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South African Household Wealth Index
Q3 2019

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Household Financial Wellness Index 2018

SOUTH AFRICAN HOUSEHOLDS' REAL NET WEALTH DECLINED BY R240 BILLION IN THE THIRD QUARTER OF 2019

SUMMARY

South Africans can blame the trade war between the United States of America (USA) and China, fears of an economic recession in the USA and international terrorism attacks (international events) as much as Eskom, state capture and a weak economy (domestic events) for losing a lot of their wealth during the third quarter of 2019 (Q3 2019).

According to the Momentum/Unisa Household Net Wealth Index, South African households' real net wealth declined by R237.0 billion in Q3 2019 compared to Q2 2019, while it was R133.7 billion less than in Q3 2018.

The decline in the real value of household net wealth was almost solely caused by a decrease in the real value of households' assets – despite saving more money in pension funds, which, under normal circumstances, should have contributed to an increase in the real value of their assets.

More specifically, the abovementioned international events had a profound negative impact on the real value of their pension funds and investments, while domestic events played a major part in preventing strong growth in the real value of their property values. At the same time the real value of households' outstanding debt declined in Q3 2019 compared to Q2 2019, but it was higher compared to a year ago.

The good news is that preliminary estimates point to a recovery in the real value of household net wealth in Q4 2019 – so much so that households would end 2019 richer when compared to 2018.

Household Net Wealth

Going back centuries, households have always gathered assets. Little has changed as a household's ultimate financial goal is still the accumulation of assets. For good reason too, as more assets normally translate to a higher net wealth, enabling them to, among other things, live better quality lives.

The real value[1] of their net wealth is the real value of their assets minus the real value of their liabilities. Their assets mostly consist of the combined values of their savings in pension and retirement instruments, financial investments and residential properties, while liabilities comprise their outstanding credit (including housing, vehicle and personal loans as well as credit card debt) and other debts (such as outstanding municipal accounts).

Momentum/Unisa estimates that the real net wealth of households declined by R237.0 billion between Q2 2019 and Q3 2019 to R6 966.7 billion in Q3 2019. Compared to a year ago (Q3 2018) the decline was R133.7 billion. The decline can be ascribed to a decline in the real value of household assets which exceeded the decline in the real value of their outstanding liabilities.

When expressed as a percentage of gross household income, the ratio of household net wealth declined from 276.0% in Q2 2019 to 266.7% in Q3 2019.

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[1]*The real value of household net wealth, liabilities and assets is the current value minus the impact of consumer price inflation.*

Household Assets

The real value of household assets decreased by R240.9 billion between Q2 2019 and Q3 2019 to R8 381.9 billion, despite households increasing their savings to pension funds and retirement annuities.

The decrease was caused by declines in the real values of both financial and residential assets. Several international events drove the decline in the real value of financial assets.

These events include the trade war between the USA and China, fears of an economic recession in the USA following the inversion of the yield curve (which stoked fears of an international economic recession) and drone attacks on Saudi-Arabian oil production facilities – which all contributed to sharp declines in international share prices. The JSE All Share Index lost 6.8% in real terms over the quarter and the real All Bond Index 0.3%, but the real value of household deposits managed an increase of 1.7%.

However, as the bulk of households' pension funds, retirement annuities and other investments are invested in shares and bonds, it contributed to a decline in the real value of their financial assets. The decline in the real value of pension funds and retirement annuities overshadowed the increase in household contributions to these instruments. Contributions to pension and group life schemes, retirement annuities and official and private administered pension funds increased by 5.7% in Q3 2019 compared to Q2 2019 (in real terms).

The real value of residential assets also declined – as real house prices (according to the FNB House Price Index) remained unchanged between Q2 2019 and Q3 2019, while new investments in residential property declined at an annual rate of 4.6%. Coupled with depreciation, this contributed to a decline in the real value of the total stock of household property values.

Domestic factors were the main cause of the decrease in the real value of household property values. This included Eskom's inability to generate enough electricity resulting in the economy shrinking by 3.1% in Q3 2019 compared to Q2 2019.

On a meso level, the real gross income per worker of formal sector workers declined by 0.1% compared to a year ago, which negatively affected the purchasing power of worker income and as such the affordability of houses.

Household Liabilities

The real value of households' outstanding liabilities decreased by R3.9 billion to R1 415.2 billion in Q3 2019 (from Q2 2019). However, it was R20.6 billion higher than the year before.

Households normally revert to personal loans as the main source of unsecured credit during the third quarter of a year and the pattern continued in 2019. Outstanding personal loans increased by 1.6% (unannualised) in real terms from Q2 2019 to Q3 2019. This is up from 0.9% in Q2 2019.

However, the pace at which households incurred credit card debt halved to 1.2% in Q3 2019 from 2.4% in Q2 2019. At the same time outstanding overdrafts declined by 1.6% in Q3 2019 following a decline of 4.7% in Q2 2019. Real outstanding mortgages increased at a slower pace of 0.3% in Q3 2019 (0.6% in Q2 2019), while outstanding instalment sales credit decreased by 0.3% (following a decline of 0.2% in Q2 2019).

Outstanding municipal debt owed by households decreased further in real terms between Q2 2019 and Q3 2019. According to the National Treasury, households' outstanding municipal debt amounted to R111.3 billion in Q3 2019 (equivalent to R70.7 billion in real terms). This is less than the R115 billion (R73.8 billion in real terms) that was outstanding in Q2 2019. This decline is mostly due to municipalities writing off debt that is considered not recoverable.

As the real value of households' outstanding liabilities increased less than their gross income, the ratio of their liabilities to gross income declined slightly from 54.4% in Q2 2019 to 54.2% in Q3 2019.

Outlook for the fourth quarter of 2019

Preliminary estimates for Q4 2019 point to a recovery in the value of households' financial assets. Coupled with the reasonable performance of household wealth during the first half of 2019, this suggests that households will end 2019 wealthier when compared to 2018.

Table 1: Household balance sheet variables expressed as a percentage of their gross income

Quarter	Liabilities	Assets	Net wealth
2014Q4	59.1	351.0	291.8
2015Q1	57.5	352.2	294.8
2015Q2	57.2	347.1	289.9
2015Q3	56.7	338.9	282.3
2015Q4	56.2	336.7	280.5
2016Q1	55.9	340.5	284.5
2016Q2	56.3	338.6	282.3
2016Q3	55.6	336.3	280.8
2016Q4	55.1	332.0	277.0
2017Q1	54.7	334.8	280.2
2017Q2	53.8	329.7	275.8
2017Q3	54.3	333.9	279.6
2017Q4	54.6	340.8	286.3
2018Q1	54.5	334.0	279.5
2018Q2	53.8	335.2	281.4
2018Q3	54.2	330.1	275.9
2018Q4	54.4	321.9	267.5
2019Q1	54.3	328.9	274.6
2019Q2	54.4	330.3	276.0
2019Q3	54.2	320.9	266.7

Table 2: Real estimates of household balance sheet indices (2010 = 100)

Quarter	Liabilities index	Assets index	Net wealth index
2014Q4	108.1	121.6	124.7
2015Q1	107.5	124.8	128.9
2015Q2	106.9	123.0	126.8
2015Q3	107.6	122.0	125.3
2015Q4	107.1	121.4	124.7
2016Q1	105.8	121.9	125.7
2016Q2	106.1	120.8	124.2
2016Q3	104.8	120.2	123.8
2016Q4	104.5	119.4	122.8
2017Q1	104.4	121.2	125.1
2017Q2	104.0	120.6	124.4
2017Q3	105.6	123.1	127.2
2017Q4	107.0	126.5	131.1
2018Q1	106.6	123.8	127.8
2018Q2	106.1	125.1	129.6
2018Q3	106.6	123.0	126.8
2018Q4	107.4	120.4	123.5
2019Q1	107.5	123.4	127.1
2019Q2	108.4	124.8	128.6
2019Q3	108.1	121.3	124.4

Sources: South African Reserve Bank Quarterly Bulletin December 2019; Own calculations.

Note: Adjustments were effected to historical numbers due to new information received.

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