estimating home owners' costs by using imputed rent in the case of homes that are owned and occupied by the owner. Industry experts were tasked with assessing rental yields based on the value of the property provided by the respondents; this resulted in an annual rental value of 7% of the value of the property, or, in the case of IES 2005/2006, R88,2 billion (7% of the total value of housing reported in the survey). It is this figure that accounts for the difference between the proportions for housing including imputed rent as a percentage of

consumption expenditure reported in Table 5 (23,6%) and housing in Table 6 (12,6%) (which *excludes* imputed rent).

In IES 2005/2006, imputed rent accounted for over half of housing, water, electricity, gas and other fuels, and actual rental expenditure accounted for approximately 15% (Table 12).

Table 12 – Composition of housing, water, electricity, gas and other fuels expenditure, IES 2005/2006

	% of total housing
Actual rentals for housing	15,2
Imputed rentals for housing	53,5
Maintenance and repair of the dwelling	7,4
Water supply and miscellaneous services relating to the dwelling	13,6
Electricity, gas and other fuels	10,4
Total	100,0

Source: IES 2005/2006

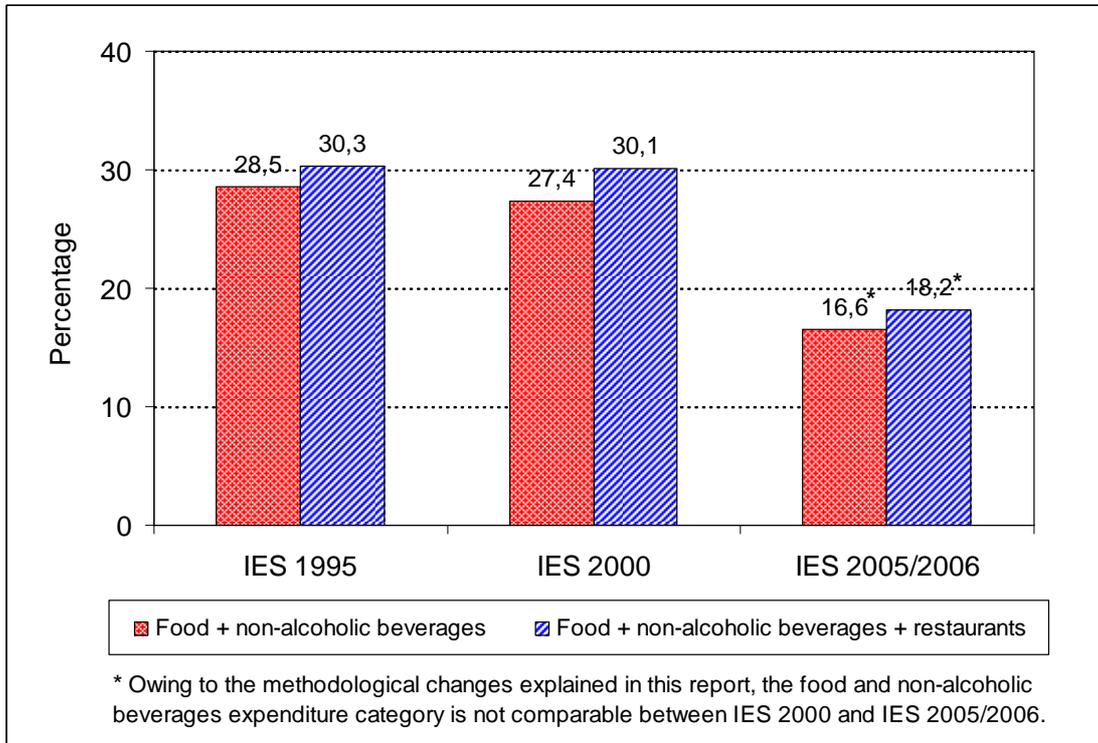
Measured as a proportion of consumption expenditure including imputed rent in IES 2005/2006, the total housing category (housing, water, electricity, gas and other fuels) was relatively stable across income deciles 1 to 7 at approximately 19% but rose to 26,3% in income decile 10. This was driven by imputed rent, which as a proportion of expenditure was in general positively correlated with income, e.g. it increased from 4,8% of consumption expenditure in income decile 1 to 17,1% in income decile 10. In contrast, electricity, gas and other fuels as a proportion of expenditure was generally negatively correlated with income, e.g. it decreased from 5,3% of consumption expenditure in income decile 1 to 1,3% in income decile 10.

4.9 Food and non-alcoholic beverages

As noted above, there was a substantial decline in expenditure on food and non-alcoholic beverages (as a proportion of consumption expenditure) from IES 2000 to IES 2005/2006. The decrease is illustrated in Figure 4, but as a consequence of the methodological changes introduced in IES 2005/2006 the two proportions (27,4% in 2000 and 16,6% in 2005/2006) are not comparable. The introduction of the diary method was noted above, and the repercussions are dealt with further below.

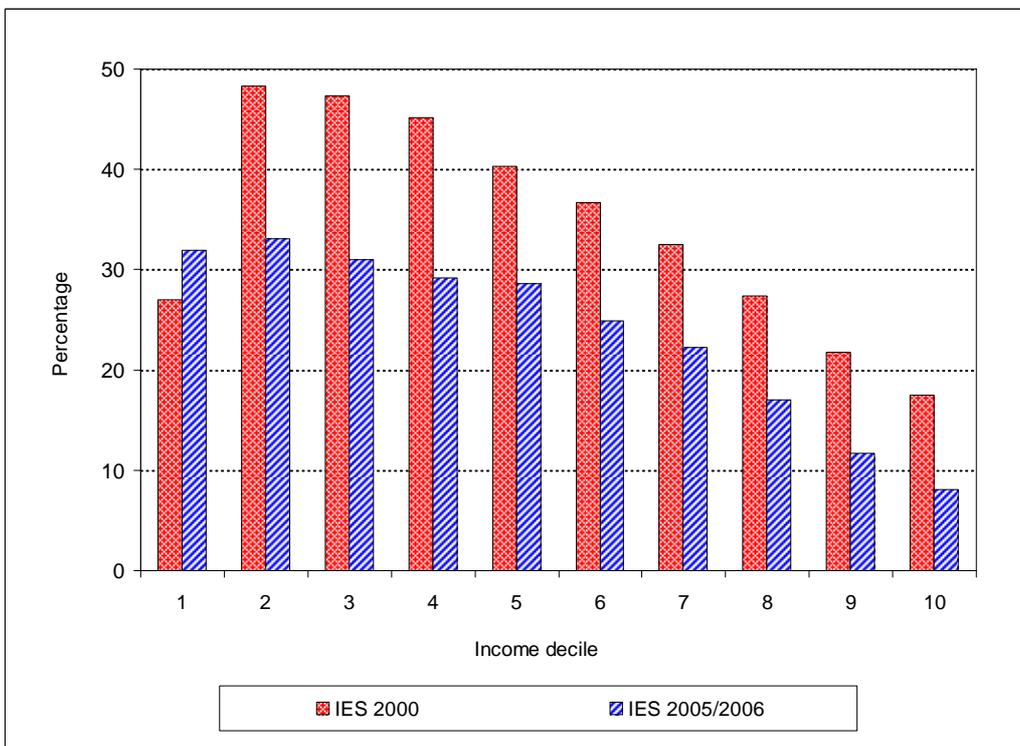
A contributing factor to the decline in food's proportion may have been the inverse correlation typically observed between food as a proportion of consumption expenditure and income, which increased over the period. The inverse correlation between food as a proportion of consumption expenditure and income was noted in the section above on consumption by income group, and is further illustrated in Figure 5. This shows expenditure on food (beverages excluded) as a proportion of consumption expenditure by income decile (where decile 10 represents the 10% of households with the highest income). In IES 2005/2006 the proportion fell from approximately 32% in decile 1 to approximately 8% in decile 10.

Figure 4 – Food and non-alcoholic beverages as a percentage of household consumption expenditure, excluding imputed rent, mortgage and other unclassified expenses



Source: IES 1995, IES 2000, IES 2005/2006

Figure 5 – Food as a percentage of household consumption expenditure, excluding imputed rent and mortgage, by income decile



Source: IES 2000, IES 2005/2006

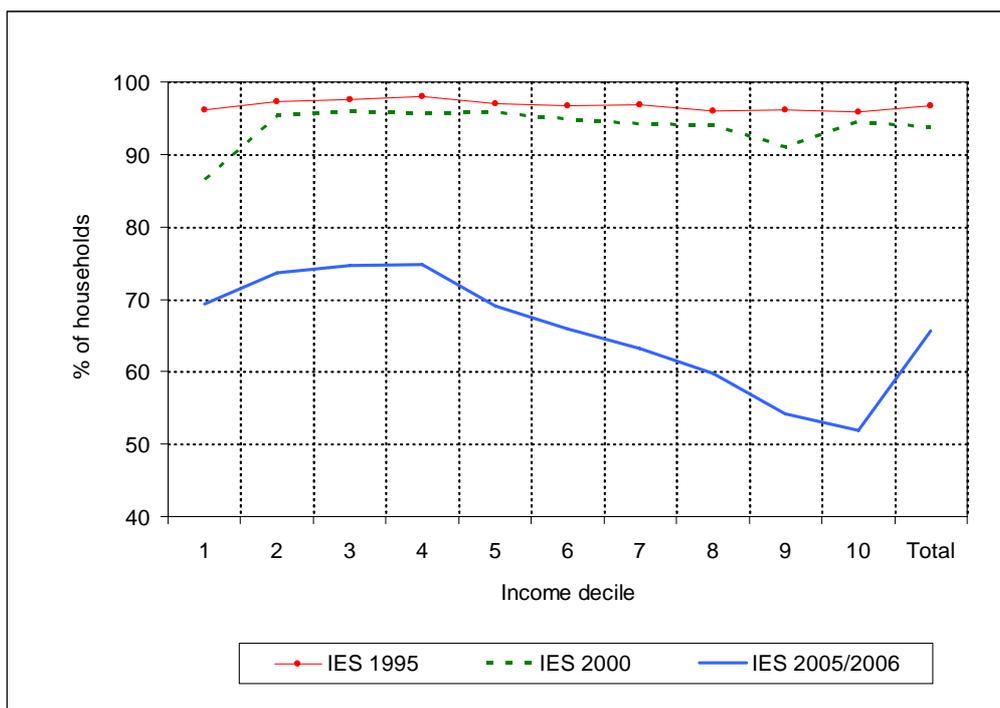
Figure 4 shows that food and non-alcoholic beverages as a proportion of consumption expenditure fell from 27,4% in 2000 to 16,6% in 2005/2006. If restaurant spending is included, the decline was from 30,1% to 18,2%. Notwithstanding the inverse relationship between income and share of budget allocated to food, and the rise in income between 2000 and 2005/2006, two factors suggest that the extent of the decline from IES 2000 to IES 2005/2006 is overstated. These are under-reporting on high-frequency purchases such as food when using a diary to keep records (IES 2005/2006) and over-reporting of expenditure when relying on recall (IES 2000). Further evidence is derived from an assessment of the rand value of food and non-alcoholic beverages in IES 2005/2006 in terms of other data sources such as Stats SA's business surveys, as well as from international comparisons of spending patterns.

Two possible reasons for the under-reporting of food expenditure by respondents in IES 2005/2006 are fatigue and the loss of receipts (till slips). Respondents may have found it difficult to keep track of all their grocery shopping and to diligently record long lists of food items in their diaries, and in cases where till slips were lost or thrown away the fieldworkers would not have been able to check the diaries or complete them on the respondents' behalf. The decline in personal care expenditure as a percentage of consumption expenditure from 4,3% in 2000 to 1,4% in 2005/2006 may also reflect under-reporting (personal care expenditure typically being high-frequency in nature).

In contrast, the reliance on recall in IES 2000 may have resulted in a degree of over-reporting of food and non-alcoholic beverages (and personal care) expenditure. High-frequency type items may have been erroneously reported as recent purchases when relying on memory rather than on a diary, the actual expenditure having taken place earlier than imagined by the respondent. The overestimation of purchases in the mind of the respondent when relying on memory is referred to as the telescopic effect.

Consider, for example, the case of sugar in IES 1995, IES 2000 and IES 2005/2006, shown in Figure 6. In 2005/2006, the proportion of households reporting at least some expenditure on sugar in the month in which they completed their expenditure diaries was generally below 75%, and declined from decile 4 to decile 10. The average proportion was 65%. Thus 35% of households did *not* report purchasing sugar in IES 2005/2006, and the implication is that higher-income households tend to purchase sugar less frequently than lower-income households. In contrast, almost all households (generally above 90%) reported sugar purchases in the surveys of 1995 and 2000. If this was partly the result of the telescopic effect, then the latter was equally powerful amongst households across the income deciles, despite the different propensities for different income deciles suggested in the 2005/2006 data.

Figure 6 – Percentage of households with non-zero sugar expenditure



Source: IES 1995, IES 2000, IES 2005/2006

International evidence indicates that food expenditure reported by recall tends to exceed expenditure reported by diaries in household surveys, and a similar finding was reached in a small "post-enumeration survey" conducted by Stats SA in September 2007. In this survey a similar diary and questionnaire to those of IES 2005/2006 were used, except that respondents were required to report their purchases of food, beverages and personal care items both by diary and by recall. All 651 households that participated in the study recorded their expenses for September 2007 using a diary, and they were also required to estimate by recall their expenses for August 2007 (approximately one-third of the sample), September 2007 (approximately one-third of the sample) and a "normal" month (approximately one-third of the sample). On average, expenditure by recall was 45% higher than expenditure by diary in the case of food and non-alcoholic beverages, and 212% higher in the case of personal care.

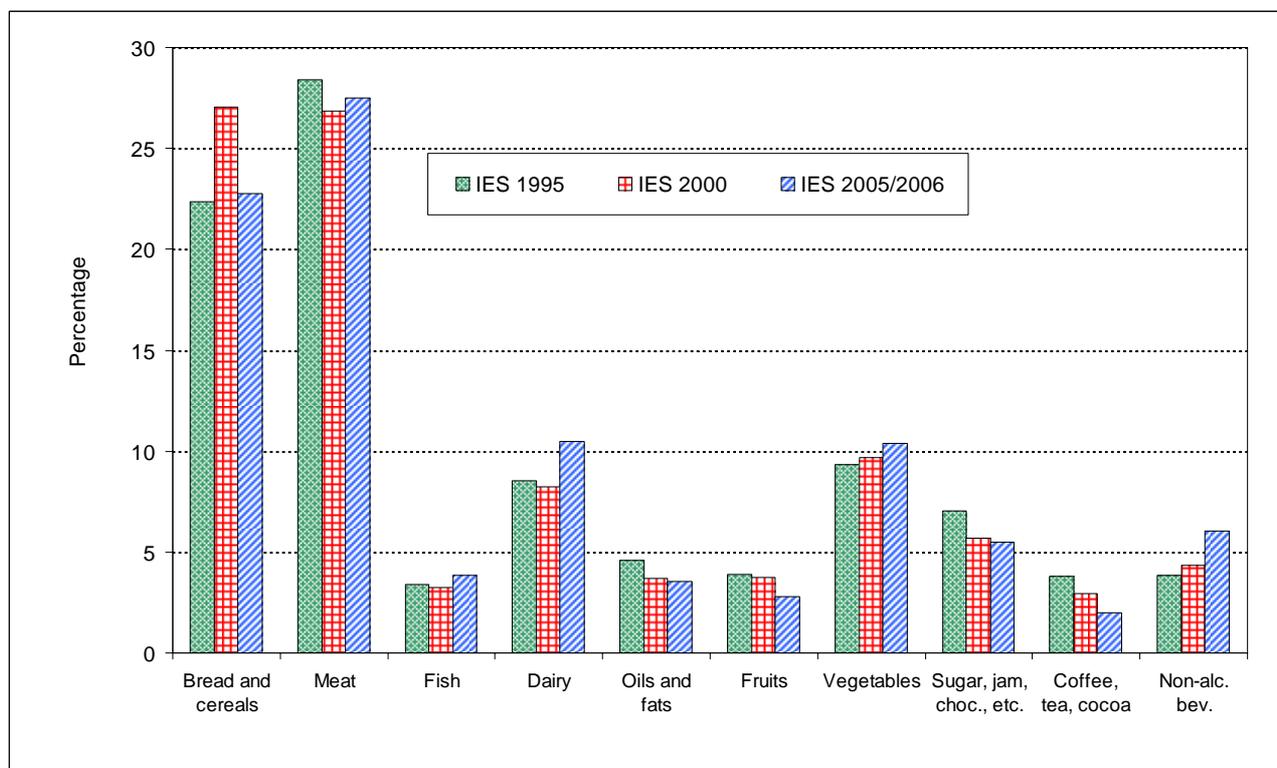
From Table 5, food and non-alcoholic beverages was 14,4% of total consumption expenditure in IES 2005/2006 (where imputed rent is included in the total). A comparison of the corresponding rand values with Stats SA's business surveys indicates that there was under-reporting of food and non-alcoholic beverages in IES 2005/2006. Further evidence of under-reporting is that the proportion of 14,4% appears low for a country at South Africa's stage of development when compared with a range of low-, middle- and high-income countries.

The IES is the principal data source for updating the goods and services included in the Consumer Price Index (CPI) and determining their weights. It is not the only source, however, and the International Labour Organisation CPI manual recommends the use of supplementary information where there is evidence of under- or over-reporting in the IES. Stats SA is in the process of updating South Africa's CPI weights, which will be implemented in January 2009 (and will be announced well before then). The supplementary evidence available to Stats SA is strongly supportive of an upward revision in the rand value of food and non-alcoholic beverages as reported in IES 2005/2006 in the determination of the new CPI weights. The impact of such a revision would be to assign a CPI weighting to the food and non-alcoholic beverages category that is higher than indicated by the IES 2005/2006 results considered in isolation.

Similarly, in the updating of the CPI weights supplementary evidence supports upward revisions to the rand values of alcoholic beverages and tobacco reported in IES 2005/2006. These items are notoriously under-reported by respondents in household surveys, and once the new CPI weights have been announced researchers may wish to take them into account in their analysis of the IES 2005/2006 results. Personal care is another expenditure category in which an upward revision in rand values for the purpose of updating the CPI weights is indicated.

For the purpose of determining the detailed breakdown of CPI weights within the food and non-alcoholic beverages category, IES 2005/2006 provides the required information. The IES contains a full breakdown of expenditure on individual types of food and non-alcoholic beverage items. Figure 7 illustrates that within food and non-alcoholic beverages expenditure, the composition of the category was relatively consistent in 2005/2006 compared with the earlier surveys. For instance, bread and cereals ranged between 22,4% (1995) and 27% (2005/2006); meat ranged between 26,8% (2000) and 28,4% (1995); and vegetables ranged between 9,3% (1995) and 10,4% (2005/2006).

Figure 7 – Composition of food and non-alcoholic beverages (excluding food items that were not classified)



Source: IES 1995, IES 2000, IES 2005/2006

4.10 Comparison between the IES and national accounts

The South African Reserve Bank (SARB) publishes the final consumption expenditure by households in the expenditure-based estimates of the GDP, and a breakdown of household final consumption expenditure “according to purpose”. Table 13 provides an adapted breakdown of IES 2005/2006 consumption expenditure to compare expenditure patterns between the IES and the national accounts.

Comparisons between the IES and the national accounts should take into account the definitional differences in the expenditure categories. For example, the purchase of used vehicles is included in the IES but of course is excluded from the national accounts (except for the trade margin charged by dealers). The two health measurements are also different in their treatment of medical aid claims and contributions.

In Table 13 the two main differences between the IES 2005/2006 and national accounts expenditure patterns occur in food, beverages and tobacco and housing, water and power.

Food, beverages and tobacco made up 26,2% of the national accounts total in 2005/2006, which was just slightly higher than the sum of these items’ weights in the existing headline CPI. In IES 2005/2006 the proportion was just 15,6% of the total. The evidence of under-reporting of food in IES 2005/2006 was discussed above, and alcohol and tobacco purchases as reported in household surveys are typically lower than indicated by other data sources. As stated above, this information will be taken into account in updating the CPI weights.

The housing, water and power proportions are also substantially different, but in this case higher in IES 2005/2006 (23,6% of the total) than in the national accounts (13% of the total). The difference is partly explained by a higher rand value of housing, water and power in IES 2005/2006 than in the national accounts. The greater part of the explanation lies in the much higher rand value of total consumption expenditure in the national accounts than in the IES, which is a common outcome of household surveys internationally. The rand values of all the expenditure categories shown in Table 13 are lower in the IES than in the national accounts, with the one exception of housing, water and power. In total, household

consumption expenditure in IES 2005/2006 was approximately 67% of household consumption expenditure in the national accounts.⁷

Table 13 – Comparison of IES 2005/2006 household consumption expenditure with national accounts estimates of final consumption expenditure by households according to purpose (percentage of total)

	IES 2005/2006	National Accounts 2005/2006
	%	%
Food, beverages and tobacco	15,6	26,2
Clothing and footwear	5,0	5,8
Housing, water and power	23,6	13,0
Household furnishings, equipment and maintenance	6,9	7,8
Health	5,1	8,4
Transport	19,9	17,5
Recreation and culture	4,6	4,2
Education	2,4	3,1
Catering and accommodation	2,2	2,7
Other consumption expenditure	14,8	11,4
Total	100,0	100,0

Note 1: National accounts aggregates are a weighted average of 2005 and 2006 data; since IES 2005/2006 covered the period September 2005 to August 2006, a weighted average of national accounts data was constructed for comparison: one-third of 2005 (4 out of 12 months) and two-thirds of 2006 (8 out of 12 months)

Note 2: In this table health insurance (including medical aid) is included in IES health

Source: IES 2005/2006, South African Reserve Bank

⁷ Recall that gross income excluding imputed rent in IES 2005/2006 was 72% of the national accounts level (see Figure 1 and Table 3).

5. Measuring inequality

5.1 Income and expenditure

Table 14 shows the IES 2005/2006 income and expenditure means and medians by decile (gross income per household and consumption expenditure plus taxes per household). Decile 10 mean income was 94 times higher than decile 1 mean income, and decile 10 expenditure was 55 times higher than decile 1 expenditure, indicating a high level of inequality. Even within decile 10 there was wide variation (both income and expenditure). Note the relatively large differences between mean and median in decile 10. The lower level of dispersion in expenditure relative to income is to be expected as there is likely to be less variation in expenditure than in income.

Table 14 – Summary statistics of annual household income and expenditure, IES 2005/2006

	Mean	Median	Coefficient of variation
	Rand per annum	Rand per annum	
Income			
Decile 1	4 314	4 509	0,43
Decile 2	9 592	9 812	0,12
Decile 3	13 300	13 314	0,08
Decile 4	17 630	17 525	0,08
Decile 5	22 981	22 841	0,08
Decile 6	30 534	30 277	0,09
Decile 7	43 589	43 152	0,11
Decile 8	69 540	68 527	0,15
Decile 9	128 846	125 092	0,20
Decile 10	405 646	290 253	0,89
Total	74 588	26 291	2,18
Expenditure			
Decile 1	5 775	5 995	0,29
Decile 2	9 885	9 932	0,10
Decile 3	13 352	13 389	0,08
Decile 4	16 956	16 936	0,06
Decile 5	21 238	21 114	0,07
Decile 6	27 255	27 203	0,08
Decile 7	36 986	36 787	0,10
Decile 8	57 340	56 574	0,15
Decile 9	107 671	104 824	0,21
Decile 10	320 295	250 750	0,66
Total	61 669	23 847	1,84

Note: Income refers to gross income (including imputed rent) and expenditure refers to consumption expenditure plus taxes (per household in each case)

Source: IES 2005/2006

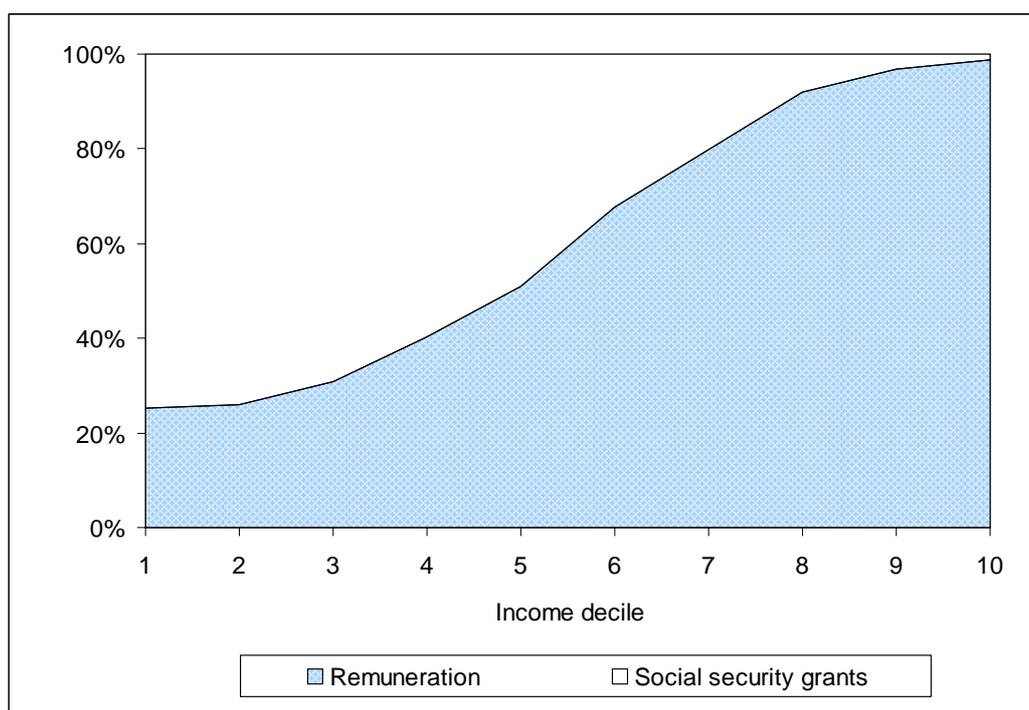
5.2 Sources of income

Households differ widely in terms of their main income sources across the income distribution. The relative importance of different sources of income for South African households differs by income group. These sources include income from work (salaries, wages, self-employment and business income); grants and other income derived from the state social security system; capital-related income; private pensions; annuities; and imputed rent, amongst others. Only two main income types are examined here, namely income from work and social security grants. Imputed rent does not represent any actual flow of funds, and other income categories were either small or poorly reported by respondents in IES 2005/2006.

Poor households, being more likely to be home to unemployed individuals of working age, are far less able to access wage and salary income. Consequently, poorer households are characterised by low shares of income from work. Figure 8 shows that, in general, the poorest households are highly dependent on social grants as a source of income. The state plays an important role in supplementing the incomes of poorer households through the various state grants. Chief amongst these are state old age pensions and child support grants.

Income from work is by far the dominant, but not the only, income source for households at the upper end of the income distribution (Figure 8). Income from capital was too unreliably reported in IES 2005/2006 to judge its true contribution to gross income, but other data sources indicate that capital-related income plays an important role in high-income households.

Figure 8 – Contribution of income from work and social security grants to income from these two sources (percentage of total), by income decile, IES 2005/2006



Source: IES 2005/2006

5.3 Distribution of income and income inequality

An analysis of income (excluding imputed rent) across income groups between 2000 and 2005/2006 reveals that mean real per capita income increased in all deciles. But the increases were uneven, with above-average increases occurring in deciles 1, 2, 3 and 10, and below-average increases occurring in deciles 4 to 9 (Table 15).

Table 15 – Percentage change in mean real per capita income (excluding imputed rent) from IES 2000 to IES 2005/2006, by income decile and based on constant 2000 values

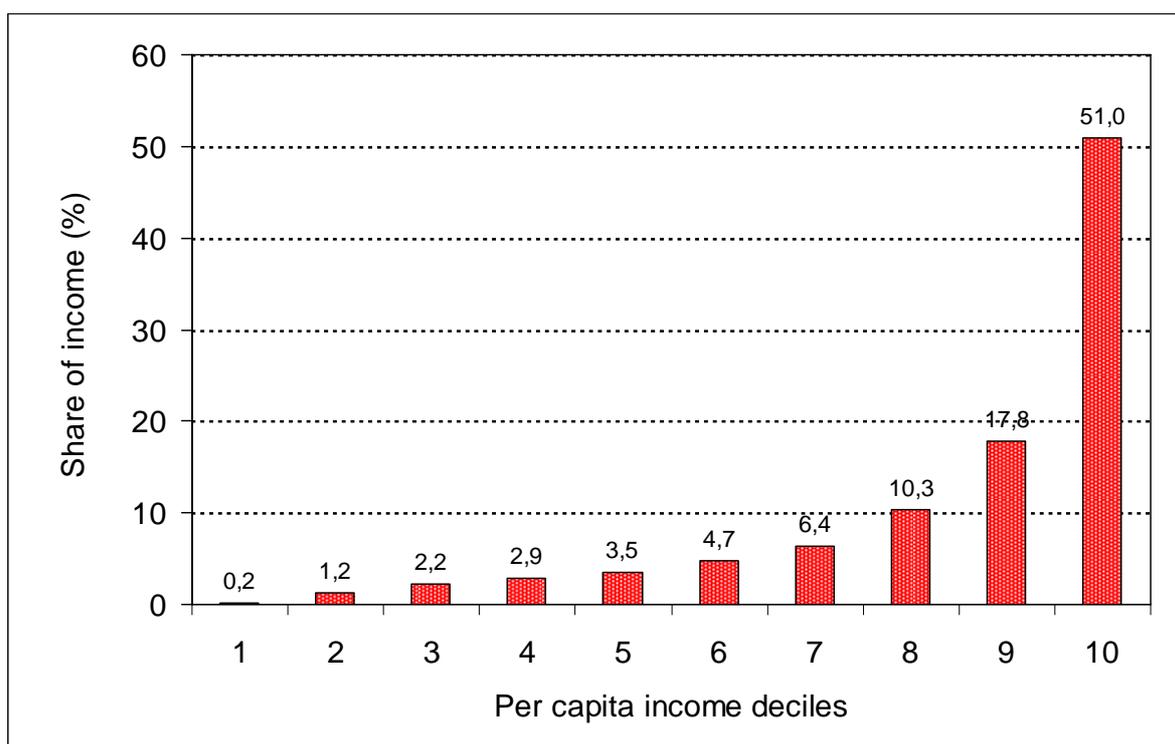
Income decile	1	2	3	4	5	6	7	8	9	10	Total
% change from IES 2000 to IES 2005/2006	79	41	36	31	29	26	28	25	26	37	33

Note: Nominal incomes were converted to real incomes using the CPI

Source: IES 2000 and IES 2005/2006

Even with the exclusion of income from capital, IES 2005/2006 confirms the well established finding of high income inequality in South Africa. Figure 9 confirms the skewed distribution of household income from work and social security grants, although here the deciles are based on per capita household income rankings and each contains 10% of the *population*, as opposed to 10% of *households*.⁸ Figure 9 indicates that the top 10% of the population and the bottom 90% of the population each account for approximately 50% of household income reported in IES 2005/2006. Decile 1 accounts for a mere 0,2% of total income, with approximately 660 000 households reporting no income from work and no social grant income. Decile 2 accounts for 1,2% of total income, compared with 2,2% in decile 3. By decile 6, the decile's share of total income is still under 5%. The poorest 40% of the population thus accounts for less than 7% of total household income, with the poorest 20% accounting for less than 1,5% of income.

Figure 9 – Distribution of household income across deciles, IES 2005/2006



Note: Household income includes only income from work (salaries, wages, self-employment and business income) and social security grants
 Source: IES 2005/2006

Income inequality is clearly evident between the population groups in the 2005/2006 data. The black African population group accounted for 79,4% of the population (76,8% of households), and received 41,2% of household income from work and social security grants (Table 16). The white population group accounted for 9,2% of the population (12,8% of households), and received 45,3% of income. The coloured population group accounted for 8,8% of the population (7,8% of households), and received 8,6% of income. The Indian/Asian population group accounted for 2,5% of the population (2,5% of households), and received 4,8% of income.

⁸ The main reason for using per capita household income deciles that divide the South African population into ten equal groups has to do with households' behaviour. Essentially, using per capita household income deciles groups households of similar behaviours to a greater degree than simple household income deciles. This is because a household of four members earning R10 000 per month (R2 500 per capita) arguably has more in common in terms of its spending patterns with a household of two members earning R5 000 per month (R2 500 per capita), than it does with a household of two members earning R10 000 per month (R5 000 per capita). Since much of our analysis deals with spending behaviour, per capita household income deciles dividing the population into 10 groups of 10% are generally used in this analysis.

Thus, the white population's share of household income was 5 times their share of the population, and that of Indians/Asians was almost twice their population share, while black Africans' share of household income was approximately half their population share. Only for coloureds were the shares of household income and of the population closely aligned.

Table 16 – Share of household income within per capita household income deciles, by population group, IES 2005/2006

Decile	Black African	Coloured	Indian/Asian	White	Total
	%	%	%	%	R billion
1	93,2	3,2	0,5	3,0	1,1
2	94,2	4,0	0,8	1,0	9,0
3	93,0	5,4	0,4	1,1	16,2
4	90,3	7,9	0,8	1,0	21,5
5	83,6	12,0	2,6	1,7	26,2
6	78,7	16,0	2,7	2,6	35,4
7	78,7	13,6	2,4	5,0	47,6
8	63,7	12,9	7,0	16,1	76,7
9	47,8	11,4	6,8	33,8	133,0
10	17,0	5,5	4,7	72,7	381,0
Total	41,2	8,6	4,8	45,3	747,6
Shares of Population	Black African	Coloured	Indian/Asian	White	Total
	%	%	%	%	million
Population	79,4	8,8	2,5	9,2	47,4
Households	76,8	7,8	2,5	12,8	12,5

Note 1: Household income includes only income from work (salaries, wages, self-employment and business income) and social security grants

Note 2: Shares may not add horizontally to 100,0% owing to the omission of the "other" population (not classified)

Source: IES 2005/2006

Table 16 provides further insights into the nature of income inequality between the income deciles and between the population groups. The 10% of the population in the lowest income decile shared R1,1 billion, whereas the 10% of the population in the highest income decile shared R381 billion. Within the top income decile the white and black African population groups accounted for 72,7% and 17% of income respectively.

The most widely used measure of the degree of inequality in a household income distribution is the Gini coefficient. The lower the value of the Gini coefficient, the more equally household income is distributed. A Gini of 0 denotes perfect equality (all individuals in the population receive the same income), while a Gini of 1 denotes perfect inequality (one individual in the population earns everything).

Table 17 presents Gini coefficients for income and expenditure, as well as for disposable income by population group. The coefficients are based on the definition of household income indicated above, namely income from work and from social security benefits.⁹

⁹ It is worth noting that these Gini coefficients are higher than those often recorded and are not directly comparable, as the weights used for both per capita income and per capita expenditure were the household weight times household size, in contrast to other procedures that use only household weight without household size.

The Gini coefficients confirm the relative inequality of income and expenditure predicted earlier: the distribution of income is slightly more unequal than the distribution of expenditure, irrespective of whether taxes and contributions are included as expenditure. Although the inclusion (or exclusion) of taxes and contributions does not alter the Gini coefficient significantly, the difference in inequality between (disposable) income and expenditure, as measured by the Gini coefficient, is statistically significant at a 95% confidence level.

Table 17 – Gini coefficient estimates of income and expenditure inequality

Variable	Gini coefficient
Income (from work and social security benefits)	0,73
Disposable income	0,72
Expenditure (including taxes)	0,69
Expenditure (excluding taxes)	0,67
Disposable income:	
Black African	0,63
Coloured	0,59
Indian/Asian	0,57
White	0,56

Note: Estimates of the Gini coefficient are individual-level estimates, using household size and household-level data. Income here includes only income from work (salaries, wages, self-employment and business income) and social security grants; disposable income is calculated as income (from work and social security grants) less taxes and contributions (income tax and contributions to the Unemployment Insurance Fund)

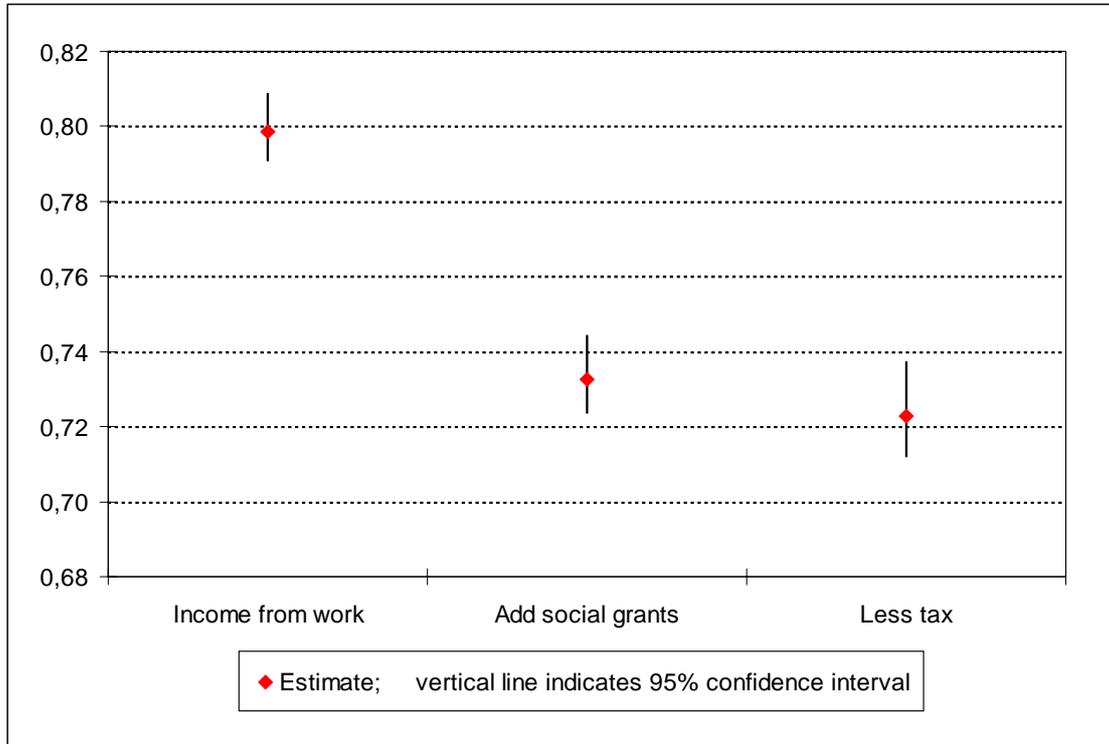
Source: IES 2005/2006

The Gini coefficients for each of the four population groups measured individually are also shown in Table 17, based on disposable income. On this measure, inequality was highest within the black African group. The white group's Gini coefficient was estimated to be lower than those of the coloured and Indian/Asian groups, but the confidence intervals of these three groups overlapped each other. Consequently it is difficult to conclude with any certainty that inequality within the white group was significantly different from inequality within the coloured or Indian/Asian groups.

The expansion of the social welfare system in post-apartheid South Africa has played an important role in supporting incomes at the lower end of the distribution. The impact that this has had on alleviating inequality is illustrated in Figure 10, which shows estimates of the Gini coefficient for various income aggregates. Inequality in terms of income from work is extremely high, with a Gini coefficient of 0,80. Social security grants paid by government to households, however, make a significant impact on inequality, lowering the Gini coefficient to 0,73, a decline of seven percentage points. This reduction in the level of inequality is statistically significant at a 95% confidence level.

Taking taxation into account reveals no statistically significant impact on inequality. The inability to discern an inequality-reducing effect of South Africa's progressive income tax system may be related to the poor capturing of income tax in IES 2005/2006. Thus, even though the distribution of income tax paid across deciles presented earlier is as expected, the fact that the total amount of income tax paid is substantially underestimated means that income taxes do not display a significant impact on measured inequality. Another argument against dismissing any "direct" tax impact on lowering the Gini coefficient is that without the collection of household income tax social security grants would not be affordable.

Figure 10 – Gini coefficient estimates and the impact of taxation and social grants



Note: Estimates of the Gini coefficient are individual-level estimates, using household size and household-level data; “Income from work” refers to income from work activities, “Add social grants” refers to income from work activities *plus* social grants, and “Less tax” refers to income from work activities *plus* social grants *less* income taxes and contributions
 Source: IES 2005/2006

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