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SUMMARY

South African Household Wealth Index  
Q1 2020

momentum

UNISA



Household Financial Wellness Index 2018

# SOUTH AFRICAN HOUSEHOLDS' REAL NET WEALTH DECREASED BY MORE THAN R800 BILLION IN THE FIRST QUARTER OF 2020

## SUMMARY

Momentum/Unisa estimates that the real value (expressed in 2010 prices) of South African households' net wealth decreased by R828.2 billion from the fourth quarter of 2019 (Q4 2019) to Q1 2020.

This estimated real quarterly decline is 52.5% more than the previous largest estimated quarterly decline of R542.9 billion, which was registered during the Great Recession (Q3 2008).

The loss in household real net wealth – from an estimated R7 043.6 billion in Q4 2019 to R6 215.4 billion in Q1 2020 – can in main be attributed to a sharp decline in the real value of households' pension funds and other investments. The real value of their pension funds declined by an estimated R427.6 billion over the quarter and that of their other investments by R363.9 billion.

These declines were mainly caused by three factors. This is the negative impact of the worldwide Covid-19 pandemic; the subsequent lockdown, which in effect incapacitated the world and South African economy; and South Africa losing its investment grade credit rating.

### Household Net Wealth

The real value<sup>1</sup> of households' net wealth is calculated by subtracting the real value of their outstanding debt (liabilities) from the real value of their assets. It is not to be confused with the difference between their income and expenditure.

From the earliest of times households have gathered 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.

Household assets consist of non-financial and financial assets. Financial assets comprise the largest portion of household assets – consisting of the combined values of their cash balances; savings in pension and retirement instruments; and other financial investments in for instance shares, bonds and unit trusts. Non-financial assets constitute residential buildings and other non-financial assets. Household liabilities consist of outstanding credit (including housing-, vehicle- and personal loans, as well as credit and store card debt) and other debts (such as outstanding municipal accounts).

Momentum/Unisa estimates that the real value of household net wealth decreased by R828.2 billion during Q1 2020 to R6 215.4 billion. This decline can be attributed to the real value of household assets declining by R828.6 billion, while their real outstanding debt remained almost the same as it declined by only R445 million (refer to table 3 for an index of all balance sheet components over the past decade).

However, by the end of Q1 2020 (31 March 2020) the value of households' real net wealth had recovered R426.7 billion of its decrease – from its lowest point on 23 March 2020.

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<sup>1</sup>The real value of household net wealth, assets and liabilities is the current value excluding the impact of consumer price inflation since (CPI) 2010. In this report the real value is the current value expressed in 2010 prices. As it strips out the impact of price increases it provides a better indication of the true value of net wealth, assets and liabilities.

## Household Assets

As indicated in table 1, Momentum/Unisa estimates the real value of South African household assets at R7 642.6 billion at the end of Q1 2020. This is R828.6 billion lower than at the end of Q4 2019.

The bulk of the decline stems from a sharp decrease in the real value of financial assets which was R788.0 billion lower compared to Q4 2019. The non-financial asset category was R40.6 billion lower.

Within the financial asset category, the largest rand decrease was registered in the real value of pension funds (R427.6 billion) and in the real value of other financial investments (R364.0 billion), while the real value of households' cash holdings was marginally higher (R3.6 billion) compared to Q4 2019.

In terms of non-financial assets, both the real value of households' residential assets and other non-financial assets declined compared to Q4 2019.

**Table 1: Estimated real value and change in household assets (R' billion)**

	<b>Q4 2019</b>	<b>Q1 2020</b>	<b>Change</b>
Residential buildings	1 833.6	1 807.0	-26.6
Other non-financial assets	1 066.7	1 052.7	-14.0
<b>Non-financial assets</b>	<b>2 900.3</b>	<b>2 859.7</b>	<b>-40.6</b>
Cash holdings	854.3	857.8	3.6
Pension funds	2 921.9	2 494.3	-427.6
Other investments	1 794.7	1 430.7	-364.0
<b>Financial assets</b>	<b>5 570.9</b>	<b>4 782.8</b>	<b>-788.0</b>
<b>Total assets</b>	<b>8 471.2</b>	<b>7 642.6</b>	<b>-828.6</b>

The decreases were mainly caused by sharp declines in the value of shares and bonds. Households' pension funds and their other investments were mainly invested in these two asset classes. The decline in the prices of shares and bonds were caused by worldwide fear and panic selling of these financial assets stemming from the spreading of the Corona virus. Subsequent decisions by governments, including the South African government, to "close-off" the countries and restricting households to their place of stay/homes (in lockdown) in effect incapacitated the economies as very little production was possible.

Apart from the immediate negative effect on the prices of shares and bonds, its future impact will be devastating for economies and households – as company profits will decline, while millions of households are expected to lose their income due to extensive employment losses across the economy, negatively affecting their ability to live properly and save for retirement and other goals.

The value of shares and bonds were also negatively affected by Moody's decision on 27 March 2020 (the same day the lockdown started) to downgrade South Africa's credit rating to sub-investment grade – and this also had a negative impact on the real value of households' retirement funds and investments.

Contrastingly, households' real cash balances increased marginally as the lockdown limited households' spending.

However, since the end of Q1 2020 the prices of international shares and bonds has recovered markedly on the belief that the worldwide economic recession will be over soon; that central banks will “bail” markets out; that governments will provide sufficient support measures to companies and households; and that economies will “open up” soon. South African share prices followed suit as many companies listed on the JSE earn the bulk of their profits abroad. This would have had a positive impact on the real value of particularly households’ financial assets (specifically retirement funds and other investments).

Should the beliefs of markets however not realise, the prices of risk assets may retreat again – and this will negatively impact the real value of household’s assets.

### Household Liabilities

The real value of households’ outstanding debt remained virtually unchanged during Q1 2020, decreasing by an estimated R445 million over the quarter to R1 427.2 billion.

The real value of outstanding mortgages decreased over the quarter – by an estimated R1.341 billion to R666.1 billion. This can be ascribed to outstanding mortgages increasing less than consumer price inflation. However, this decrease was partly offset by an increase of R896 million in the real value of other debt. At the end of Q1 2020 the real value of other debt was estimated at R761.1 billion, or 53.3% of total liabilities.

**Table 2: Estimated real value and change in household liabilities (R’ billion)**

	Q4 2019	Q1 2020	Change
Mortgages	667.4	666.1	-1.3
Other liabilities	760.2	761.1	0.9
<b>Total liabilities</b>	<b>1 427.6</b>	<b>1 427.2</b>	<b>-0.4</b>

During Q1 the real values of both mortgages and instalment sales credit declined (the latter specifically reflecting a decline in the sales of passenger cars). However, the real values of unsecured debt such as overdraft facilities and credit card debt were the main drivers behind the increase in the other debt category.

**Table 3: Estimates of household balance sheet indices in real terms (2010 = 100)**

	Non-financial assets			Financial assets				Total assets	Liabilities			Net wealth
	Residential buildings	Other non-financial assets	Total non-financial assets	Cash	Pension funds	Other investments	Total financial assets		Mortgages	Other debt	Total Liabilities	
2011Q1	98.7	98.5	98.6	98.1	103.7	105.3	103.5	101.7	98.5	107.0	101.9	101.6
2011Q2	99.4	99.1	99.3	100.2	102.8	103.9	102.8	101.5	97.4	109.0	102.0	101.3
2011Q3	99.1	98.9	99.0	103.1	98.2	97.3	98.6	98.7	95.7	109.5	101.2	98.2
2011Q4	99.6	99.3	99.5	105.0	102.9	102.9	103.2	101.8	95.3	115.7	103.4	101.4
2012Q1	99.3	98.7	99.1	103.6	104.0	104.9	104.3	102.3	94.1	118.2	103.7	102.0
2012Q2	100.1	99.5	99.8	106.9	104.9	105.5	105.3	103.3	93.9	122.6	105.3	102.8
2012Q3	101.0	100.2	100.7	108.5	108.4	109.9	108.9	105.8	93.0	126.8	106.5	105.6
2012Q4	101.4	100.5	101.1	108.7	114.3	117.5	114.7	109.5	93.9	127.2	107.2	110.1
2013Q1	101.4	100.3	101.0	107.6	113.2	116.3	113.5	108.7	92.3	129.5	107.1	109.1
2013Q2	102.7	101.4	102.2	110.2	112.7	114.1	112.8	108.8	92.6	131.7	108.2	108.9
2013Q3	103.1	101.6	102.6	110.4	120.1	123.1	119.8	113.3	91.5	131.5	107.4	114.6
2013Q4	105.9	104.1	105.2	112.5	124.3	127.5	123.8	116.7	91.2	134.7	108.5	118.7
2014Q1	105.6	103.5	104.8	112.4	124.2	127.0	123.6	116.5	89.0	133.5	106.8	118.7
2014Q2	106.3	104.2	105.5	114.1	129.5	133.2	128.8	119.9	88.9	133.3	106.5	123.1
2014Q3	106.8	104.6	106.0	116.2	126.3	128.6	125.8	118.3	88.1	132.8	105.9	121.2
2014Q4	108.6	106.4	107.8	120.4	128.5	130.5	128.1	120.4	88.5	135.8	107.4	123.4
2015Q1	109.5	106.9	108.5	120.4	130.9	133.7	130.5	122.1	87.8	135.4	106.8	125.7
2015Q2	109.8	107.2	108.8	123.1	129.7	130.6	129.1	121.4	87.2	133.8	105.8	125.1
2015Q3	109.8	107.3	108.9	125.5	126.7	125.9	126.2	119.7	87.4	133.9	105.9	122.9
2015Q4	111.2	108.7	110.3	129.9	128.5	125.0	127.5	120.9	87.7	135.6	106.8	124.3
2016Q1	110.9	108.1	109.9	127.8	127.9	125.8	127.2	120.6	86.3	134.0	105.3	124.2
2016Q2	110.7	108.0	109.7	129.9	127.2	124.7	126.7	120.2	85.4	136.0	105.6	123.7
2016Q3	110.2	107.6	109.2	132.2	126.7	123.7	126.4	119.9	85.3	134.9	105.1	123.4
2016Q4	110.0	107.5	109.1	133.6	124.3	119.9	124.0	118.3	84.7	134.4	104.5	121.5
2017Q1	110.4	107.5	109.3	132.2	124.1	120.2	123.8	118.3	83.8	133.5	103.6	121.7
2017Q2	110.5	107.8	109.5	135.0	123.9	119.1	123.7	118.3	83.8	132.9	103.3	121.8
2017Q3	110.3	107.6	109.3	137.6	129.9	126.1	129.6	121.9	83.7	132.6	103.2	126.3
2017Q4	110.0	107.5	109.1	139.9	135.7	132.7	135.2	125.3	83.8	134.0	103.8	130.3
2018Q1	110.5	107.7	109.4	139.2	128.3	125.2	128.7	121.4	83.2	135.4	104.0	125.5
2018Q2	110.7	107.9	109.6	140.9	130.8	126.5	130.7	122.7	82.9	134.7	103.6	127.2
2018Q3	110.2	107.6	109.3	143.2	127.9	121.9	127.9	120.8	82.8	135.3	103.7	124.8
2018Q4	110.5	107.9	109.5	143.9	123.6	116.8	123.9	118.5	83.3	138.9	105.5	121.5
2019Q1	110.0	107.2	108.9	143.2	127.4	122.6	127.8	120.7	83.2	140.9	106.2	124.0
2019Q2	110.3	107.6	109.3	146.0	129.7	124.6	130.1	122.2	83.1	141.0	106.2	125.9
2019Q3	110.6	107.9	109.6	148.4	125.1	118.0	125.7	119.6	83.5	142.0	106.8	122.6
2019Q4	110.6	108.1	109.7	150.3	128.5	121.7	129.1	121.7	84.1	144.6	108.2	124.9
2020Q1	<b>109.0</b>	<b>106.6</b>	<b>108.1</b>	<b>150.9</b>	<b>109.7</b>	<b>97.1</b>	<b>110.8</b>	<b>109.8</b>	<b>83.9</b>	<b>144.8</b>	<b>108.2</b>	<b>110.2</b>

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

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