Earning and spending in South Africa

Selected findings of the 1995 income and expenditure survey

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Preliminary estimates of the size of the South African population, based on the population census conducted in October 1996, were issued by the CSS in July 1997. These indicate that there are fewer people (37,9 million) in the country, and that urbanisation (55%) has been more rapid, than was previously realised.

The new census numbers may have an effect on some of the weights and raising factors that were used in this report, since these are presently based on projections of population and household size to 1995, using the 1991 census estimates as baseline.

The new CSS management believes that the model used to adjust the actual count of people found in the 1991 census probably overestimated population growth rates in the country, hence overestimating the size of the population and number of households.

The number of people, the number of households and the percentages reported here will therefore probably need to be modified at a later date when the CSS has more complete information about household size and distribution of the population by race and age from Census '96. Nevertheless, these overall trends should be accepted as indicative of the broad income and expenditure patterns of South African households during 1995.

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Introduction

Background

Political democracy in South Africa is, after many years of struggle, at last a reality. The new constitution (Act 108 of 1996) is founded on a set of values which embody non-racialism, non-sexism, respect for human dignity, equality, human rights and freedom for all. Explicit discrimination and denial of human rights, which formed the basis of the apartheid past, has been rejected by most South Africans.

Despite these recent advances in democracy, socio-economic deprivation and profound contrasts in life circumstances along racial, urban-rural and gender divides, persist. Although South Africa is a middle-level income country, comparable with Brazil, Chile, Malaysia, Poland, Thailand and Venezuela (World Bank/SALDRU, 1995), it is characterised by gross inequalities, partially the legacy of apartheid policies.

- Income distribution in South Africa is extremely unequal, comparable to other countries which have very large gaps between rich and poor (World Bank/SALDRU, 1995).
- Access to basic services, such as clean water and sanitation, is also highly unequal (Central Statistical Service, 1996).
- South Africa fares particularly badly in international comparisons of social indicators, such as life expectancy, infant mortality and illiteracy (World Bank/SALDRU, 1995).

The government is committed to improving the life circumstances and quality of life of all South Africans, particularly those who were previously disadvantaged. To meet this challenge, and to plan and implement change, a variety of role-payers – government, the private sector, trade unions and other institutions of civil society – require accurate information on a range of aspects of South African life. The Central Statistical Service (CSS), with its vast numbers of data collections, is the most appropriate agency to provide such data.

This CSS report addresses the need for information of a particular type. It is a summary of the main findings of the October 1995 *income and expenditure survey* (IES), and describes the large differences in income distribution and expenditure patterns among South African households.[1]

[1] In this report, the term household refers to all people who live together for at least four days a week, who eat together and who share resources.

Reasons for conducting an income and expenditure survey

There are numerous ways of collecting information on household income and expenditure. For example, people in selected households may be asked to keep receipts of all their purchases, or keep a diary of all expenditure over a specified time period. In addition to, or instead of these methods, a household survey can be conducted. Due to the relatively low level of literacy in South Africa, and the associated difficulty of record-keeping for many people, the CSS chose the route of utilising households for its October 1995 income and expenditure survey.

Through the IES, the CSS determined the proportion of expenditure in an average household, or in sub-groups of various types of households, that went towards purchasing each of a variety of goods and services, such as food, housing, transport and recreation. On the basis of this information, weights for each item of expenditure, based on household averages, or on other classification variables, were calculated.

Calculation of the CPI

The main purpose of the 1995 IES was to collect base-line information on household income and expenditure patterns for re-weighting the consumer price index (CPI).

In South Africa, the CPI is generally calculated in two stages.

Stage one
Firstly, information is collected from households in which questions are asked on:

- All *sources* of household income over a given time period.
- Total *household income* during this time, including salaries and wages, other earned income, remittances, pensions, grants and income from investments, interest, etc.
- The overall *expenditure* of the household on all goods and services during the specified time period.
- The *types of* goods and services that the household *purchases.*
- The *amount of money spent on each type of purchase* during the specified time period.

Thereafter, the total expenditure of all households in the sample during the specified time period is raised to represent expenditure in all households in the country. From this new total, the CSS calculates the average annual expenditure per commodity or service, per household.

The CSS can also calculate the total annual expenditure, and average annual expenditure for each type of commodity or service, for various sub-groups of households – very low, low, middle, high and very high expenditure groups, for example. This can also be done for households in diverse geographic areas in different parts of the country, which can be broken down into metropolitan (metro), urban and rural areas.

In the past, the IES was conducted only among households in what were regarded as the 12 main urban areas of South Africa.[2] Smaller towns and rural areas were excluded from the sample. But, in 1995, the whole country was included in the survey for the first time. This is discussed in a later section.

Stage two
In the second stage of calculating the CPI, the CSS collects the prices of all items of expenditure from different outlets.

- Prices are collected monthly, quarterly or even annually, depending on the type of outlet.
- Most prices, for example the prices of different kinds of food, are obtained by conducting monthly postal surveys in retail outlets such as supermarkets, using the first week of the month as the point of reference.
- However, the prices of some products and services – furniture, for example – are obtained from surveys of appropriate retail outlets on a quarterly basis, taking the first week of the month of that particular quarter as the point of reference. These quarterly prices are not all collected at the same time. Some, for example, are collected in March, June, September and December, while others are collected in February, May, August and November.
- The prices of yet other products and services, for example costs of medical aid and hospital fees, are obtained on an annual basis, or when they change.
- Obtaining these prices involves sending out and following up 6 000 questionnaires a month in 60 different formats, covering approximately 600 items.

In the past, the prices of goods and services were obtained in selected retail outlets in the same 12 main urban areas of the country[3] where the household survey was conducted, but these outlets have now been extended, as discussed in the following section.

Changes in the calculation of the CPI, based on the 1995 IES

The CSS has recently introduced, and is continuing to initiate, a series of changes in the calculation of the CPI, in both stage one and stage two.

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2 The 12 areas are the Cape Peninsula, Port Elizabeth-Uitenhage, East London, Kimberley, Bloemfontein, Free State Goldfields (Welkom-Virginia-Odendaalsrus), Durban-Pinetown, Pietermaritzburg, Pretoria-Centurion-Akasia, Witwatersrand, Vaal Triangle (Vereeniging-Van der Bijl Park-Sasolburg) and Klerksdorp-Stilfontein-Orkney.

3 Two extra urban areas were added in 1994 for the collection of retail prices, even though no information was available on buying patterns in these areas, to ensure coverage of at least one retail outlet in all of the nine new provinces of South Africa. The new areas are Nelspruit, Witbank and Pietersburg, to cover Mpumalanga and the Northern Province.

Stage one changes
The 1995 IES differed from previous household surveys of its kind in South Africa, since it was a *countrywide* survey covering metro, urban and rural areas, rather than a more limited sub-set of households in 12 major metro/urban areas of the country previously referred to. By extending the sample to include the whole country, a clearer indication of the life circumstances of *all* South Africans in *all* parts of the country can now be inferred.

Previously, only three income categories were used for the calculation of the CPI, with the lowest category including 78% of African households in the 12 main urban areas. In the 1995 IES, five approximately equal income groups (very low, low, middle, high and very high), each containing approximately 20% of households, and five expenditure groups, based on quintiles,[4] were derived. For reasons which will appear later in this report, income quintiles were used to describe differences in the distribution of income among various categories of households, for example households in urban versus households in rural areas; while expenditure quintiles were used to identify expenditure patterns among households falling into very low, low, middle, high and very high expenditure categories.

The effect of these changes in the 1995 IES sample, and the increase in the number of income categories, is that the country now has a clearer indication of the buying patterns of households ranging from the very poor to the very wealthy, living in metro, urban and rural areas.

Stage two changes
In the collection of information from retail outlets, the CSS now includes small towns. Since March 1997, it has published an inflation rate for small-town areas in the provinces, in addition to the major urban areas covered hitherto. This has involved a 50% increase in the number of price-questionnaires issued and processed.

The importance of calculating a rural CPI

The CSS cannot, at present, collect prices from outlets in rural areas: this type of collection is very expensive and the necessary funding is not available. However, if finance can be raised, the CSS plans to measure and publish a rural CPI. As a large proportion of South Africa's households are situated in non-urban areas, this is of obvious importance. A rural CPI will enable decision-makers to obtain as complete a picture as possible of income and expenditure patterns, and the effects of inflation, in all parts of the country, rather than just in urban areas, as was previously the case.

This is of major importance: although households in non-urban areas may spend relatively little compared to those in urban areas, inflation may have a greater effect on the ability of rural households to survive where incomes do not keep up with inflation. More extensive information on spending patterns in rural areas will facilitate planning, programme

[4] Quintiles divide a data set into five approximately equal groups, each group containing about 20% of the total number of households.

development and poverty monitoring at all levels of government – national, provincial and local.

The focus of this report

In describing the findings of the 1995 IES, this report paints a picture of how income is distributed in South Africa by using the five *income* quintiles. It also examines expenditure patterns in households falling into very low, low, middle, high and very high *expenditure* groups.

The race and gender of the head of household,[5] and other variables such as province and the location of the household in an urban or non-urban milieu, are used as explanatory variables to describe income and expenditure patterns.

The research process

The questionnaire design
The 1995 IES questionnaire, in the same vein as the previous one, contains questions about all sources of household income. It also covers the purchase of a wide variety of products and services, including new items such as cellular telephones.

Drawing a sample
Two surveys, namely the CSS's annual *October household survey* (OHS) and the IES were run concurrently during October 1995.

- Information for the IES was obtained, as far as possible, from the same 30 000 households that were visited for the 1995 OHS.
- Altogether, 3 000 enumerator areas (EAs) were drawn for the sample, and ten households were visited in each EA.
- The sample was stratified by race, province, urban and non-urban area.
- The 1991 population census was used as a frame for drawing the sample, including estimates of the size of the population in the formerly independent TBVC (Transkei-Bophuthatswana-Venda-Ciskei) states.
- More details on the sampling frame and sampling procedure are given in the report on the 1995 OHS, *Living in South Africa* (CSS, 1996).

[5] The head of household is defined here as the person who is the main breadwinner in the household, or if the main breadwinner does not live in the household, for example, if he or she is a migrant worker, the person who assumes responsibility for decision-making in the household.

The fieldwork
Throughout South Africa, information was collected through face-to-face interviews in the 30 000 households which formed the sample. Field workers first administered the OHS questionnaire, and returned at a slightly later date to administer the questionnaire for the IES.

Data capture
Data capture of both the 1995 OHS and the IES took place at the head office of the CSS. Where possible, this process involved linking the information contained in the 1995 OHS with that contained in the IES.

Raising the sample to the population
Data collected on households were raised to the estimated number of households in the country in the various provinces, according to the proportions found in urban and non-urban areas in the 1991 census. All further discussions in this report are based on these raised figures.

Calculating new weights for the CPI
For the sample as a whole, weights were allocated for each item of expenditure according to the proportion of annual disbursements for that particular item by the average household. In addition, the same procedure was followed for households in each quintile.

Identifying income and expenditure quintiles
Two different sets of quintiles were obtained – those based on annual household income and those based on annual household expenditure.

To calculate income quintiles, information obtained on all sources of annual income for each household was used. This total annual income was divided, as closely as possible, into five groups or income categories, as indicated in Table 1. To calculate annual expenditure quintiles, the same procedure was used.

Table 1: Annual income and expenditure quintiles

	Quintile 5 (bottom quintile) Range	**Quintile 4 Range**	**Quintile 3 Range**	**Quintile 2 Range**	**Quintile 1 (top quintile) Range**
Income	R400-6 868	R6 869-12 660	R12 691-23 940	R23 941-52 800	R52 801 +
Expenditure	R332-6 340	R6 341-11 589	R11 590-21 908	R21 909-49 497	R49 498 +

Undeclared income and expenditure in the process of identifying quintiles was dealt with in the following way:

- If a household did not indicate a total annual income, but did indicate total annual expenditure, the amount of total annual expenditure was used as a proxy for annual household income.
- If a household did not indicate its total annual expenditure, but did indicate its total annual income, total annual income was used as a proxy for annual household expenditure.
- The debate over whether income or expenditure should be used to describe the economic situation in households was taken into account by examining the relationships between them.
- A high correlation between the two measures ($r=0,98$; $p<0,001$) was found. As a result, we chose to describe the overall economic situation in households in terms of income quintiles, and the expenditure patterns of households in terms of their expenditure quintiles.

Data analysis and report writing

After data processing, a series of tables and cross-tabulations were obtained. This summary report is based on those tables.

Raising factors and weights used for analysis of the 1995 IES

As already indicated, estimates using the 1991 census formed the basis for the calculation of raising factors and weights.

However, preliminary estimates based on the October 1996 population census have shown that the population of 37,9 million people in South Africa is smaller, and urbanisation more rapid, than was previously thought. These preliminary estimates are based on a limited set of variables from Census '96. For example, the CSS does not as yet know the number of households in the country, only the number of questionnaires that were completed during Census '96. Since this particular data set looks specifically at *household* incomes and expenditure, it is not at this stage possible to take the new 1996 census-based population estimates into account. The numbers and percentages in this report should, therefore, be regarded as indicative of patterns and trends, rather than as definitive numbers or proportions.

Section 2
The main findings regarding incomes

Introduction

It is well-known that incomes in South Africa are unevenly distributed by race,[6] gender and urban/non-urban areas[7] of residence. But findings based on the 1995 IES indicate the extent of these inequalities. These income distributions serve as base-line indicators for future monitoring of change in income distributions. In future years, for example, we shall be able to measure whether or not average incomes of specific disadvantaged groups have increased in relation to other groups, and whether proportionately fewer non-urban households fall into the bottom income category when compared to the present situation.

National and provincial average annual household incomes in 1995

In October 1995, the average annual income per household in South Africa was found to be R41 000. This includes regular income, such as salaries and wages, as well as any other income. However, average annual household income varied when the data set was divided into different sub-groups or categories. In this section we examine these differences.

Average annual household income in 1995 by race

The IES results confirm that income in South Africa is unevenly distributed by race of the head of the household, with the largest race group in the country being the poorest.

- Africans constitute about 76% of the total population (although they make up only 67% of households in the country), while approximately a further 9% of people (not households) are coloured, 3% Indians and 13% white.
- Among African-headed households, the average annual household income was R23 000.
- Among coloured-headed households, it increased to R32 000.

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6 The apartheid-based racial classification of South Africans as African, coloured, Indian and white is retained in this report as a classification variable to enable the CSS to monitor change in the life circumstances of those who were disadvantaged in the apartheid era.

7 An urban area is defined as one in which there is a fully established local government. A non-urban area, on the other hand, does not have an established local authority. The area could, for example, be part of a tribal authority or a regional authority.

- Among Indian-headed households, it increased further to R71 000.
- Among white-headed households, it increased even further to R103 000.

The nine new provinces of South Africa

Since 1994, South Africa has been divided into nine provinces. These differ from each other, not only in population size,[8] but also in urban and non-urban population proportions. Africans constitute the majority of people in all provinces, except in the Western and Northern Cape, where coloureds are in the majority. The vast majority of the Indian population lives in KwaZulu-Natal, while whites are spread across all nine provinces – albeit unevenly.

The Eastern Cape
The Eastern Cape is largely non-urban, occupying 14% of the country's land mass. It is estimated that 16% of the South African population lives in this province, making it the third largest in the country. Approximately 65% of people in this province live in non-urban areas. The former Transkei and Ciskei, two impoverished areas styled as 'independent states' under the bantustan policy of the apartheid regime, are found in this province. The vast majority of those living in the Eastern Cape (85%) are African.

The Free State
A relatively small number of people – some 7% of the total South African population – live in the Free State. It is the second smallest province in population size, and occupies 11% of the land mass. A high proportion of people live in small towns, with less than half the Free State's population living in non-urban areas. A large proportion of people living in the Free State (81%) are Africans, who tend to live in former 'homelands' (Qwa Qwa or that small part of the former Boputhatswana which was allocated to the Free State), on large white-owned commercial farms, or in townships surrounding the towns.

The Northern Province
The Northern Province contains approximately 11% of all the people in the country, almost all (95%) of whom are African. The former 'independent state' of Venda, and large proportions of the former 'self-governing territories' of Lebowa and Gazankulu, are situated in this province. It is largely non-urban, with 88% of the population living in non-urban areas.

The North West Province
The North West Province contains 8% of all South Africans, making it the fourth smallest province in population size. It occupies 10% of South Africa's land mass. It is largely non-urban, with 61% of the population living in these areas, and contains most of the former Boputhatswana. A large proportion of the remainder of the land in this province consists of white-owned commercial farms.

[8] In this discussion, we focus on the percentage of actual people in each province, rather than on the percentage of households, because population density is measured in terms of individuals in an area of a given size. In the rest of the report, however, we focus on households, since we are interested in household, not individual, income and expenditure.

The Northern Cape
In terms of population size, the Northern Cape is the smallest in the country, since it has 2% of all the people. But in area, it is the largest province, covering a vast 30% of South Africa's land mass. In common with the Western Cape, the majority of people in this province (57%) are coloured, while 29% are African. Those living in the province tend to be clustered in small towns or villages: 71% live in areas defined as urban, and large parts of the province are either uninhabited or sparsely inhabited.

Mpumalanga
With its 7% share of the people, Mpumalanga is the third smallest province as far as population size is concerned. It occupies 6% of the country's land mass. The former 'homelands' of KwaNdebele and KaNgwane, and parts of Lebowa and Gazankulu, are found within its borders. Ninety percent of its people are African. Most people (70%) in the province live in non-urban areas.

KwaZulu-Natal
With its population of more than one-fifth (20%) of all the people in the country, KwaZulu-Natal is the most populous province, but occupies only 8% of South Africa's land mass. While the vast majority of people in the province (83%) are African, a large proportion of the one million Indians in the country (80%) live here. It is largely rural in character, with 61% of the population living in non-urban areas.

The Western Cape
The Western Cape, containing approximately 11% of the population, is overwhelmingly urban – 86% of its people live in urban areas. Its essentially urban character distinguishes it from the other provinces discussed thus far. The province spreads over 11% of the land mass of South Africa. In common with the Northern Cape, the majority of people living in the province (57%) are coloured, while relatively few in the province (19%) are African.

Gauteng
Nineteen percent of South Africa's population live in Gauteng, the second largest province in terms of population size. But it is the smallest province as far as land mass is concerned, occupying less than 2% of the country. It is almost entirely urban, with 94% of its population living in urban areas. The majority of people living in the province (62%) are African. However, a substantial proportion (31%) are white. Indeed, 40% of all whites in South Africa live in Gauteng.

Average household income in each province

Table 2 indicates the substantial differences that exist in average annual household incomes when comparing provinces. (Estimates of the design effects, standard errors and confidence intervals of a selection of the most important of these variables are available from the CSS.)

The table shows that the Eastern Cape, which is largely rural, has the lowest annual average household income (R24 000), while Gauteng, which is almost entirely urban, has the highest (R71 000).

Differences in average annual household income by province and race

Within each province, there are marked differences in average annual household income by race. This is also indicated in Table 2.

- In all provinces, African households have the lowest average annual incomes, followed by coloured-headed households. White-headed households have the highest incomes across the board.
- African households in the Northern Cape and the Free State, where a large proportion of African people work on white-owned commercial farms, have the lowest average incomes in the country.
- African, coloured and Indian-headed households in Gauteng have the highest average annual incomes in the country for each race group while, surprisingly, white-headed households in the Northern Province have the highest average annual incomes in the country. But the small number of white households in the sample in this province means that the figure should be treated with caution.

Table 2: Average annual household income by race of head of household in each province

Province	Average annual household income				
	African R 000	Coloured R 000	Indian R 000	White R 000	Total R 000
Eastern Cape	17	24	58	90	24
Free State	14	16	-	72	25
Mpumalanga	20	30	78	82	30
North West	21	25	-	93	30
Northern Province	26	43	-	140	31
Northern Cape	13	18	34	79	31
KwaZulu-Natal	24	41	61	98	37
Western Cape	22	33	54	98	53
Gauteng	37	53	111	118	71

- Number of households in the survey was too small for this analysis.

Average annual household income by other sub-categories

In Table 3, the average annual household income is shown for a number of different sub-categories of the population, for example, urban residents and shack dwellers (those living in an informal dwelling).

- Average annual household income varies depending on whether the household is in an urban or a non-urban area. Households living in urban areas have more than double the average annual income (R55 000) of those living in non-urban areas (R23 000).
- Average annual household income also varies according to type of dwelling, with those living in informal (R15 000) and traditional dwellings (R14 000) having a far lower average annual income than those living in formal houses (R52 000).
- In addition, average annual household income varies according to the number of people in the household, but this difference follows a curvilinear pattern.
  - Households consisting of only one person have the lowest average incomes.
  - This average tends to increase to reach its highest level (R51 000) in those households consisting of four people.
  - Then it starts to decrease, reaching another low level of only R28 000 on average, per annum, for households consisting of eight or more people.
- Not unexpectedly, households where the head is in a managerial, professional, technical or administrative occupation have the highest average annual incomes (R101 000), but then there is a steep decline in annual average income among those households in which the head is in a clerical or sales position (R41 000) and an even further decline among those households where the head is a production, transport or services worker (R38 000).

Table 3: Average annual household income in various sub-groups of the population

Sub-group		Average annual household income R 000
Type of area of residence:	Urban	55
	Non-urban	23
Type of dwelling:	House	52
	Informal dwelling	15
	Traditional dwelling	14
Household size:	One person	25
	Two people	49
	Three people	47
	Four people	51
	Five people	46
	Six people	37
	Seven people	30
	Eight or more people	28
Gender of head of household:	Male	48
	Female	25
Occupation of head of household:	Management/prof./tech./admin.	101
	Clerical and sales	41
	Production/transport/services	38
	Pensioners	23

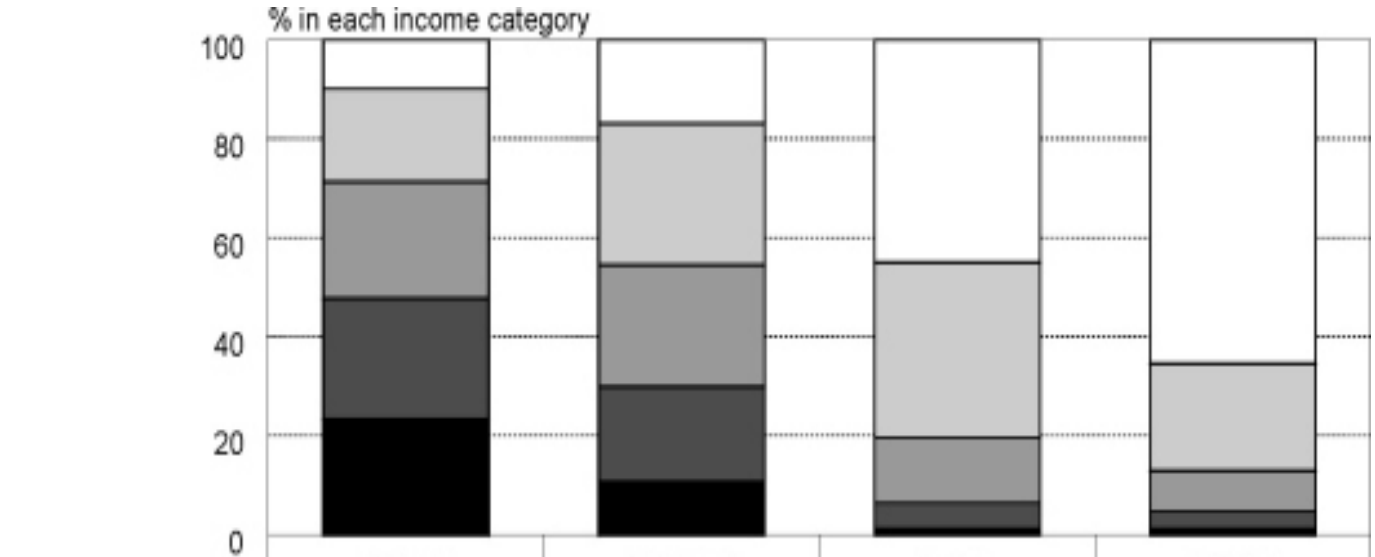
Income distribution

Average incomes, on their own, do not describe how income is distributed within a particular sub-group. In this section, we examine the way in which income is distributed in various sub-groups by studying the proportion of households within each national income quintile for a number of variables.

Income distribution by race

Through looking at income *quintiles*, Figure 1 demonstrates that income is very unevenly distributed by race.

- Twenty-three percent of African households are in the bottom income category, compared with 11% of coloured, and only 1% of Indian and white households.
- On the other hand, 65% of white households are found in the top income quintile, compared with 45% of Indian, 17% of coloured and 10% of African households.



	African	Coloured	Indian	White
Quintile1 (top)	10	17	45	65
Quintile 2	19	29	35	22
Quintile 3	24	25	13	8
Quintile 4	24	19	5	4
Quintile 5 (bottom)	23	11	1	1

Source: Income and expenditure survey, 1995

Figure 1: Income category by race of head of household

Income distribution by gender

Income in South Africa is also unevenly distributed by gender, with female-headed households being significantly poorer than male-headed ones.

- Figure 2 shows that, irrespective of race, 26% of female-headed households are in the bottom income quintile, as against 13% of male-headed households.
- On the other hand, 27% of male-headed households are in the top income quintile, compared with 11% of female-headed households.

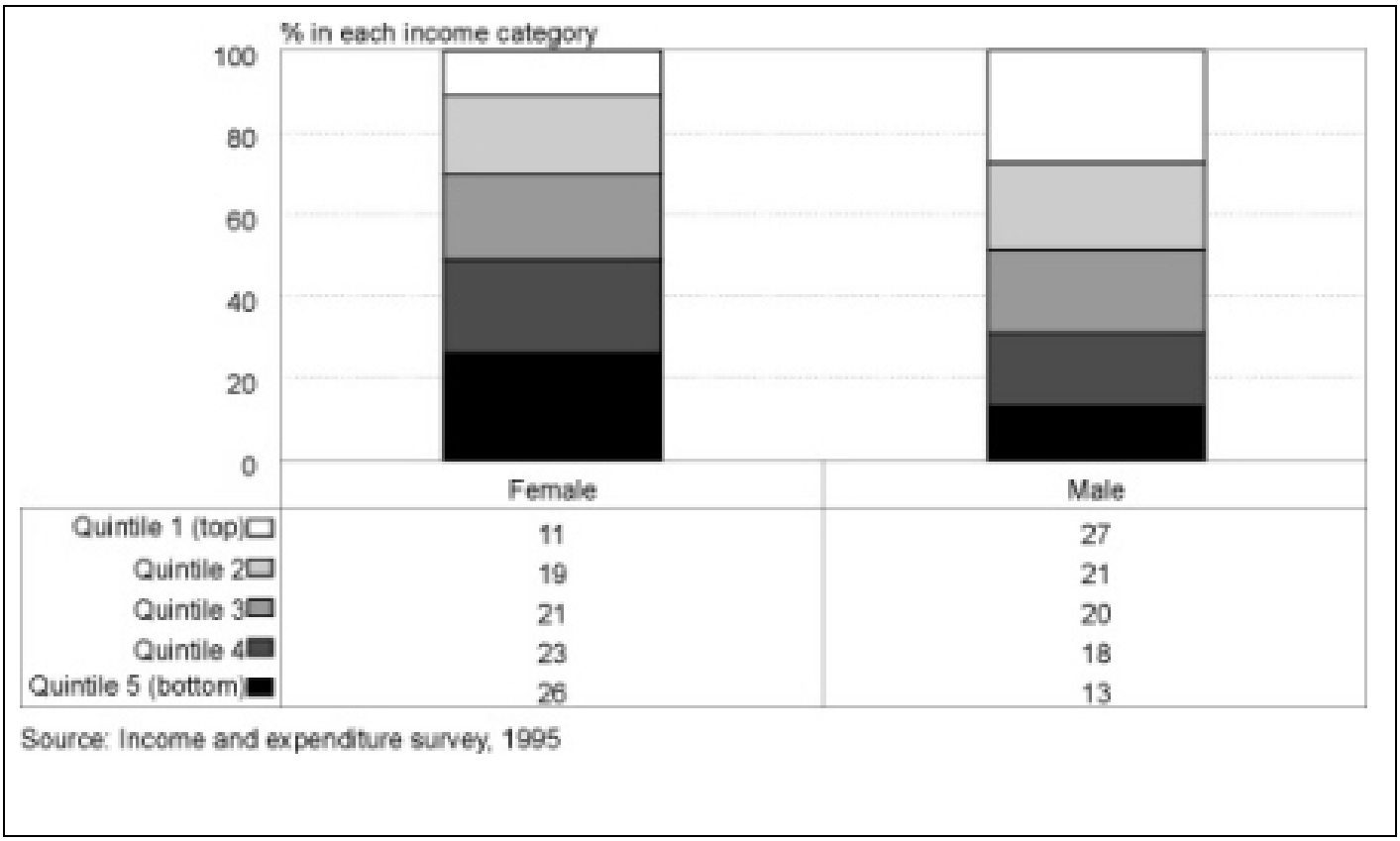


Figure 2: Income category by gender of head of household

Income distribution by race and gender

Figure 3, which examines incomes by both race and gender, indicates that African, female-headed households are the poorest group in the country, followed by African, male-headed households, while white, male-headed households are the most affluent.

- Three in every ten (31%) African, female-headed, and one in every five (19%) African, male-headed households, are in the bottom income category. On the other hand, one in every twenty (5%) white, female-headed, and fewer than one in every hundred (less than 0,5%) white, male-headed households, are in the bottom income category.
- At the upper end of the scale, almost three-quarters (73%) of white, male-headed households are in the top income category, as against approximately one in eighteen (6%) African, female-headed households.

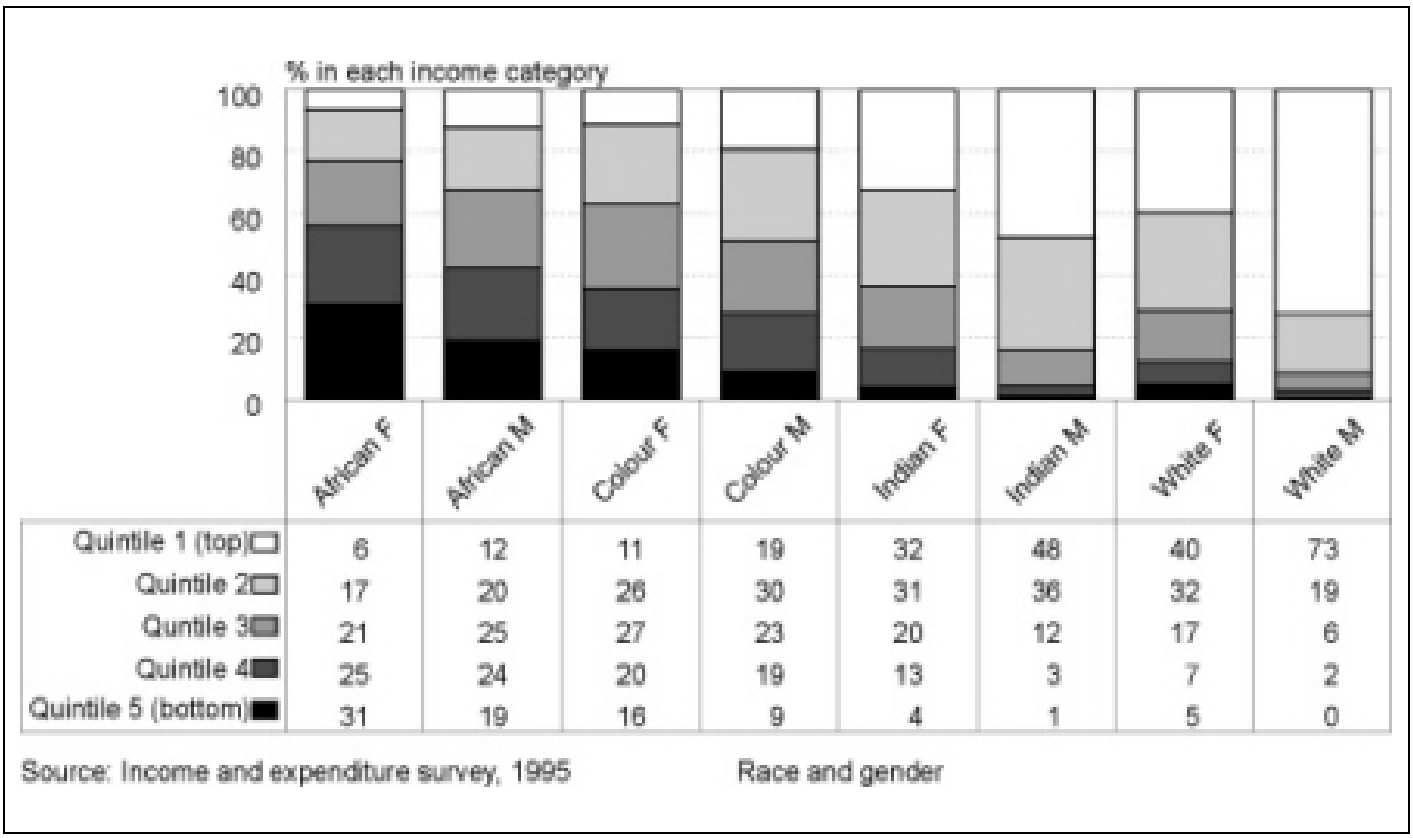


Figure 3: Income category by gender and race of head of household

Income distribution in urban and non-urban areas

The South African population is distributed evenly between urban and non-urban areas. But this distribution varies by race group. Almost two-thirds (63%) of Africans live in non-urban areas as against a far smaller proportion of coloureds (16%), Indians (5%) and whites (9%).

Annual household incomes vary widely in urban, compared to non-urban, areas, as shown in Figure 4.

- While only 8% of households in urban areas fall into the bottom income quintile, 29% of households in non-urban areas are found in this category.
- At the upper extreme, 34% of urban households are found in the top income category, compared with only 8% of non-urban households.

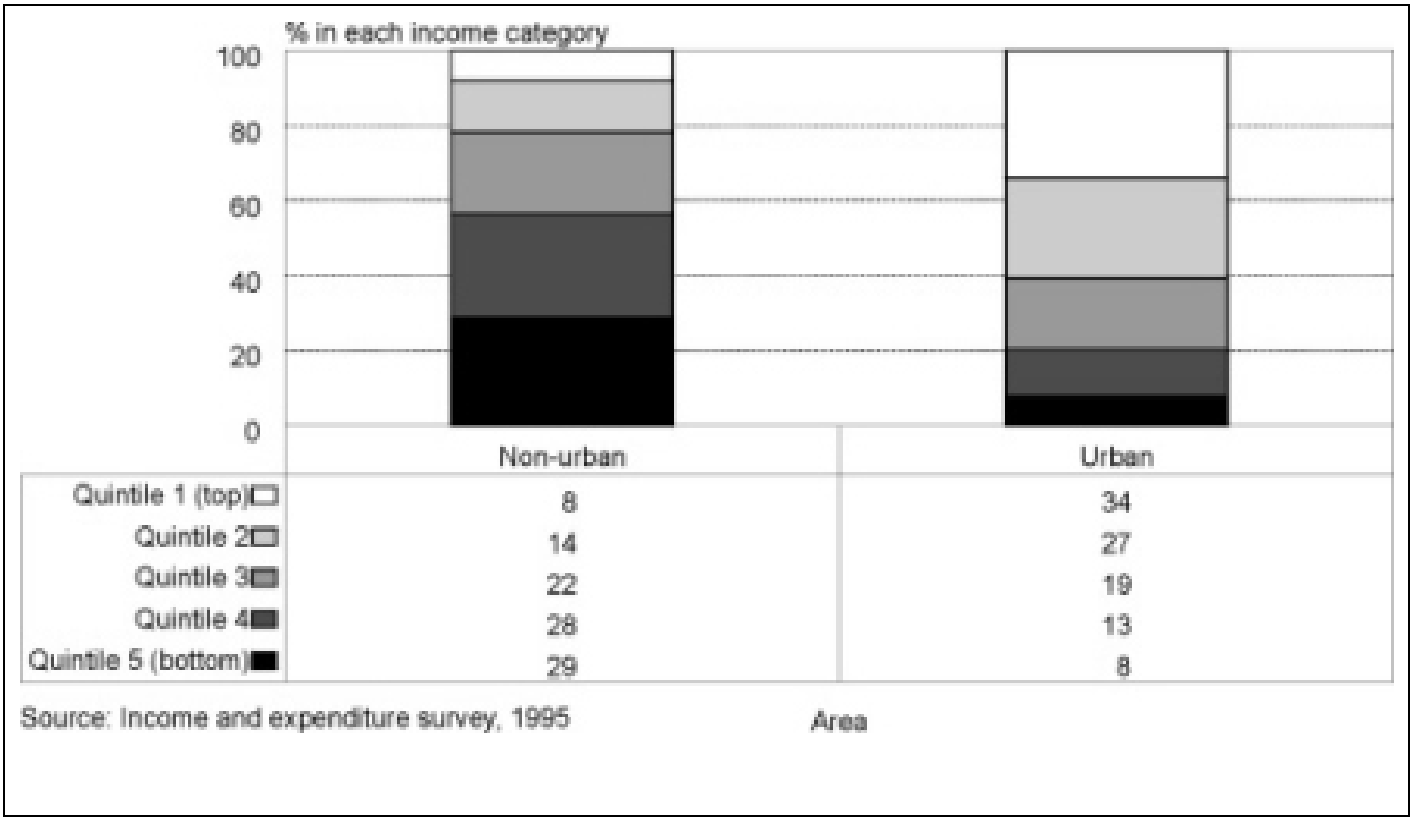


Figure 4: Income category among urban and non-urban households

Income distribution by gender in urban and non-urban areas

Figure 5 examines income quintiles by gender of head of household, in both urban and non-urban areas. It demonstrates that non-urban, female-headed households are the poorest in the country, followed by non-urban, male-headed ones. On the other hand, male-headed households in urban areas are the most affluent.

- Thirty-seven percent of non-urban, female-headed households are in the bottom income category, compared with 23% of non-urban, male-headed, 15% of urban, female-headed and only 5% of urban male-headed households.
- On the other hand, proportionately more (41%) urban, male-headed households are in the top income category, compared with non-urban, female-headed households.

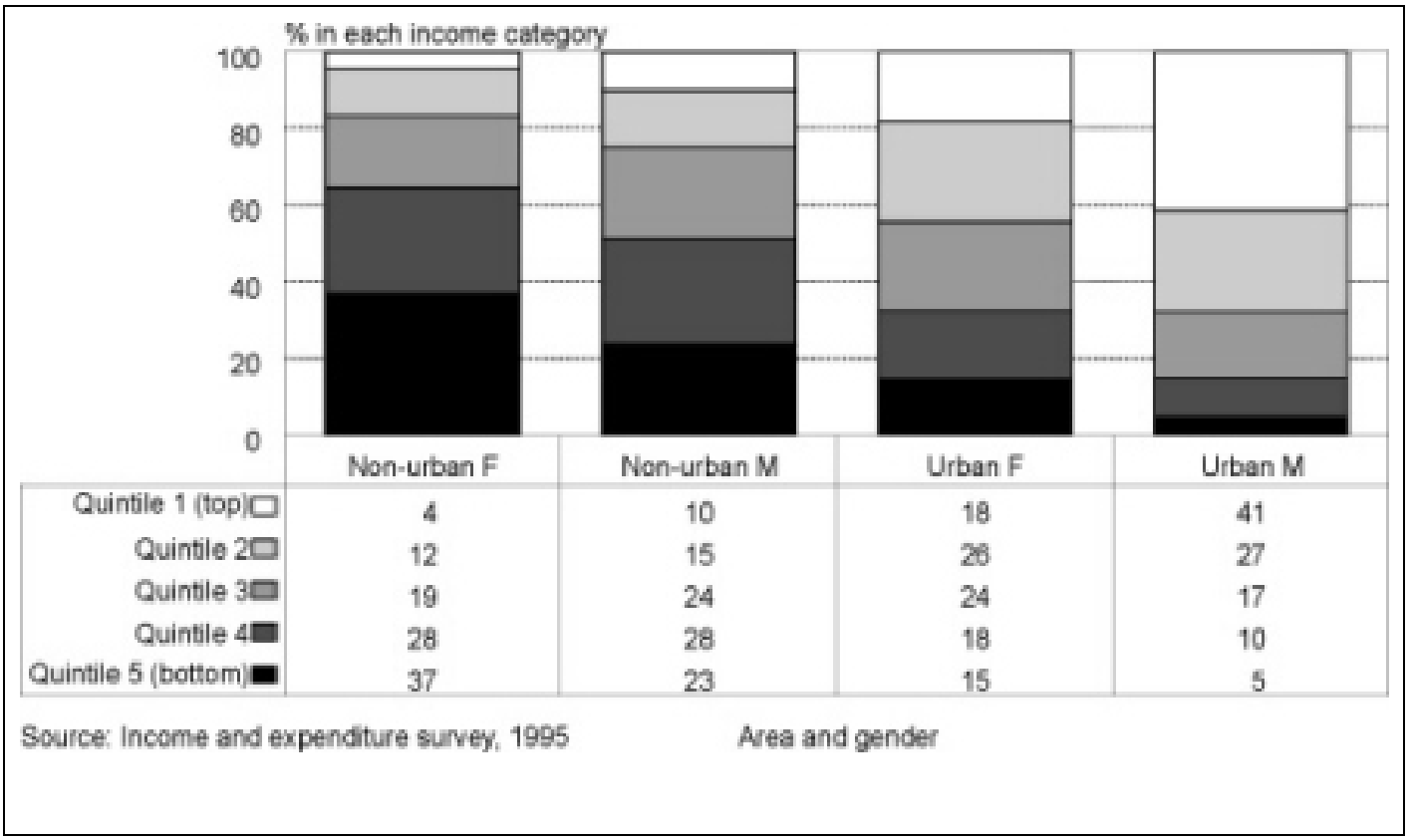


Figure 5: Income category by gender of household head in urban and non-urban areas

Race and gender differences in income in urban and non-urban areas

Urban, non-urban and gender differences in incomes are most pronounced in African households, compared with coloured and white ones. (Indian households are excluded in this section, because there were too few female-headed, Indian households in the sample, particularly in non-urban areas, for further breakdowns). This emerges from a comparison of income quintiles by race and gender in both urban and non-urban areas.

African households
Table 4 shows that African, male-headed households living in urban areas have higher incomes than African, male-headed households in non-urban areas. However, African, female-headed households in non-urban areas have the lowest incomes of all.

Table 4: Income distribution by race and gender in urban and non-urban areas

Income quintile by race	Non-urban female	Non-urban male	Urban female	Urban male	Total
	%*	%*	%*	%*	%*
African: Top quintile: Quintile 1	3	7	11	19	10
Quintile 2	12	15	24	29	19
Quintile 3	18	25	25	27	24
Quintile 4	28	28	21	17	24
Bottom quintile: Quintile 5	37	26	19	8	23
Total	**100**	**100**	**100**	**100**	**100**
Coloured: Top quintile: Quintile 1	6	3	12	24	17
Quintile 2	14	13	26	35	29
Quintile 3	21	25	28	23	25
Quintile 4	28	39	19	13	18
Bottom quintile: Quintile 5	31	20	15	5	11
Total	**100**	**100**	**100**	**100**	**100**
White: Top quintile: Quintile 1	52	75	38	73	65
Quintile 2	31	18	32	19	22
Quintile 3	7	4	17	6	8
Quintile 4	8	2	8	2	4
Bottom quintile: Quintile 5	2	1	5	0	1
Total	**100**	**100**	**100**	**100**	**100**

* Due to rounding, figures may not always add up to exactly 100%

- One in twelve (8%) urban male-headed households are found in the bottom income category, compared with about one in four (26%) non-urban, male-headed households.
- One in five (19%) African, female-headed households in urban areas are in the bottom income category, compared with as many as almost four in every ten (37%) female-headed households in non-urban areas.
- Income among female-headed non-urban African households is extremely low. For example, 37% are in the bottom income quintile, and a further 28% are in the second lowest quintile.
- A very small proportion of African, non-urban, male-headed (7%) and female-headed (3%) households are in the top income category.

Among Africans, non-urban households are the poorest in the country. There are proportionately fewer female-headed households in urban areas in the lower income categories, compared to male-headed non-urban households.

Coloured households
In households where the head is coloured, a similar pattern emerges although, overall, these households tend to have higher incomes than African households.

- In urban areas, one in twenty (5%) coloured, male-headed households are in the bottom income category, compared with one in seven (15%) coloured, female-headed households.
- In non-urban areas, one in five (20%) coloured, male-headed households falls into the bottom income category, compared with one in three (31%) female-headed ones. These figures should, however, be treated with caution, because of the small sample size.
- A large proportion of non-urban, male-headed, coloured households (39%) are found in the second lowest income category, while a very small proportion (3%) is in the top category.

White households
White, male-headed households are amongst the most affluent in the country, while white, female-headed households are less affluent.

- About three-quarters of white, male-headed households living in both urban (73%) and non-urban (75%) areas are found in the top income category.
- Nevertheless, a substantial proportion of white, female-headed households in both urban (30%) and non-urban (17%) areas are found in the three bottom income quintiles, with relatively few male headed households (7% in non-urban, and 8% in urban areas) in these three categories.

This demonstrates that not only absolute, but also relative, comparisons are important considerations in understanding South African income distributions. White households generally have the highest incomes in the country, but within the category of white households, there are significant gender inequalities. White, female-headed households in both urban and non-urban areas are relatively well-off, compared with African and coloured households in these areas. But when compared with white, male-headed households, they are relatively poorer.

Differences in income distributions by province

Figure 6 demonstrates the uneven distribution of income within the provinces.

- Proportionately more households are found in the bottom income category in the Eastern Cape (32%) and the Free State (31%), followed by the Northern Province (26%), the North West (24%) and the Northern Cape (23%). There are proportionately even fewer households in the bottom income category in Mpumalanga (17%) and KwaZulu-Natal (12%), while the smallest proportion of the poorest households are found in the Western Cape (6%) and Gauteng (5%).
- On the other hand, proportionately more households in the Western Cape (30%) and Gauteng (42%) are found in the top income categories while there are relatively few households in the top income category in the other seven provinces: the Eastern Cape (11%), the Free State (13%), the North West (14%), the Northern Cape (14%), the Northern Province (15%), KwaZulu-Natal (19%) and Mpumalanga (12%).

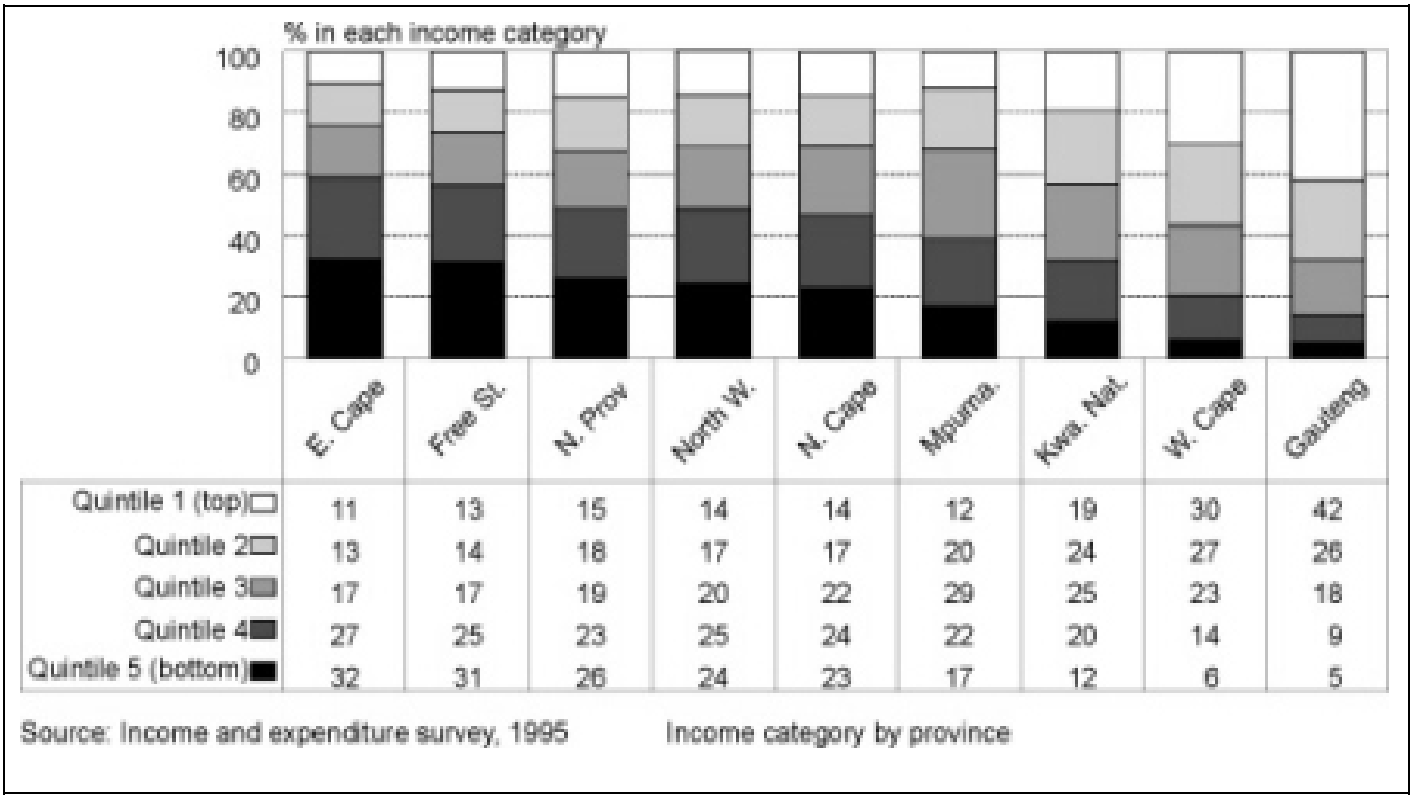


Figure 6: Income category by province

Income distribution by gender and area within each province

In Table 5, we examine income distribution differences among male-headed and female-headed households in urban and non-urban areas in each province, starting with the province that has the largest proportion of households in the lowest income category, and ending with the province that has the smallest.

Table 5: Income distribution by gender and urban/non-urban areas within each province

Income quintile by province		Non-urban female	Non-urban male	Urban female	Urban male	Total
		%*	%*	%*	%*	%*
Eastern Cape:	Quintile 1 (top)	2	5	10	31	11
	Quintile 2	7	9	21	23	13
	Quintile 3	11	20	22	19	17
	Quintile 4	28	35	22	17	27
	Quintile 5 (bottom)	53	31	25	11	32
	Total	**100**	**100**	**100**	**100**	**100**
Free State:	Quintile 1 (top)	2	4	6	27	13
	Quintile 2	5	5	14	25	14
	Quintile 3	7	14	23	18	17
	Quintile 4	27	30	28	20	25
	Quintile 5 (bottom)	60	47	29	10	31
	Total	**100**	**100**	**100**	**100**	**100**
Northern Province:	Quintile 1 (top)	6	17	16	40	15
	Quintile 2	14	18	25	28	18
	Quintile 3	18	20	27	15	19
	Quintile 4	24	24	21	9	23
	Quintile 5 (bottom)	37	22	11	8	26
	Total	**100**	**100**	**100**	**100**	**100**
North West:	Quintile 1 (top)	3	5	11	33	14
	Quintile 2	11	11	23	25	17
	Quintile 3	16	18	23	24	20
	Quintile 4	32	32	21	12	25
	Quintile 5 (bottom)	38	34	22	6	24
	Total	**100**	**100**	**100**	**100**	**100**
Northern Cape:	Quintile 1 (top)	7	13	6	21	14
	Quintile 2	15	9	16	23	17
	Quintile 3	18	12	27	27	22
	Quintile 4	22	34	27	17	24
	Quintile 5 (bottom)	38	34	25	13	23
	Total	**100**	**100**	**100**	**100**	**100**
Mpumalanga:	Quintile 1 (top)	3	9	14	33	12
	Quintile 2	15	18	25	29	19
	Quintile 3	31	30	23	19	28
	Quintile 4	28	24	18	11	22
	Quintile 5 (bottom)	23	19	20	8	17
	Total	**100**	**100**	**100**	**100**	**100**
KwaZulu-Natal:	Quintile 1 (top)	4	7	22	42	19
	Quintile 2	17	21	29	31	24
	Quintile 3	26	31	26	16	25
	Quintile 4	30	26	16	8	20
	Quintile 5 (bottom)	22	15	7	3	12
	Total	**100**	**100**	**100**	**100**	**100**
Western Cape:	Quintile 1 (top)	30	12	20	38	30
	Quintile 2	24	14	28	29	27
	Quintile 3	18	33	26	20	23
	Quintile 4	20	32	15	10	14
	Quintile 5 (bottom)	8	9	11	3	6
	Total	**100**	**100**	**100**	**100**	**100**
Gauteng:	Quintile 1 (top)	19	32	27	50	42
	Quintile 2	18	12	32	25	26
	Quintile 3	16	25	22	16	18
	Quintile 4	26	21	12	7	10
	Quintile 5 (bottom)	21	9	7	3	5
	Total	**100**	**100**	**100**	**100**	**100**

* Due to rounding off, figures may not always add up to exactly 100%

Eastern Cape
Table 5 shows that, in the Eastern Cape, incomes are highly unequally distributed by gender of the head of household and by urban or non-urban place of residence.

- In total, 32% of households are in the bottom income quintile, and 27% are in the second lowest, whilst only 11% are in the top income quintile.
- More than half (53%) of all non-urban, female-headed households are in the bottom income category in this province, as against one in ten (11%) urban, male-headed households.
- At the other extreme, three in every ten (31%) urban male-headed households are in the top income category, as against one in every fifty (2%) non-urban, female headed households.

Free State
Incomes are even more unequally distributed by gender and by urban versus non-urban place of residence in the Free State than they are in the Eastern Cape.

- Table 5 shows that, in total, 31% of households are in the lowest income quintile, and 25% in the second lowest, whilst only 13% are in the top income quintile in this province.
- However, as many as six in every ten (60%) non-urban, female-headed households are in the bottom income category in the Free State, as against one in ten (10%) urban, male-headed households.
- On the other hand, just over a quarter (27%) of urban male-headed households are in the top income category, as against one in every fifty (2%) non-urban, female headed, and one in every twenty-five (4%) non-urban, male-headed households.

When comparing all provinces, income distribution in the Free State is the most unequal in the country.

The Northern Province
There is a similar pattern of income distribution in the Northern Province as in the Eastern Cape.

- Altogether, 26% of households are in the lowest income quintile, and 23% in the second lowest, whilst only 15% are in the top income quintile.
- Almost four in every ten (37%) non-urban, female-headed households are in the bottom income category, as against one in thirteen (8%) urban, male-headed households.
- Four in every ten (40%) urban male-headed households are in the top income category, as against one in every eighteen (6%) non-urban, female headed, and one in every six (17%) non-urban, male-headed households.

The North West Province

Income distribution in the North West Province, and inequalities in incomes, are very similar to the Northern Province.

- In total, 49% of households are in the lowest two quintiles, and only 14% are in the top income quintile.
- However, as many as almost four in every ten (38%) non-urban, female-headed households are in the bottom income category, as against one in eighteen (6%) urban, male-headed households.

The Northern Cape

- Almost half of all households (47%) in the Northern Cape are in the lowest two quintiles.
- In common with all other provinces, non-urban, female-headed households are the poorest in this province, with about four in every ten of these households (38%) falling into the bottom income category.
- Also in common with the other provinces, urban male-headed households are the most affluent, with 21% falling into the top income category.

Mpumalanga

- Female-headed households in non-urban areas in this province tend to be relatively better off than their counterparts in most other non-urban areas, since fewer than one in four (23%) fall into the bottom income category.
- Male-headed, urban households continue to be the most affluent, with 33% in the top income quintile.

KwaZulu-Natal

- A relatively small proportion of all households in KwaZulu-Natal (12%) are in the bottom income quintile.
- Instead, incomes tend to cluster into the third (25%) and fourth (24%) quintiles.
- Both female- and male-headed, non-urban households are relatively well off compared to households in non-urban areas in other provinces, with 22% of female- and 15% of male-headed households being found in the bottom quintile.

The Western Cape

- The Western Cape is relatively wealthy, with only 6% of households falling into the bottom, and 14% in the second-lowest income quintile. On the other hand, one in every three (30%) households are in the top income quintile.
- Female-headed households in non-urban areas, whilst remaining the poorest in the province, are relatively less poor than their counterparts in other provinces. There are only 8% in the bottom income category. A relatively large proportion (30%) of female-headed households in non-urban areas are, for the first time, found in the top income quintile.

Gauteng

Findings regarding non-urban distributions of household income in Gauteng should be treated with caution, since the income distribution patterns among both female- and male-headed households in non-urban areas are based on a small number of households in the sample. Nevertheless, the picture that emerges is consistent with the overall picture in other provinces.

- There are relatively few households in the lowest (5%) or second lowest (10%) income quintiles in Gauteng.
- At the upper end of the scale, as many as 68% of all households in the province are found in the two highest quintiles (26% in the second highest, and a substantial 42% in the highest income quintile).
- A large proportion of male-headed households in both non-urban (32%) and urban areas (50%) are found in the top income quintile, compared with relatively few female-headed households in either non-urban (19%) or urban (27%) areas of Gauteng.

This establishes that income distributions, even in the wealthiest province, tend to be highly unequal.

Measures of income inequality

Two additional measures of income inequality, namely Lorenz curves and Gini coefficients, further demonstrate the extent of income disparities in South Africa.

A Lorenz curve is a graph showing the cumulative income distribution in a given population, as illustrated in Figure 7. The relevant population in this case is the number of households in the country. The cumulative percentage of households, arranged from poorest to most affluent (from 0% to 100%), has been plotted on the horizontal axis, while the cumulative percentage of income, arranged from least to most, (also from 0% to 100%) has been indicated on the vertical axis.

A cut-off point of 20% on the *horizontal* axis indicates the poorest 20% of households, while a cut-off point of 60% indicates the bottom 60% of households. A cut off point of 20% on the *vertical* axis indicates 20% of income while a cut-off point of 60% indicates 60% of income. A diagonal line joins the vertical and horizontal axes.

In a Lorenz curve, the vertical axis on the right-hand side represents one side of a triangle, while the horizontal axis represents the second, and the diagonal connecting the two axes represents the third side of the triangle. The Lorenz curve is drawn within this triangle. The curved line in Figure 7 is the actual Lorenz curve.

The nearer this curve is to a straight diagonal line, the more equal the income distribution. The more curved the line, the less equal the income.

A Gini coefficient involves a convenient short-hand way of indicating the relative degree of income inequality, based on the Lorenz curve. It can vary from the value of zero, indicative of absolute *equality* in income distribution, to the value of one, indicative of absolute *inequality*. It is essentially a ratio. The area between the Lorenz curve and the diagonal forms the enumerator, while the total area of the triangle in the Lorenz curve forms the denominator.

- Figure 7 clearly indicates that income distribution in South Africa is highly unequal. It shows that the poorest 10% of households in the country received as little as 1% of all household income in 1995, while the poorest 20% received only 3%. The poorest 30% of households received only 5% of all household income, while the poorest 50% received only 11%.
- Sixty percent of households in South Africa received only 16% of all household income in 1995, while 80% of households had 35%.
- The most affluent 20% of households had as much as 65% of all household income in 1995, while the most affluent 10% received as much as 48%.

In other words, the richest 20% of households have 65% of all household money at their disposal, while the poorest 20% have only 3%.

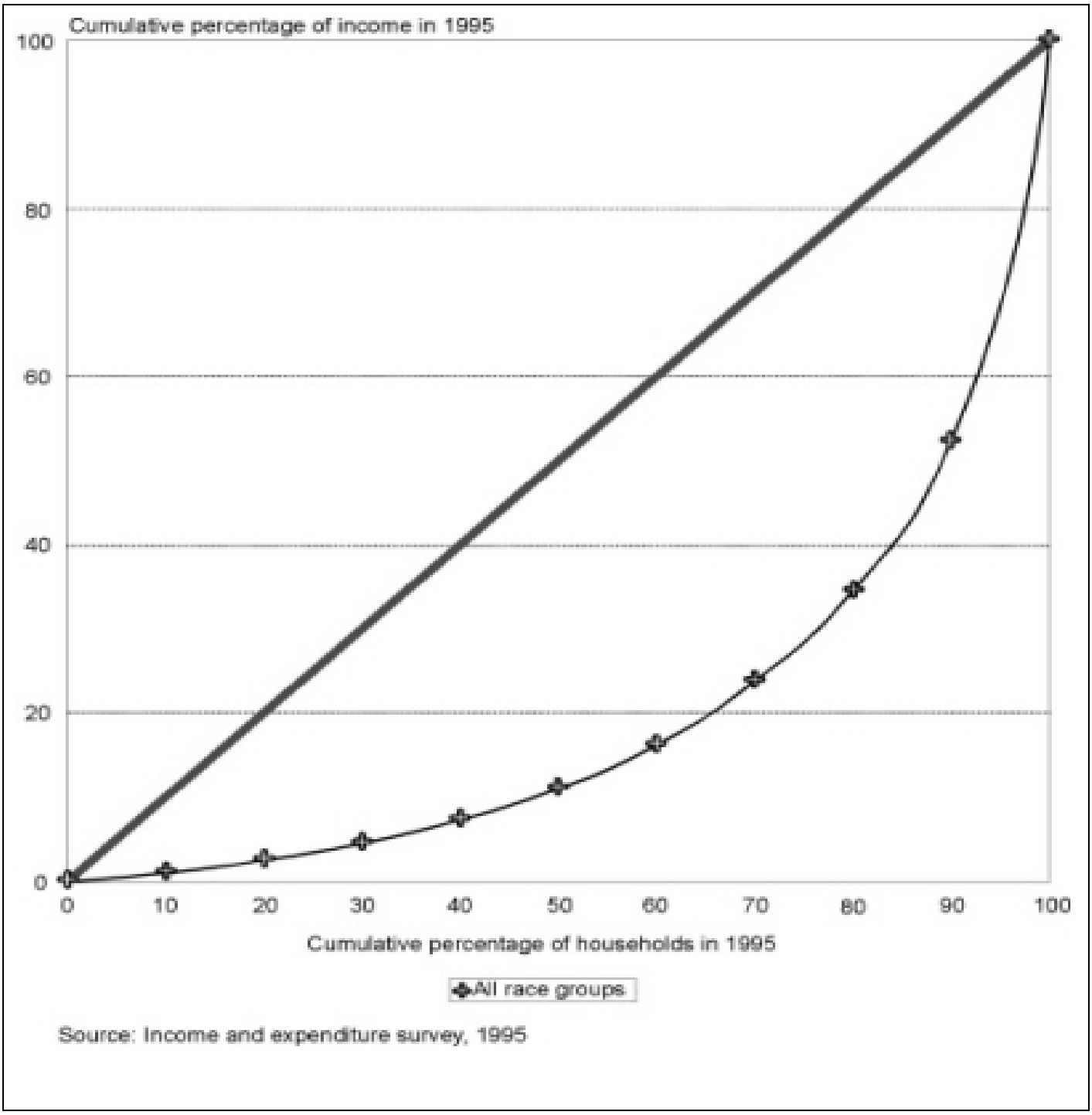


Figure 7: Lorenz curve indicating the extent of income inequalities in 1995

Table 6 gives the Gini coefficient for the country as a whole, and for various sub-groups of households.

Table 6: Gini coefficients of different types of South African households

Type of household	Gini coefficient
All households	0,59
Race of head of household:	
African	0,52
Coloured	0,50
Indian	0,44
White	0,49
Gender of head of household:	
Male	0,75
Female	0,55
Type of area:	
Urban	0,57
Non-urban	0,55

- The Gini coefficient for the country as a whole was 0,59 in 1995. This value is high, and is comparable to other countries with a high degree of inequality in income distribution such as Brazil and Ecuador (Todaro, 1989).
- Within race groups, income distribution is less unequal among Indian (Gini coefficient = 0,44) households than among white, coloured or African ones.
- Among male-headed households, income distribution is highly unequal (Gini coefficient = 0,75), but it is less unequal among female-headed households (Gini coefficient = 0,55).
- Income distribution is slightly more unequal among urban households (Gini coefficient = 0,57), compared to non-urban ones (Gini coefficient = 0,55).

Summary

Income in South Africa is distributed in a highly unequal manner. Annual household incomes vary by race, gender and province; within province; and by urban and non-urban environments. African female-headed and male-headed households in non-urban areas are the poorest. Indeed, African households generally tend to be the least affluent, followed by coloured and Indian households, while the most affluent are white. Female-headed households in urban areas are better off than male-headed households in non-urban areas.

Section 3
The main findings regarding expenditure

Introduction

This section focuses on the goods and services which households purchase, and examines expenditure patterns among poorer households, compared to more-affluent ones.

In general, when describing household purchases, we shall make use of annual household *expenditure*, rather than annual household *income* quintiles.

It would have been possible to have used either measure because, when comparing annual household income versus annual household expenditure, we found a high correlation ($r=0,98$; $p<0,001$) between the two measures. However, it made more sense to talk about each type of product or service purchased as a percentage of total expenditure for a household, rather than as a percentage of the total income of that household. For this reason, it was decided to use expenditure quintiles rather than income quintiles to describe purchasing patterns of households. This approach also conforms with international standards.

Average annual household expenditure

A large proportion of expenditure in the average South African household goes towards buying essential products and services, such as food and housing.

- Figure 8 indicates that, on average, 59% of annual household expenditure goes towards paying for four items – food (18%), housing (16%), income tax (15%) and transport (10%).
- On average, 5% of annual expenditure goes on clothing and footwear, while 4% goes on health care and 3% on personal care.
- A relatively small proportion, on average, of household expenditure goes towards investments and saving (2%, including saving through informal sources, for example *stokvels* or savings clubs), and 2% goes towards pensions.

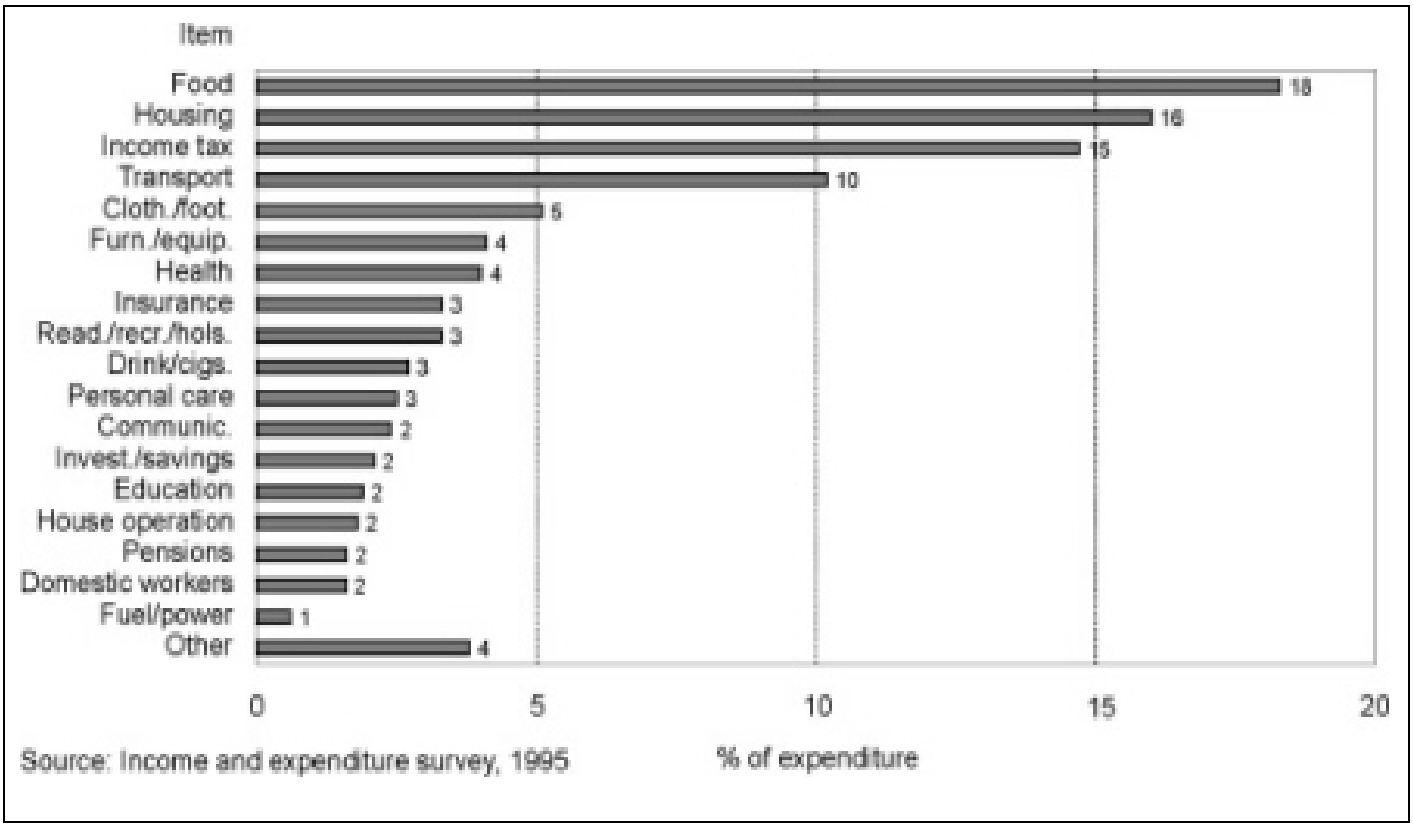


Figure 8: Average annual household expenditure

Expenditure by households in each expenditure quintile

The average expenditure pattern gives an overall indication of how 'average' South African households spend their money. But this is an aggregate concept, and does not give a clear indication of differences in expenditure patterns among poorer households, compared to more affluent ones.

The purchasing power of each expenditure quintile

Total expenditure of households in South Africa on goods and services differs greatly, depending on the quintile in which a household falls.[9]

- Figure 9 shows that households in the bottom expenditure quintile account for only 3% of total annual household expenditure in the country, while those in the second

[9] Variations in cut-off points in income and expenditure quintiles explain the differences in shares in income and expenditure patterns, when comparing Figure 7 and Figure 9.

lowest quintile (quintile 4) account for 6%, those in the third lowest for 10%, and those in the fourth lowest for 20%.

- Households in the top expenditure quintile account for 61% of total annual expenditure.
- The richest 20% of households therefore spend more than 60% of all the money in the country available for expenditure, while the poorest 20% of households spend only 3%.

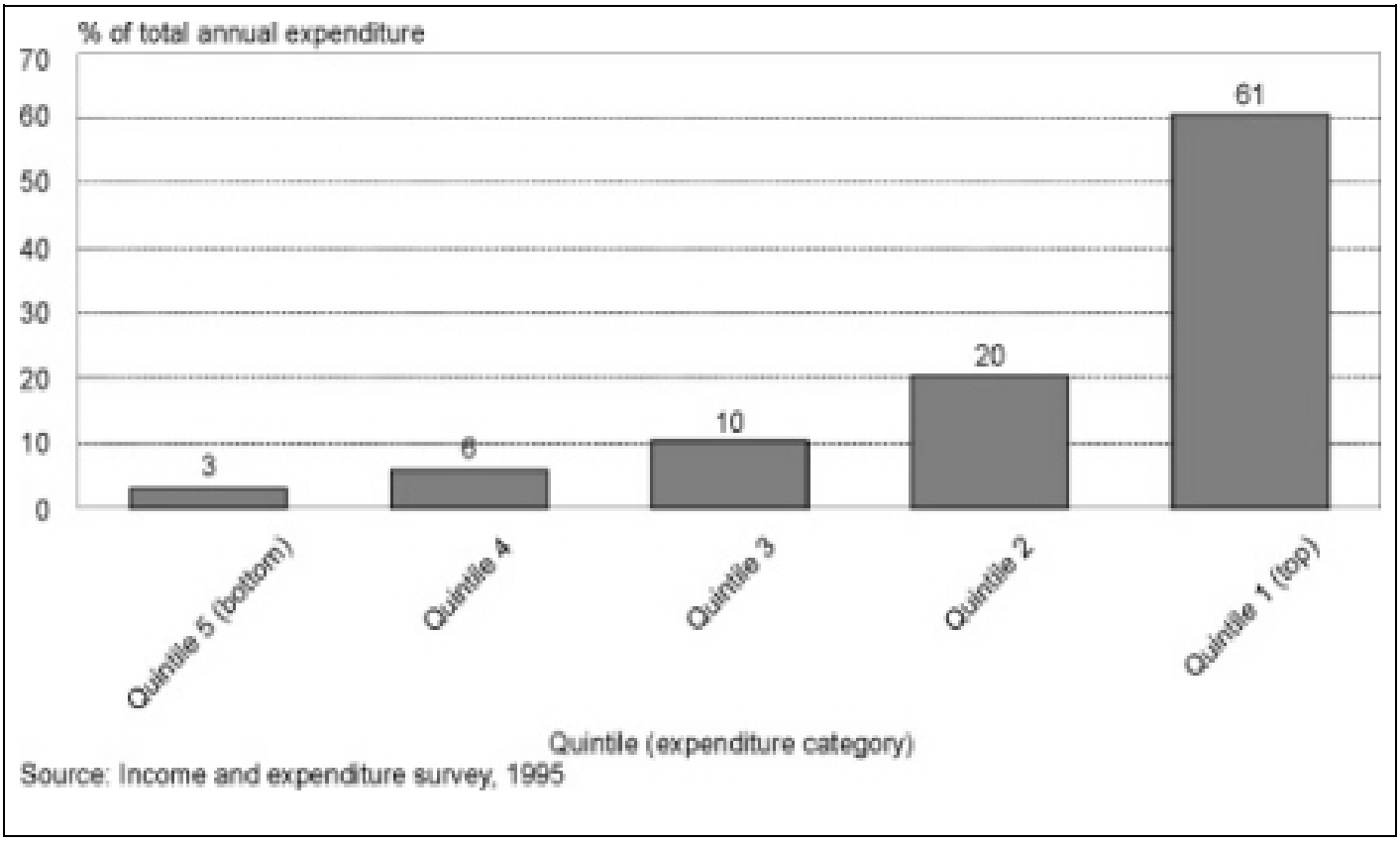


Figure 9: Percentage of annual household expenditure spent by each expenditure quintile

Expenditure is therefore very unevenly distributed in the country, with the vast majority of households able to buy very little.

How households in each expenditure quintile spend their money

We now examine the proportion of expenditure in each quintile that goes towards purchasing selected goods and services, and how this proportion differs according to quintile.

- Figure 10 indicates that households in the bottom expenditure quintile spend as much as 51% of their total annual average expenditure on food.

- As the amount of money available for expenditure increases, so the proportion of expenditure on food decreases. Households in the second lower quintile spend 43% of their total expenditure on food, decreasing to 33% in the third lower quintile and even further to 23% in the second higher quintile, and to only 12% of total annual expenditure in the top quintile.
- Overall, the proportion of expenditure on housing, on average, is more evenly distributed across quintiles than expenditure on food. Nevertheless, those in the highest quintile tend to spend proportionately more on housing (17%) than those in the other quintiles.
- There is an increase in the proportion of average annual expenditure on transport from 3% to 12% in each successively higher expenditure quintile (including the purchase of vehicles).

The poorest households in the country are therefore spending more than half the money they have at their disposal on food, while the more affluent households can afford to purchase a much wider variety of goods and services, since a smaller proportion of available money goes towards buying food.

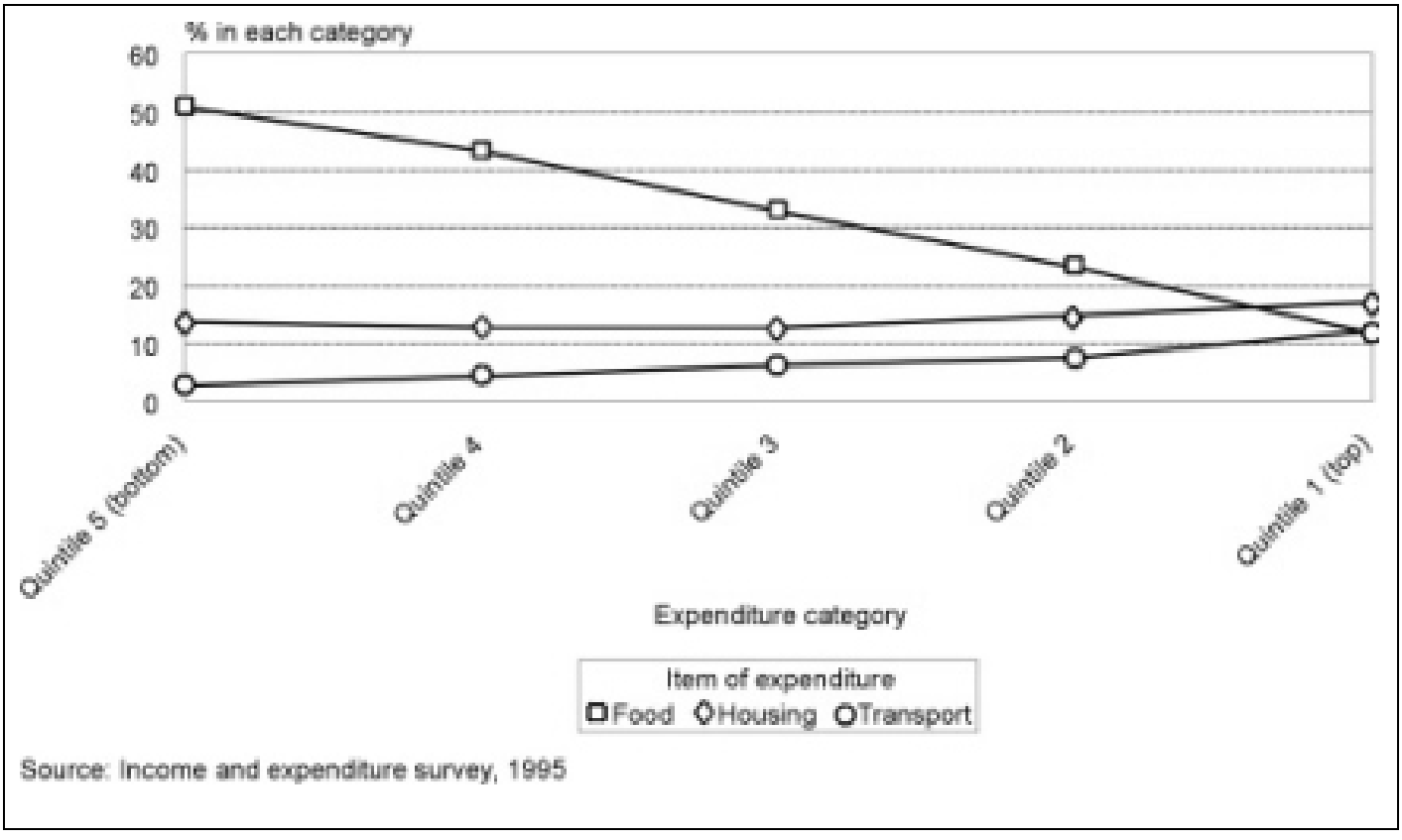


Figure 10: Annual household expenditure on selected items by expenditure quintiles

Proportion in each expenditure quintile spent on fuel and power, furniture and household operation (including cleaning materials, furniture polish, etc.)

Poorer households spend a relatively large proportion of their available money on fuel and power for heating and lighting – paraffin, candles or electricity, for example – compared to more affluent households.

- Figure 11 (in which percentages in the graph are shown to one decimal place because of the small proportions involved) indicates that, on average, households in the bottom expenditure category spend as much as 5,1% of total annual expenditure on fuel and power, compared to only 0,1% spent by the most affluent households.
- This does not take into account household resources used for collecting firewood and other energy sources.
- Households in the bottom quintile also tend to spend proportionately more on materials for household operation, for example cleaning and washing materials (3,9%), compared to households in the other quintiles.
- Households in expenditure quintiles 3 and 2 (5,4% and 5,7% respectively) spend a larger proportion of available money on furniture, on average, compared to households in the other quintiles.

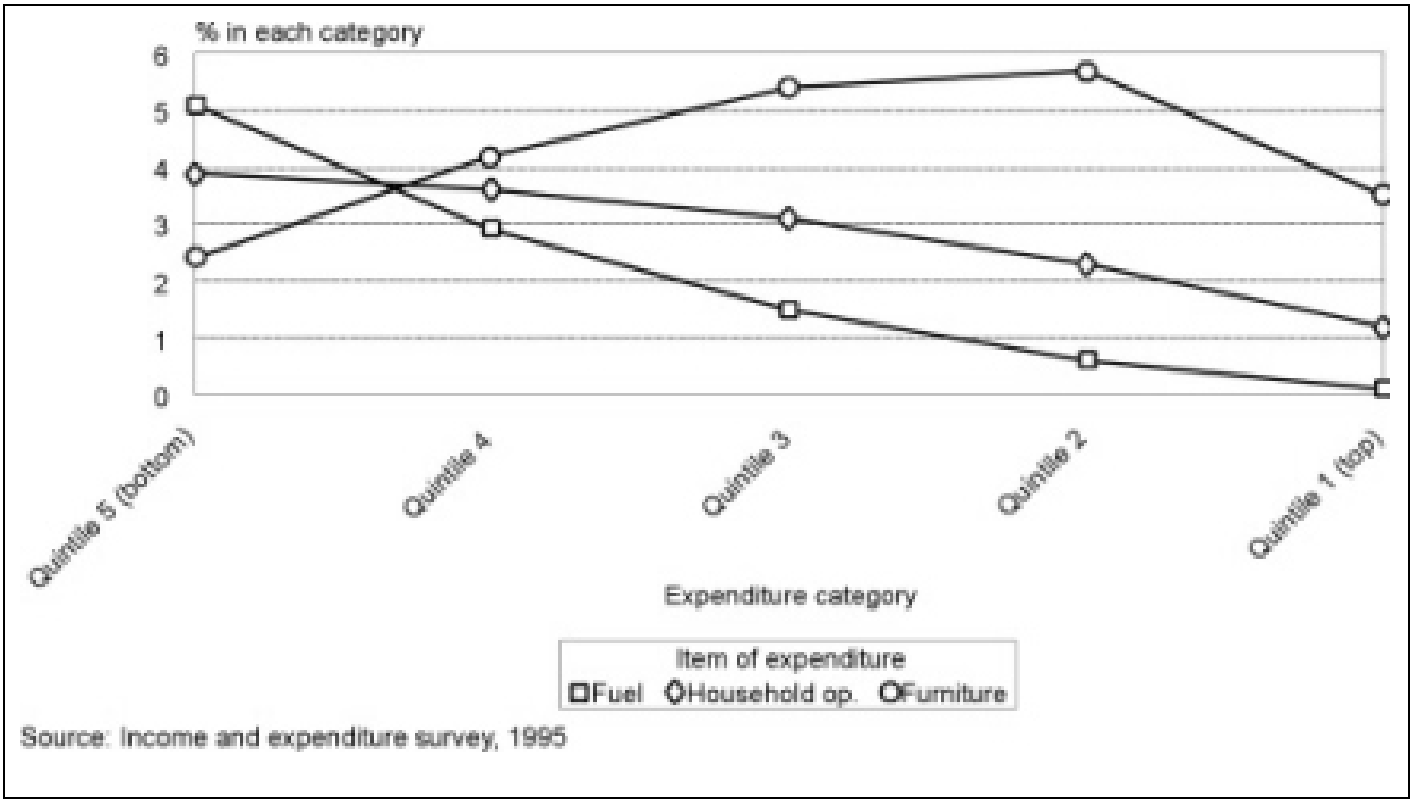


Figure 11: Annual household expenditure on fuel and power, furniture and goods for household operation by expenditure category

Percentage in each expenditure quintile spent on footwear and clothing, personal care and recreation

Figure 12 (in which percentages in the graph are shown to one decimal place because of the small proportions involved) shows that more affluent households tend to spend proportionately more on recreational activities such as reading, sport, holidays and restaurants and proportionately less on footwear and clothing than other households.

- Households in the bottom expenditure category spend less than 1% on average of total expenditure on recreational activities, compared to 4% spent by the most affluent households.
- Households in all quintiles, except the top quintile, tend to spend roughly the same proportion, on average, on items for personal care.
- Households in quintiles 4 (8,1%) and 3 (8,1%) spend a larger proportion of available money, on average, on footwear and clothing, compared to households in the other quintiles.

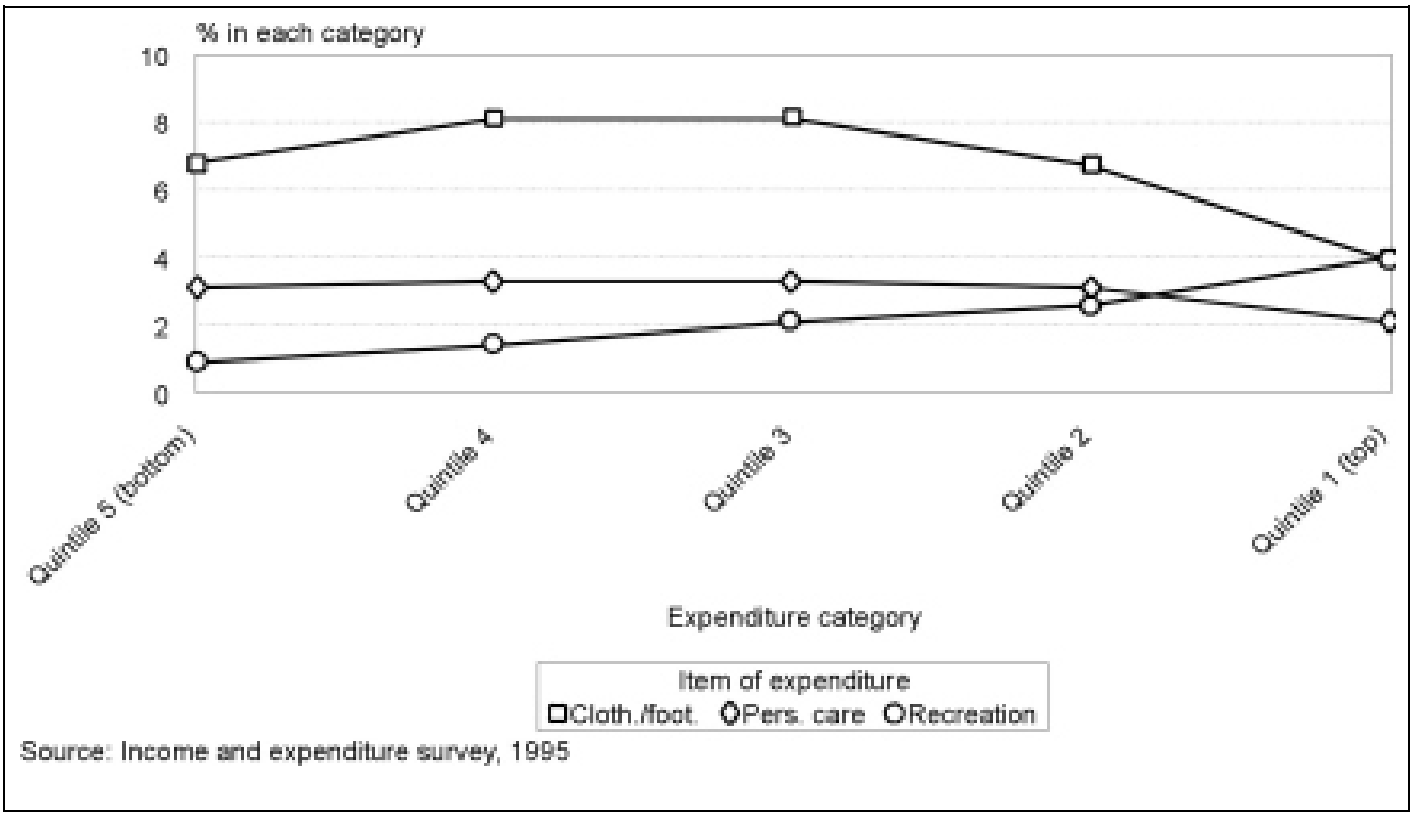


Figure 12: Annual household expenditure on clothing and footwear, personal care and recreation by expenditure category

Expenditure on income tax

As would be expected, households in the higher expenditure quintiles pay more income tax than those in the lower quintiles. But the extent of these differences in income tax payments across quintiles is striking.

- The average household pays 14,7% of expenditure on income tax (percentages are shown to one decimal place in the graph, because of the small proportions of expenditure involved).
- Figure 3 indicates that households in the bottom expenditure quintile pay 0,5%, on average, of their total expenditure on income tax. This proportion rises to 3,6%, on average, in the second lowest quintile, then to 8,5% in the third, 12,1% in the second highest and 17,7% in the highest quintile.
- Expenditure on value-added tax (VAT), which affects households in all quintiles, is not taken into account in these estimations.

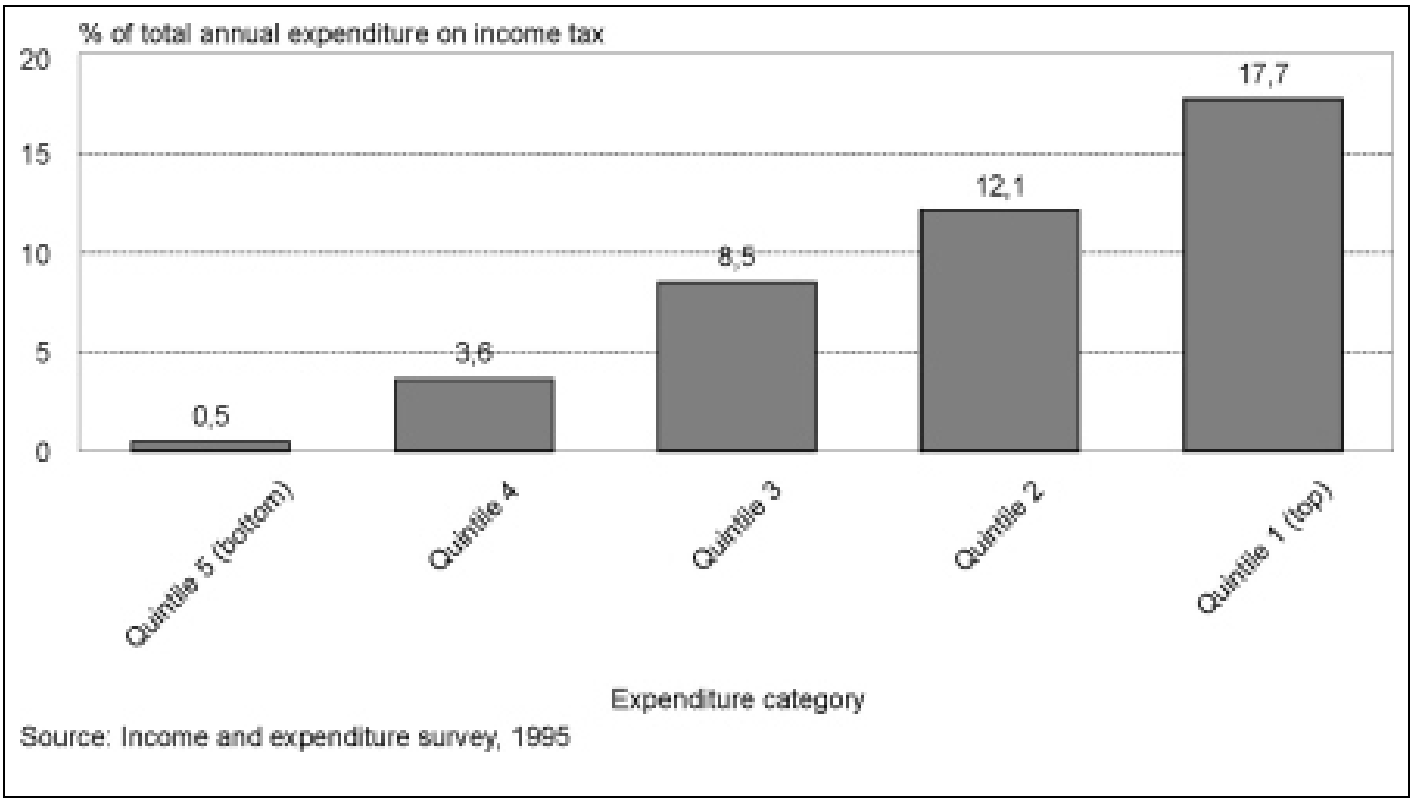


Figure 13: Percentage of annual household expenditure on income tax in each expenditure category

Savings and investments

In general, a very small proportion of total expenditure in the average South African household goes on savings (1,3%), investments (0,8%), pension funds (1,6%) or insurance (3,3%) (decimal places are shown because of these small proportions). But, in spite of such small proportions, there are large variations when comparing expenditure quintiles.

- Figure 14 shows that, for households in the bottom quintile, no money is spent on pensions and investments, and very little, on average, is spent on insurance (0,3%) or savings (0,2%). This proportion increases as overall expenditure increases.
- In the top quintile, proportionately more money, on average, is spent by households on insurance (4,3%) than on pension funds (2,1%), savings (1,5%) or investments (1,1%).

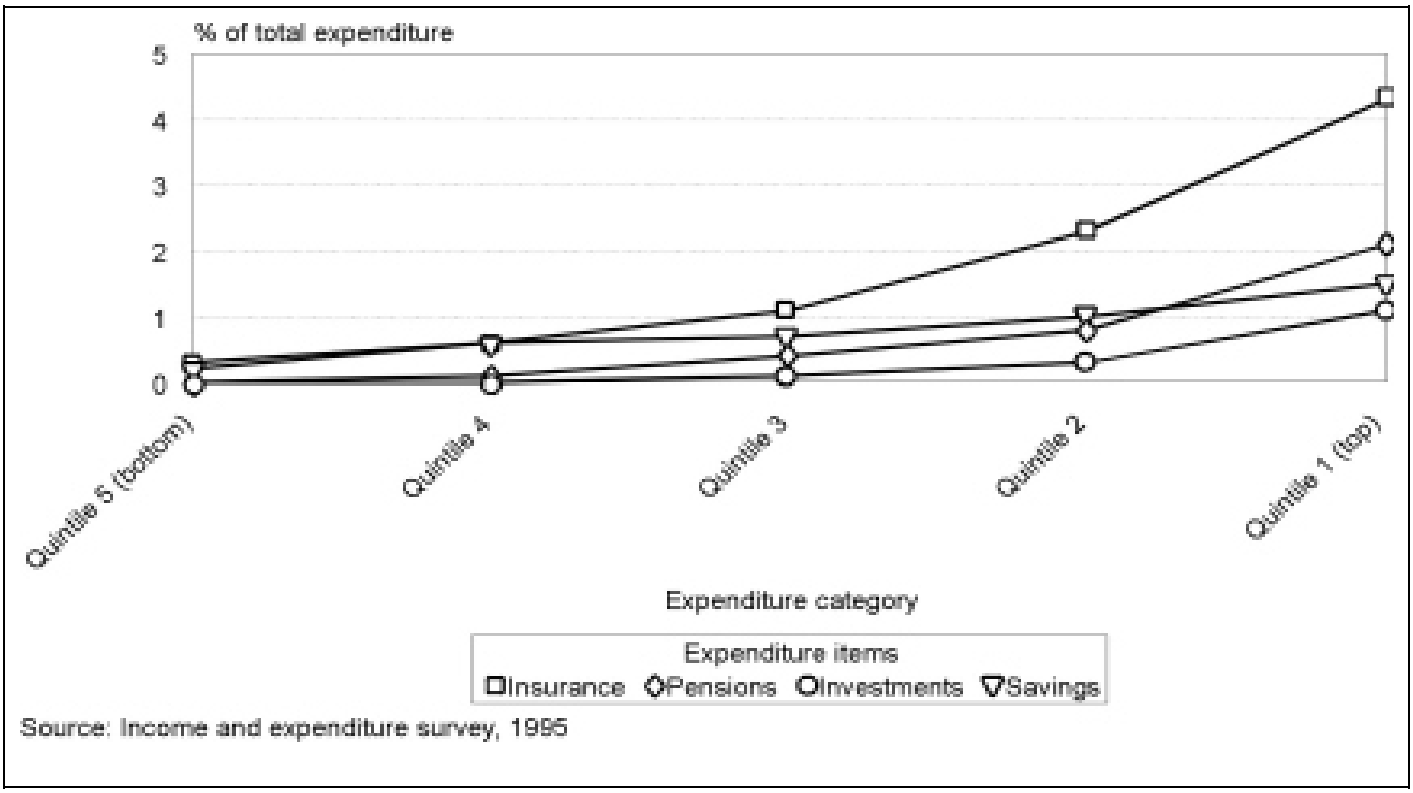


Figure 14: Annual household savings and investments in each expenditure category

It thus appears that, once the vast majority of households has spent its available money on basic requirements such as food, housing, clothing and fuel, there is very little left for savings, including insurance, pension funds and investments. Only the more affluent seem able to save and, even in the top quintile, this represents a small proportion, on average, of total expenditure.

A closer examination of food expenditure

In an earlier section, we observed that more than half of all expenditure, on average, goes towards buying food in the poorest households. In this section, we examine the amount of money in rands, on average, that is spent by households in each quintile on food, and the type of food that is purchased by households in each quintile.

Food expenditure in rands by quintile

The average South African household spends R6 531 on food per annum. But this amount varies by expenditure quintile. Although, the poorest households spend more than half of their available money on food, on average, the actual amount they spend is rather small.

- Figure 15 shows that the average household in the bottom expenditure quintile spends R2 190 per annum on food. This amount, as we have seen, is 51% of their total expenditure.
- Households in the top quintile spend an average amount of R12 718 on food per annum. This, as we have seen is only 12% of their total expenditure.
- This spending pattern does not take into account household size. The figures therefore probably overestimate consumption levels of households in the bottom quintiles, since poorer households are likely to contain more people than more affluent ones. We have seen, for example, in Section 2 of this report, that average earnings are lower in those households with six or more people than they are in households with two to five people.

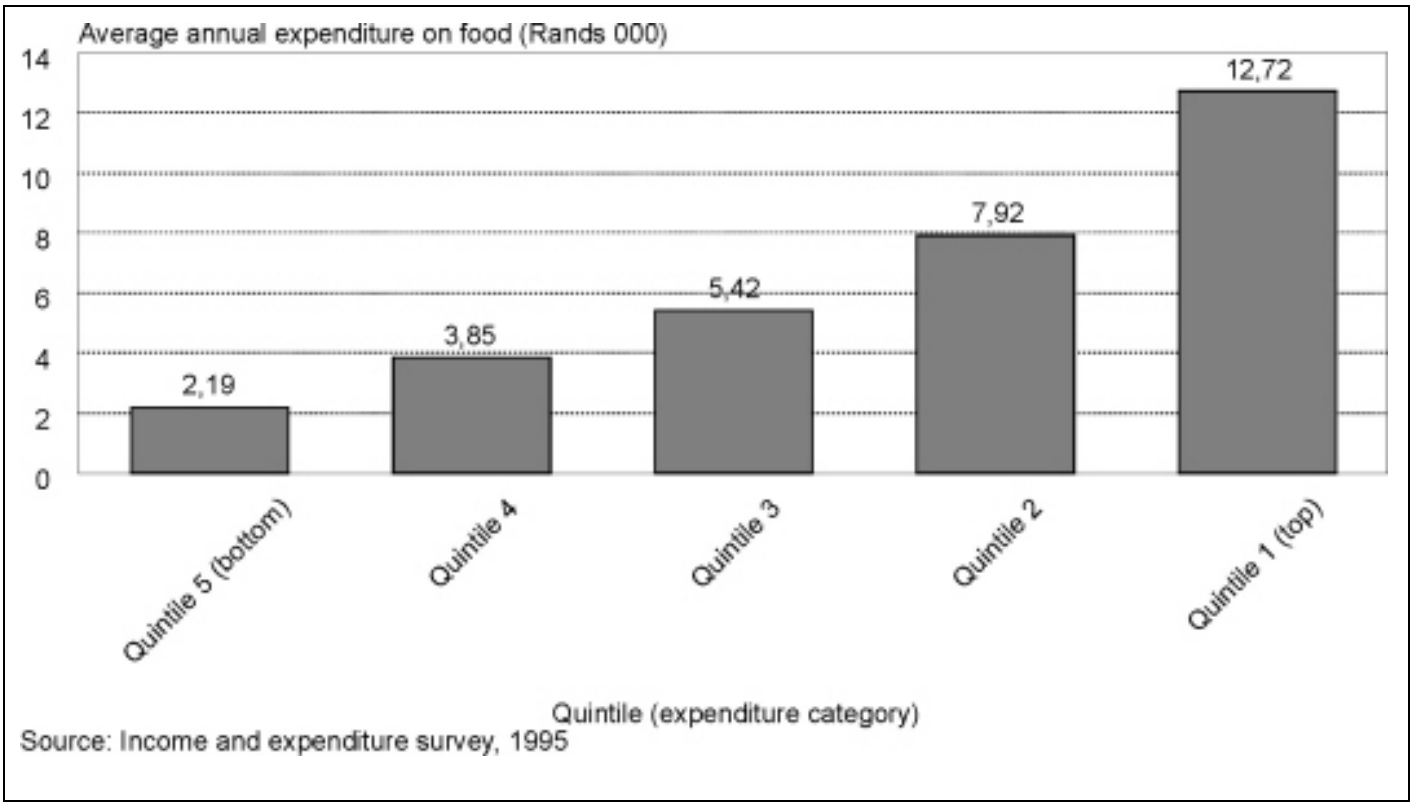


Figure 15: Average amount in rands spent on food among households in each expenditure category

Type of food products that the average household purchases

In this section, we look at household expenditure on food as being 100%. We then calculate the percentage of food expenditure, on average, on each food group.

Figure 16 indicates that, on average, the main items of food expenditure are meat, including chicken, (27%), grain products (23%), vegetables (10%) , and milk and dairy products (10%).

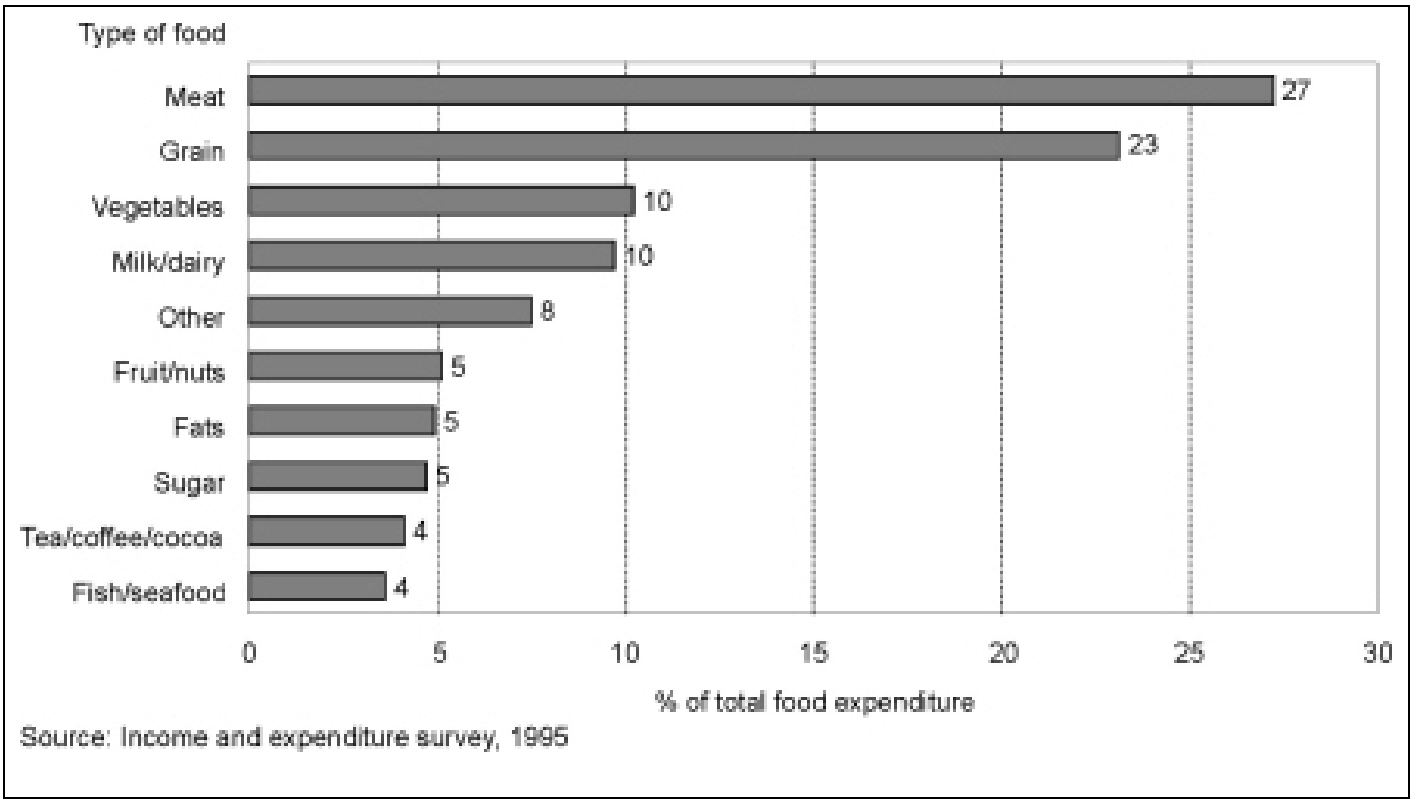


Figure 16: Proportion of total food expenditure spent, on average, on each type of food

Proportion of total food expenditure spent on selected food items in each quintile

We now examine the proportion of total food expenditure, on average, that is spent on selected food items, by households in different expenditure quintiles.

- Figure 17 shows that households in the bottom quintile tend to spend 36% of their total food expenditure on grain products such as mealie meal, bread and rice. On the other hand, they spend a relatively small proportion (19%), on average, on meat and fish.
- As household income increases, the proportion of total food expenditure on grain tends to decrease, and the proportion of food expenditure on meat and fish tends to increase.
- In the top quintile, only 17%, on average, of total food expenditure goes towards buying grain products, while as much as 36% goes towards purchasing meat and fish.

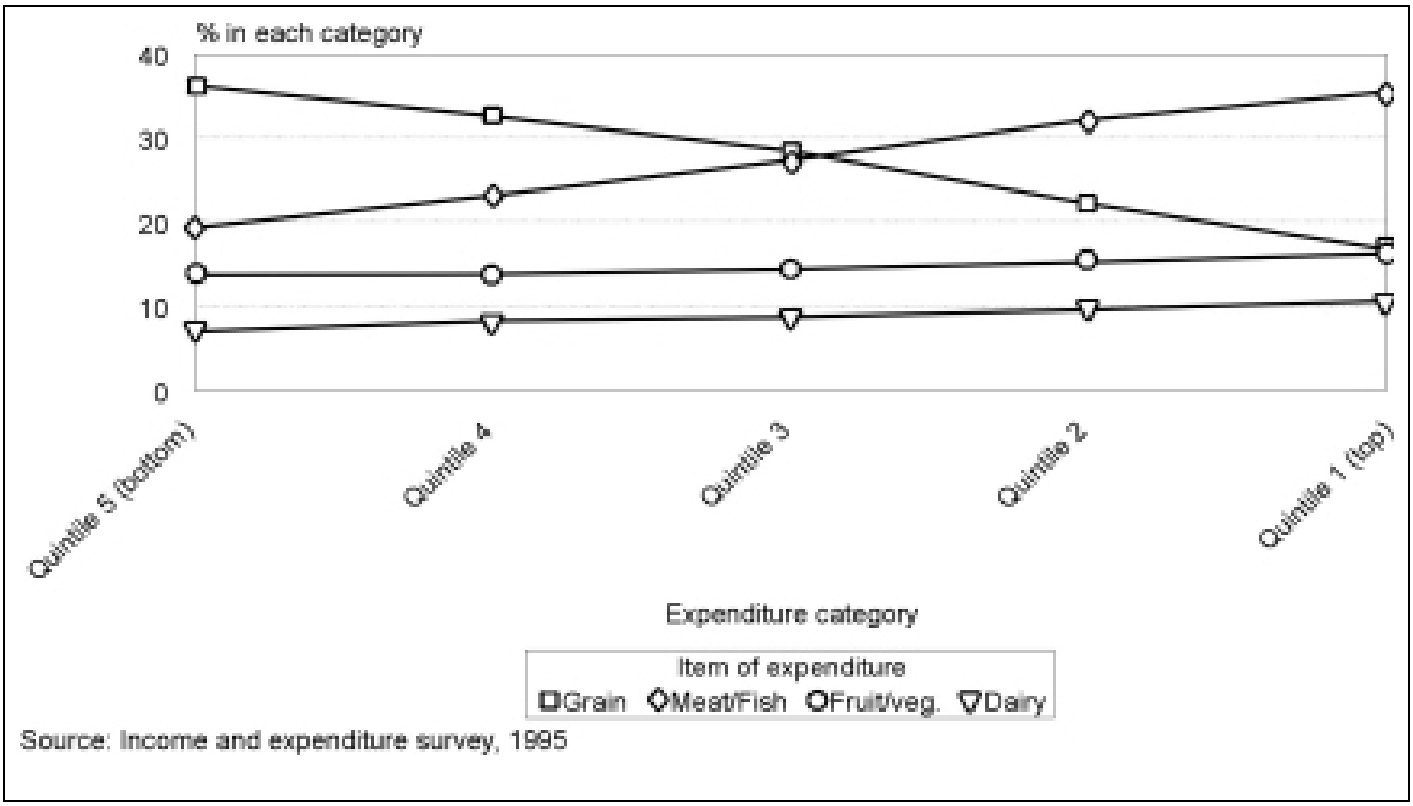


Figure 17: Proportion of expenditure spent on selected food items by expenditure category

Dietary patterns are therefore very different in rich and poor households. This, in turn, may be reflected in the health and nutritional status, patterns of disease and life-expectancy of household members. For example, malnutrition is more likely to occur among those households which cannot purchase sufficient food to meet the basic requirements, in calories, of each household member. In some countries, an absolute index of poverty has been determined, whereby the cost of a basket of food containing a minimum amount of calories required for a healthy life-style by each member of a given household is calculated. Poverty, purchasing power, diet, health and life circumstances are all closely interlinked.

Summary

The amount of money South African households spend differs widely by quintile. The poorest 20% of households spend only 3%, while the most affluent 20% of households spend as much as 61% of total national household expenditure. Poor households tend to spend proportionately much more of their available money on food than more affluent ones, even though the actual amount spent on food is comparatively little. In addition, in poor households, proportionately more of the total food expenditure goes towards purchasing

cereals and grain products, while in more affluent households proportionately more money is spent on meat and fish. In general, relatively little money finds its way into savings, even among more affluent households.

Thus, the substantial income inequalities described in the previous chapter translate into different expenditure patterns, with poorer households buying a smaller variety of essential goods and services, and more affluent households spending a smaller proportion on essential purchases, and buying a wider range of non-essential products and services.

Section 4
Comparing the surveys of 1990 and 1995

Introduction

In this section, we compare the findings of the two most recent income and expenditure surveys, namely the *survey of household expenditure* of 1990, as reported by the Central Statistical Service in 1992, and the *income and expenditure survey* of 1995, on which this report is based. We examine similarities and differences in 1990 and 1995 with regard to the following:

- *Average annual household income* by race of the head of household.
- Average annual income by the race of the head of household in *each quintile*.
- The *percentage* of households in each quintile by the race of the household head.
- The proportion of *expenditure* on different items by the race of the head of household.

Making the two surveys comparable

The reader will recall from Section 1 of this report that the *areas* in which the 1990 and the 1995 surveys were conducted differed from each other. In 1990, the survey was conducted amongst households in the 12 main urban areas of South Africa, while in 1995, it was conducted in all parts of the country. The two studies are therefore not directly comparable.

In order to make the two studies comparable, the following steps were taken:

- We selected only those households from the 1995 survey which were situated in the 12 main urban areas where the 1990 survey was conducted.
- Average annual household incomes indicated in 1990 were inflated to 1995 values.
- Expenditure patterns were compared in these 12 main urban areas by taking the percentage of total expenditure for each type of product or service, rather than focusing on the actual amount.

While these comparisons do indicate trends, the findings for 1995 should be treated with caution, since the sample size in the 12 main urban areas tended to be rather small, particularly for coloured and Indian households.

Income comparisons

In the 12 main urban areas of the country, we firstly look at average annual household incomes in 1990, inflated to 1995 values, and compare these to the 1995 values. We also study average annual incomes in each quintile for African, coloured, Indian and white households, and the proportion of households in each quintile by race.

Average annual household incomes in 1990 compared with 1995

Table 7 describes the average annual household income in each population group in the 12 main urban areas of the country, adjusted for inflation, in 1990 and 1995. It shows that, on average, the annual incomes of African, coloured and Indian households living in these 12 areas rose substantially, while the incomes of white households decreased slightly.

It is also noteworthy that the average annual incomes in the 12 main urban areas are generally significantly higher than those in other parts of the country, as indicated in Chapter 2. For example, in October 1995, in all parts of the country, the average annual household income was R41 000, compared with more than double this amount (R83 000) in the 12 main urban areas.

Table 7: Distribution of household income by population group in 1990 and 1995 in the 12 main urban areas of the country

Year	Income in Rands (000)				
	African	Coloured	Indian	White	All groups
1990: **Mean**	12	22	26	69	39
1990 inflated to 1995 values: **Mean**	20	38	45	117	67
1995: **Mean**	48	64	87	113	83

Average annual income in each quintile in 1990 and 1995 by race

Annual household incomes by quintile, with each quintile containing approximately 20% of households, were recalculated for the 12 main urban areas for both 1990 and 1995. This was necessary for the 1990 survey, since the data set had previously been divided into *three* income categories, not quintiles, for analysis. In 1995, it was also necessary to recalculate quintiles, since in this report *national* income quintiles were used for analysis, rather than those for the 12 main urban areas. As we have seen, annual average household incomes are substantially higher in the 12 main urban areas than they are in the rest of the country.

The new quintile groups for 1990 and 1995 are indicated in Table 8. The bottom quintile represents those households with very low, and the top quintile those with very high, incomes for the 12 main urban areas for each year.

Table 8: Income quintiles for the 12 main urban areas in 1990 and 1995

Quintiles	1990	1995
Quintile 1 (top)	R46 800 or more	R118 800 or more
Quintile 2	R22 800-46 799	R69 360-118 799
Quintile 3	R12 220-22 799	R39 600-69 359
Quintile 4	R6 900-12 219	R18 360-39 599
Quintile 5 (bottom)	R6 899 or less	R18 359 or less

Table 9 shows the average annual income in each quintile by race, using for all races the quintile breaks as defined in Table 8. When comparing the poorest households in 1990 with the poorest households in 1995 (quintile 1), it is noteworthy that, for the main urban areas, average annual income of the poorest 20% had substantially improved. It had gone up from approximately R7 000 in 1990 to R12 000 in 1995 for all races (1990 figures adjusted for inflation).

Table 9: Average annual income in each quintile for 1990 and 1995 by race

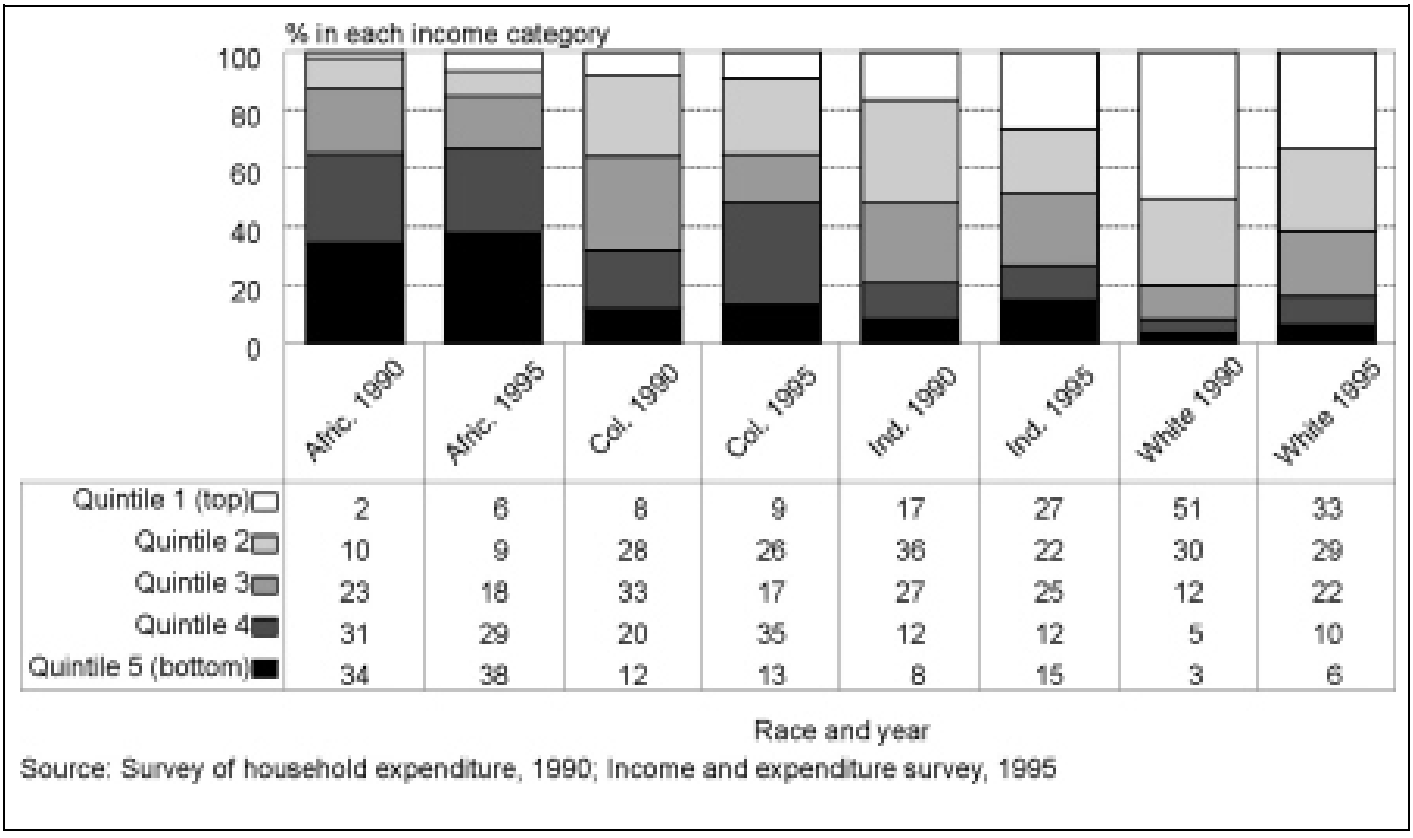
Year	Income in Rands (000)				
	African	Coloured	Indian	White	All groups
1990 mean income:					
Quintile 1 (top)	68	68	78	97	95
Quintile 2	30	33	32	35	34
Quintile 3	16	17	17	18	17
Quintile 4	9	9	9	10	9
Quintile 5 (bottom)	4	5	5	5	4
1990 mean income inflated to 1995 values:					
Quintile 1 (top)	116	115	133	165	162
Quintile 2	52	56	55	60	58
Quintile 3	28	29	29	30	29
Quintile 4	16	16	17	17	16
Quintile 5 (bottom)	7	8	9	8	7
1995 mean income:					
Quintile 1 (top)	236	159	170	198	201
Quintile 2	88	98	89	93	92
Quintile 3	52	53	50	52	52
Quintile 4	27	26	33	28	27
Quintile 5 (bottom)	12	13	13	13	12

The average annual income of African households in the top quintile had increased very substantially in 1995, compared with 1990, but only 6% of all African households were in this top category in 1995, compared to 33% of all white households. The relatively small sample size of African households in this top income category means, however, that these results should be treated with caution.

Percentage of households in each quintile in 1990 and 1995 by race of household head

Figure 18 indicates the proportion of households in each income quintile by the race of the head of household in 1990 and 1995 in the 12 main urban areas. It shows that, while there is an overall improvement in average household incomes among African-headed households, as well as in average household incomes in each quintile, inequalities between Africans seem to be increasing. For example, in 1990, 34% of African households were in the bottom income quintile. This proportion increased to 38% in 1995. In 1990, there were only 2% of African households in the top quintile, but this proportion increased to 6% in 1995.

A similar pattern can be seen among Indian households, although this pattern should be treated with caution, because of the small number of Indian households in the 12-area sample of 1995. For example, in 1990, 8% of Indian households were found in the bottom income quintile, while in 1995, this proportion had increased to 15%. At the other extreme, 17% of Indian households were in the top quintile in 1990, compared with as many as 27% in 1995.



	Afric. 1990	Afric. 1995	Col. 1990	Col. 1995	Ind. 1990	Ind. 1995	White 1990	White 1995
Quintile 1 (top)	2	6	8	9	17	27	51	33
Quintile 2	10	9	28	26	36	22	30	29
Quintile 3	23	18	33	17	27	25	12	22
Quintile 4	31	29	20	35	12	12	5	10
Quintile 5 (bottom)	34	38	12	13	8	15	3	6

Race and year

Source: Survey of household expenditure, 1990; Income and expenditure survey, 1995

Figure 18: Proportion of households in each income quintile by race of household head

When looking at the income distribution by quintiles among whites in the 12 main urban areas, proportionately fewer households were found in the top income quintile (33%) in 1995 compared to 1990 (51%), and proportionately more in the lower three quintiles. There is therefore a pattern of increasing equality in incomes in comparison with the other race groups.

Expenditure comparisons

In Table 10, we indicate the proportion of total expenditure of the average African, coloured, Indian and white household on different items of expenditure in 1990 and 1995.[10]

This table shows that the main items of expenditure in both 1990 and in 1995 were food, housing, income tax, insurance, savings and investment and transport.

- Among African households, on average, the proportion of total expenditure on housing and transport rose substantially in 1995 compared to 1990, while the proportion on food, and income tax, insurance, etc., decreased slightly.
- Among coloured households, on average, the proportion of total expenditure on food decreased, and the proportion of expenditure on housing, and income tax, insurance etc. increased in 1995 compared to 1990.
- Among Indian households, on average, the proportion of expenditure on food decreased substantially, in 1995 compared to 1990, while the proportion of expenditure on transport increased significantly.
- Among white households, the most noticeable decrease between 1990 and 1995 was in the proportion of expenditure, on average, that went towards income tax, insurance, savings and investments. The most notable increase involved expenditure on transport.

[10] In 1990, expenditure on income tax and insurance was given as one category. Therefore, the 1995 categories were made comparable with those used in 1990, and expenditure on insurance and income tax was combined.

Table 10: Percentage of total annual expenditure per item by race in 1990 and 1995

Item of expenditure	African		Coloured		Indian		White	
	1990	1995	1990	1995	1990	1995	1990	1995
	%	%	%	%	%	%	%	%
Food	22	20	27	21	23	16	12	12
Drinks	3	3	1	2	1	1	1	1
Tobacco	2	1	2	1	1	<1	1	1
Clothing	8	5	4	6	4	4	3	2
Footwear	2	2	1	2	1	1	<1	1
Housing	6	15	14	18	15	17	21	20
Fuel and power	3	<1	4	<1	4	<1	2	<1
Furniture and equipment	4	6	3	5	4	3	2	2
Household operation	3	2	2	2	2	2	1	1
Domestic workers	<1	1	1	2	1	1	1	2
Medical services and requirements	2	4	3	4	4	5	3	5
Transport	5	12	6	6	7	13	7	13
Communication	1	2	2	2	2	4	1	2
Recreation, sport, etc.	1	2	2	2	2	3	3	3
Reading matter	1	1	1	<1	1	<1	<1	<1
Education	2	1	1	1	1	2	1	2
Personal care	3	3	3	3	2	3	2	2
Restaurants, bars etc.	1	1	1	1	1	1	1	1
Holidays	1	<1	1	<1	1	<1	2	<1
Income tax, insurance, savings,	20	17	19	21	22	21	34	28
investments	10	2	2	1	1	2	2	2
Other	**100***	**100***	**100***	**100***	**100***	**100***	**100***	**100***
Total								

* Due to rounding totals do not always add up to exactly 100%

Measures of income inequality

We now compare incomes in the 12 main urban areas of South Africa in 1990 and 1995, using Lorenz curves and Gini coefficients.

Figure 19 shows that, in the *12 main urban areas*, incomes have become less unequal in 1995, compared to 1990. This applies particularly to those in the middle and upper income ranges.

- The poorest continued to earn extremely little of all household income in the *12 main urban areas* both in 1990 and in 1995. For example, the poorest 20% of households earned 2% of all income in 1990 and the same 20% earned 2% in 1995. (This excludes small urban and non-urban households).
- Among those in the middle range, however, an improvement in income distribution is becoming apparent: 50% of households were earning 13% of income in 1995, while the same proportion of 50% were earning only 10% of income in 1990.
- Those in the upper range in the 12 main urban areas, however, had a smaller share of income in 1995 than they did in 1990. The most affluent 20% of households earned 60% of all household income in 1995, while they earned a larger proportion of 70% in 1990.

It therefore seems as if the income, and hence life circumstances, of those households in the middle income range is improving more rapidly, while for the poorest in the main urban areas, life circumstances and income are improving less rapidly.

The danger in this pattern is the creation of a large under-class of marginalised people in the main urban areas of the country, at the same time as the life circumstances of those in middle-income range improve. Careful monitoring of the life circumstances of the poorest people over time is therefore necessary for any future policy formulation and implementation.

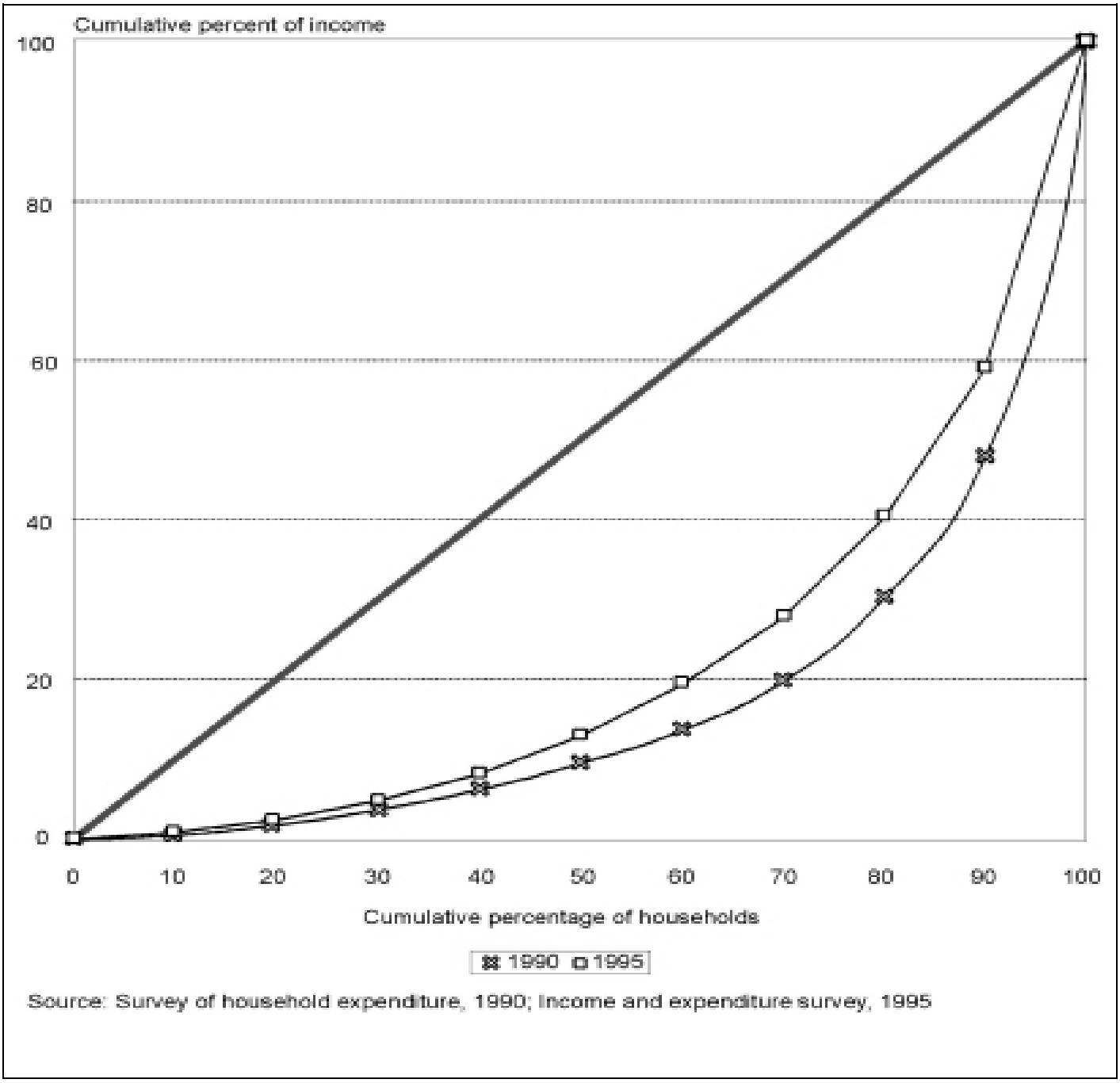


Figure 19: Lorenz curve: households in the 12 main urban areas, 1990 and 1995

Table 11 compares the Gini coefficients in 1990 and 1995 among all households in the 12 main urban areas, and by race.

- This table shows that, overall, income disparities are becoming less in the 12 main urban areas of South Africa, since the overall Gini coefficient has decreased from 0,63 to 0,55.
- Among African, coloured and Indian households, however, the gap between the poor and the more affluent is widening.
- On the other hand, among white households, the gap between the poor and the more affluent is narrowing.

Table 11: Gini coefficients in the 12 main urban areas in 1990 and in 1995

Variable	Gini coefficient, 1990	Gini coefficient, 1995
All households	0,63	0,55
Population group:		
African	0,35	0,51
Coloured	0,37	0,42
Indian	0,29	0,46
White	0,50	0,44

Summary

On average, it seems as if an increase in income among African, coloured and Indian households in the 12 main urban areas of the country is associated with spending proportionately less of the total household expenditure on food, and proportionately more on income tax, insurance, transport and housing. A decrease in income, on average, and a move towards proportionately fewer households being found among the top 20% of earners among whites, is associated with spending proportionately less on income tax, insurance, savings and investments.

Income disparities between households in middle and upper income brackets is decreasing in the 12 main urban areas, but the poorest households continue to have access to an extremely small proportion of all household income. Among African, coloured and Indian households, the gap between poor and more affluent is growing, while it is decreasing among white households.

Section 5
Summary and conclusions

This study has demonstrated that income distribution in South Africa is highly unequal, and that this inequality is vividly reflected in household expenditure patterns.

Income inequalities

Incomes in South Africa are unevenly distributed by race and gender, by urban and non-urban areas of residence, and by province.

- African households have the lowest average annual income in the country, followed by coloureds, Indians and then whites.
- Average annual household income varies, not only by province, but also by urban and non-urban place of residence, type of dwelling in which the household lives, household size, and by occupation and gender of the head of household.
- As many as 23% of all African households fall into the bottom income category or quintile, compared with 11% of coloured, and 1% of Indian and white households.
- Female-headed households, 26% of which are in the bottom income category, are generally less affluent than male-headed ones, of which only 13% are in the bottom category.
- African, female-headed households are generally poorer than African, male-headed ones, followed by coloured, female-headed, and then coloured, male-headed households. White, male-headed households are the most affluent in the country, with as many as 73% in the highest income quintile.
- South Africans living in households in non-urban areas are likely to be poorer than South Africans living in households in urban areas. Twenty-nine percent of non-urban households are found in the bottom income category, compared with only 8% of urban households.
- A large proportion of non-urban, female-headed households are amongst the poorest in the country, since 37% are in the lowest, and 28% in the second lowest income quintiles.
- Urban, female-headed households are likely to be more affluent than male-headed households in non-urban areas. Only 15% of urban, female-headed households are in the bottom income quintile, as against 23% of non-urban, male-headed households.
- While white households are the most affluent group in the country, white, female-headed households in both urban and non-urban areas are relatively poorer than male-headed ones. The incomes of white, male-headed households are very similar in both urban and non-urban areas, since 73% of households in urban and 75% in non-urban areas are found in the highest income quintile.
- Incomes are unequally distributed by province. Proportionately more of those living in the Eastern Cape and the Free State are in the bottom income category. There are relatively few households in the bottom income categories in the Western Cape or in Gauteng, which are the most urbanised provinces in the country.

- Income distribution is most unequal in the Free State, with as many as 60% of all female-headed, non-urban households falling into the bottom income category, followed by the Eastern Cape, with more than half (53%) of all female-headed, non-urban households falling into the bottom income category.
- Compared with households in the other provinces, incomes in Mpumalanga households are the most evenly distributed, among both male- and female-headed households in both urban and non-urban areas. A relatively large proportion of households (28%) in this province are in the middle income quintile.

Expenditure patterns

Expenditure patterns in South Africa show a great deal of variation among households in the various quintiles.

- A large proportion of expenditure in the average South African household (59%) is on four items – food (18%), housing (16%), income tax (15%) and transport (10%).
- Households in the bottom expenditure quintile spend only 3% of total average annual expenditure in the country, while households in the top expenditure quintile spend as much as 61%.
- Households in the bottom expenditure quintile spend as much as 51% of their total annual average expenditure on food, while households in the top quintile spend 12% of their total annual expenditure on food.
- The poorest households spend only 3% of their total average annual expenditure on transport, while the most affluent spend 12% (including the purchase of vehicles).
- Poorer households spend a relatively larger proportion of their available money on fuel and power for heating and lighting, compared to more affluent households.
- Poorer households spend very little on sport and recreation, reading matter, restaurants and holidays, compared to more affluent households.
- The average household spends 15% of total annual expenditure on income tax, but households in the bottom quintile spend only 0,5% of their total annual expenditure on income tax, compared with the 18% that households in the top quintile spend.
- In general, a very small proportion of earnings in South Africa goes towards savings, investments and insurance and pension funds.

Since food expenditure forms such a high proportion of the spending in poor households, we examined food expenditure in more detail.

- Households in the bottom quintile spend just over R2 000 per annum on food, compared with approximately R13 000 spent by households in the top quintile.
- The poorest households spend more than a third of their total food expenditure on grain products, while the more affluent spend more than a third of their total food expenditure on meat and fish.
- Expenditure patterns in South Africa clearly indicate the extent of inequalities that persist in the country.

Comparisons between 1990 and 1995

- On average, when comparing 1990 and 1995, it is noteworthy that there has been a substantial increase in the annual incomes of African, coloured and Indian households in the 12 main urban centres.
- This increase is associated with spending proportionately less on food, and proportionately more on housing and transport.
- Among African, coloured and Indian households, income inequalities in the 12 main urban areas is increasing, while among white households, it is decreasing.

Conclusions

The effects of past apartheid policies are evident when examining the disparities in incomes. Africans generally, and non-urban African women and men in particular, are the poorest groups in the country.

As the new government addresses the inequalities of the past, it will be able to measure change in income distribution through studies such as this one.

In particular, it will be able to monitor income disparities between the poor and the more affluent in the 12 main urban areas in the country. Indeed, this survey, on which weights for the CPI are based, can be used for a variety of other purposes.

- It can be used as a base-line survey to monitor changes in average incomes among different sub-groups of society over time.
- It can be used to monitor changes in income distributions over time.
- It can be used to monitor changes in proportions of expenditure on food and on other items over time.
- The proportion of income tax expenditure in each quintile, as income distribution changes, can be monitored.
- It can monitor changes in savings patterns, in relation to economic growth and changes in income distribution.

Monitoring of change in income distribution has already been achieved in the 12 main urban areas over the time period between 1990 and 1995. In five years' time, when the next income and expenditure survey is conducted, it will be possible to examine change in income distribution *throughout the country*, rather than only in 12 main urban areas.

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