

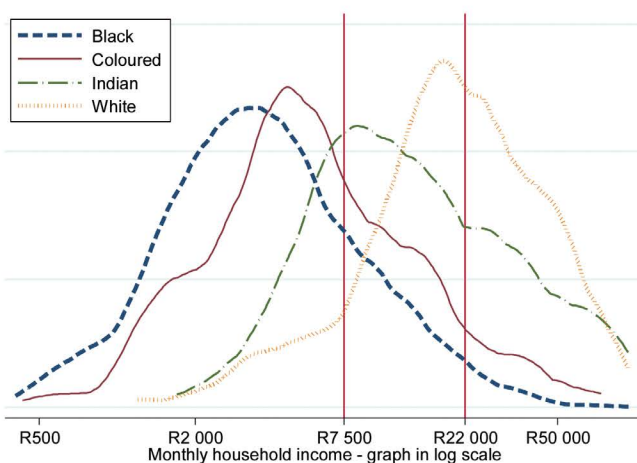
The emergent South African middle class

The middle class plays a pivotal role in South Africa not only from a purely economic perspective, but also from a social and political point of view. The growing black share of the middle class suggests that race may be becoming disassociated from class. There is some uncertainty surrounding the magnitude of this shift, but what appears to be clear is that the middle class is slowly becoming more racially representative and this is a promising sign.

Increasing inequality within race groups

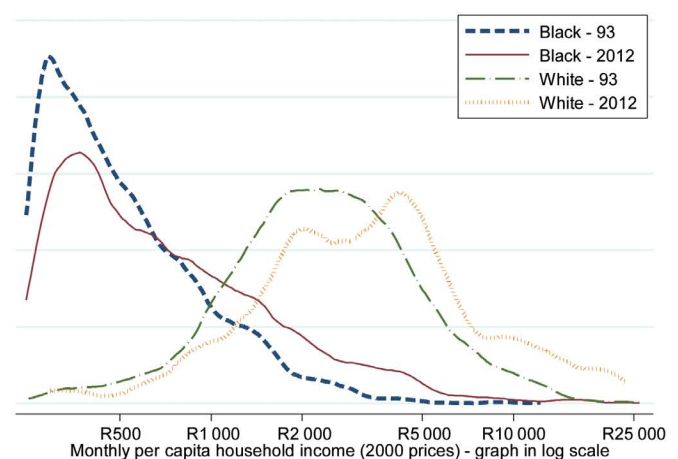
- There has been an increase in overall income inequality between 1993 and 2000
- Since 2000 inequality has not changed much due to two opposing trends:
 - Greater inequality within race groups
 - Lower inequality between race groups (although it remains extremely high in comparison to most other countries – see Figure 1)
- This is attributable to a more equitable arrangement of opportunity in post-apartheid South Africa (see Figure 2)
- These trends are expected to continue over the short to medium term
- As a consequence of this rising inequality within race groups and the diminished inequality between race groups, inequality within race groups is now the dominant form of inequality
- If the black population was considered to be a nation, they would have been one of the most unequal countries in the world
- The growth in the black share of the middle class is a significant contributor to the greater inequality observed within race groups

FIGURE 1: INCOME DISTRIBUTION BY RACE, 2012



Source: Own calculations based on NIDS 2012

FIGURE 2: INCOME DISTRIBUTION 1993 IN COMPARISON TO 2012



Source: Own calculations based on PSLSD 1993 and NIDS 2012 data.

Growth of the South African middle class

- The middle class has increased since the transition
- Using the cut-off of R25 000 per capita income per year (in 2000 prices), the number of individuals in the middle class has grown from 3.6 million in 1993 to 7.2 million in 2012.
- As proportion of the population this income category has risen from 8.2% to 13.9% over this period

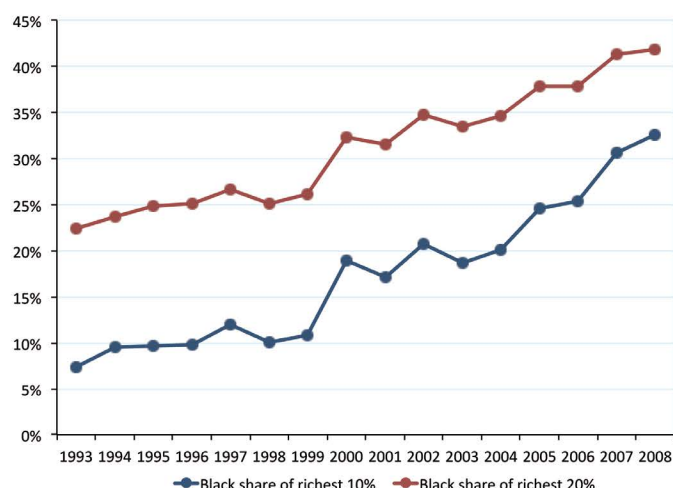
WHAT IS THE MIDDLE CLASS?

'Middle class' is a term that is borrowed from a developed country literature. In developed countries there is a substantial middle layer of society with individuals who are well educated, skilled and earn a good salary. However, when applying this concept to highly unequal developing countries such as South Africa, there is a tension between the attributes associated with a middle class in the developed country literature and the middle segment of the income distribution: if you decide to interpret the term literally and use a centrist measure such as a median to define the middle class you will find that the group of South Africans have little tertiary education, do not earn much and are in unskilled and semi-skilled occupations. However, if you opt to classify the middle class based on criteria such as education, skilled occupations and earnings, then this group will rank very close to the top of the income distribution with only a very thin slither of society above them (often 1% to 3% of the population). In this study we opted for the latter approach and defined the middle class using a minimum income or expenditure level (thus also including the thin slither above this group). In this study we experimented with alternative approaches to defining the middle class, but to avoid contradictions we concentrate on the results pertaining to our income measures in this report.

The emergent middle class

- There has been a dramatic expansion in the middle class and a large share of this growth is amongst black South Africans
- The number of black South Africans with an income above the threshold of R25 000 per capita (in 2000 Rand terms) increased from 0.3 million in 1993 to almost 3 million in 2012
- The black share of the middle class increased from 10.7% to 41.3% over this period
- The black share of the richest 10% or 20% of the population has shown strong increases throughout the past fifteen years according to AMPS data (see Figure 3 below)
- The rise of the black middle class is part of a long process of upward mobility that can be traced back to at least the 1960s
- However this process was constrained and interrupted by political factors and by low economic growth in the 1970s and 1980s
- A catch up process clearly contributed to the post-transition growth of the black middle class, once apartheid factors that had prevented black economic mobility had been removed
- Much of this catch-up has now been completed and one would therefore expect some slowdown of the growth of the black middle class
- Poor education is the major constraint to more rapid growth of the black middle class

FIGURE 3: BLACK SHARE OF THE RICHEST 10% AND 20% OF THE POPULATION



Source: Own calculations based on AMPS data

TABLE 1: COMPARISON OF MIDDLE CLASS BETWEEN 1993 AND 2012

| | 1993 | 2012 |
|--|-----------|-----------|
| Blacks | 340 874 | 2 991 143 |
| Total | 3 562 874 | 7 243 596 |
| % of population | 8.19% | 13.86% |
| % of black population | 1.04% | 7.19% |
| Black share | 10.73% | 41.29% |
| Rural | 9.04% | 10.63% |
| Average per capita household income | 4 530 | 5 523 |
| Characteristics of the household head | | |
| Age | 42.19 | 44.43 |
| Years of education | 11.34 | 12.38 |

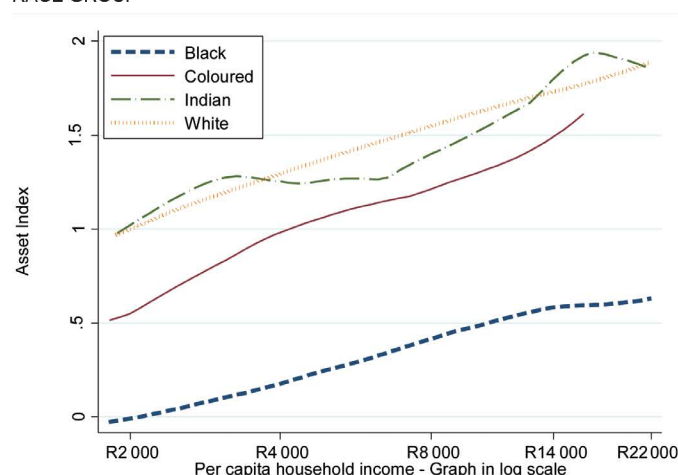
Source: Own calculations based on PSLSD 1993 and NIDS 2012 data;

Note: Mean satisfaction level for whole population was higher in 2012 than in 1993

Implications for the consumer market

- The emergent middle class is becoming an important factor in the consumer market
- As most of this growth of the middle class was amongst the black population, it makes sense for marketing research to focus on this group
- This group of consumers has different consumption patterns that the rest of the middle class, i.e. higher spending on durable consumer goods or residential property
- These consumption patterns have been attributed to conspicuous consumption or cultural factors
- However, many of the black middle class households have just recently entered this income bracket
- Frequently these households may be the first generation of their family entering this income bracket and the household head would be younger than the mean age for this bracket (see Table 2)
- Often these households are therefore at the beginning of their savings life cycle
- Their relative deficit in assets may explain much of the difference in spending habits and preferences (see Figure 4)
- As an example: the black middle class is less likely to buy insurance cover than other members of the middle class, but those among them who already have accumulated substantial assets are even more likely to buy insurance products than white consumers earning the same
- Resonating with this perspective of relative vulnerability, interviews show that high income black South Africans with tertiary qualifications are hesitant to identify themselves as middle class
- Our modelling indicates that once this asset deficit has been eliminated spending on consumer goods such as insurance and travel is set to increase
- We also expect continued real increases in the average incomes of black consumers in this income group over the short to medium term at approximately 3% per year
- Black middle class members and younger middle class members tend to be more ambitious in their expectations for the future

FIGURE 4: ASSET INDEX VS. LOG OF HOUSEHOLD INCOME BY RACE GROUP



Source: Own Calculations from NIDS 2012

TABLE 2: COMPARISON OF EMERGING AND ESTABLISHED MIDDLE CLASS, 1993 & 2012

| | 1993 | | 2012 | |
|--|-----------------------|--------------------------|-----------------------|--------------------------|
| | Emerging middle class | Established middle class | Emerging middle class | Established middle class |
| Blacks | 254 874 | 115 848 | 1 493 168 | 1 497 975 |
| Total | 520 098 | 3 042 776 | 1 657 495 | 5 586 101 |
| Black share | 49.00% | 2.83% | 90.09% | 26.82% |
| Rural | 22.94% | 6.66% | 22.26% | 7.18% |
| Average per capita household income (in 2000 prices) | 3 374 | 4 370 | 4 727 | 5 865 |
| Characteristics of the household head | | | | |
| Age | 35.82 | 44.06 | 40.14 | 46.92 |
| Years of education | 9.66 | 11.84 | 11.01 | 13.17 |
| Satisfaction level (1-10, 10 happiest) | 5.28 | 7.60 | 5.43 | 7.01 |
| Food consumption share | 0.27 | 0.18 | 0.28 | 0.16 |

Source: Own calculations based on PSLSD 1993 and NIDS2012 data. Emerging middle class has an asset index lower than the lowest white household's asset decile; **Notes:** The asset index was generated using MCA, including different household assets as well as information on water source or type of dwelling

Implications for social cohesion and political stability

- The growth of the black middle class and associated decline in the inequality between races are expected to promote social cohesion and political stability
- However, the higher incomes are unlikely to have a major impact on social cohesion and political stability if racial identities continue to dominate
- Interviews show that affluent and well-educated black South Africans experience a tension between their middle class identity and their racial identity
- Data analysis indicates that often educated individuals in middle class occupations do not describe themselves as middle class
- There is no evidence that values that are traditionally associated with the middle class – such as attaching a high value to honesty, education and hard work – are more prevalent amongst the middle class
- This is in line with results in Latin America
- Socio-political benefits attributed to an emergent middle class may take longer to manifest because race appears to still be a more significant and coherent category for identity formation and group association than the label ‘middle class’