

The potential impact of COVID-19 on household financial wellness in SA

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The economic impact of COVID-19 is already being felt and it's only going to get worse from here as the economy drastically loses momentum in a 21-day lockdown. What does this mean for South African households? The reality is, household financial wellness is closely connected to economic growth, so an impending recession (which is almost certain to happen) will take an unquestionable toll on our financial wellness as well as our financial success. But, if we make the right adjustments, we can recover.

The latest [Momentum/Unisa Household Financial Wellness Index](#) shows that only 25% of South African households are classified as financially well. The current COVID-19 crisis is sure to make a dent in these numbers if we don't start understanding how.

Financial wellness consists of five elements, namely:

1. Assets, debt and wealth
2. Income, expenditure and saving,
3. Living environment
4. Education status, and
5. Personal empowerment

This pandemic is going to affect them all, and here's how:

Assets, debt and wealth

Assets will be the first to feel the impact. This specifically relates to the value of financial assets invested on the stock exchange and fixed securities as many households scramble to cash out their investments to earn an income.

As financial assets (i.e. pension funds and investments) comprise the largest share of total assets, and as these are invested in shares and fixed securities, their value will decline in harmony with the value of shares and fixed securities.

At its lowest level, the pandemic contributed to financial assets decreasing by about R2 trillion, or 21% since the end of 2019. However, these are losses on paper only and will remain theoretical if households hold tight and refrain from cancelling their investments. Over the past few days, since governments all over the world took measures to soften the impact of the virus, the value of financial assets already regained R400 billion, or 20% of the losses. As the spread of the virus slows and is brought under control, the losses will be erased gradually. However, it will take time to bounce back.

Income, expenditure and saving

Income, expenditure and savings are next on the line. As businesses close households will struggle to earn an income, spend and save. The full impact of this is yet to make its way through the economy and will only truly be felt within the next three to six months. However, thanks to Governments' measures and the assistance of companies, the impact will be softer than initially feared.

Employers are going to have to seriously consider moving the retirement age of their employees out by at least a year (e.g. from 60 to 61 or 65 to 66). This will give many households the time they need to recover from the effects of the coming market crash on their retirement investments.

Personal empowerment

Personal empowerment is perhaps the most unfortunate victim of this pandemic.

Households without sufficient access to information will not be able to react to the measures implemented to keep them safe. That is true disempowerment.

Then there is fake news. Too many households are susceptible to believing cleverly constructed misinformation surrounding the virus and the measures introduced by the government. Not only do they believe it, but they also share it. These households need to

start a process of learning how to distinguish between real news and fake news. Fake news, a lack of information and disbelieving credible news sources lead to poor choices that negatively impact both financial success and financial wellness.

Living environment and education status

While not as severe, the lockdown will put more pressure on maintenance and hygiene – and households whose hygiene is compromised will experience pressure on their living environment.

Education status of current learners and students will also be under huge pressure following the closing of schools and universities. It is uncertain how the government will handle the time lost. Households banking on a graduation to cement financial security may have to wait a little longer.

Should this virus redefine how we view financial success?

It is important to realise that success can't be achieved without setting goals. Long-term goals can only be achieved if they align with short-term goals. Put differently, by achieving short-term goals, you are closer to your long-term goals.

The pandemic and lockdown will only impact financial success if you allow it to affect your goals. Yes, the value of your financial assets may have declined sharply, but, as with all other financial market crashes and economic recessions, it always recovers. Why? Because of the momentum changes caused by demand and supply. Once households are without lots of food or other goods and services, supply contracts. But once the worst is over, demand increases again, contributing to more production/supply to eradicate the supply shortages. So, households should know that their long-term goals will be affected, at least for now. In these unprecedented and unpredictable times, don't let your anxiety rule your decision making. Enlist the help of a financial advisor to help reassess your long-term goals and bring them in line with the current circumstance.

In the meantime, simply continue aiming for the short-term goals (e.g. making monthly contributions to a pension fund, repaying debts, budgeting etc.). If the situation becomes unstable, negotiate with service providers such as banks and insurers to adjust your goals into something more achievable. There are bound to be many debt relief programmes once this pandemic has come and gone.