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SUMMARY

South African Household Wealth Index

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Q2 2020

HOUSEHOLD WEALTH RECOVERS STRONGLY IN THE SECOND QUARTER OF 2020

Regained more than 90% of the decrease experienced in the first quarter of 2020

Summary

Some good news for South African households is that the real value of their net wealth recovered strongly in the second quarter of 2020 (Q2 2020). Momentum/Unisa estimates that the real value of households' net wealth increased by R722.9 billion in Q2 2020, following a decline of R774.4 billion in Q1 2020. This equates to a recovery rate of 93.3%, meaning that the decrease in real net wealth experienced in Q1 2020 – caused by the loss in South Africa's investment grade credit rating, Covid-19 pandemic and the subsequent decision by the government to enforce a strict lockdown – was almost wiped out in Q2 2020.

This is due to a recovery in the real value of all asset classes during Q2 2020, especially financial assets, while the outstanding value of real household debt continued to decline as households struggled to access new credit. However, only households with assets benefitted from the recovery.

The recovery occurred despite a continuance of the national lockdown – albeit at a lower level.

In the same way that the extremely sharp contraction of 16.4% in economic growth during Q2 2020 was predicted by the decline in household wealth in Q1 2020, the recovery in Q2 2020 predicts a recovery in economic growth in Q2 2020, but not to the same magnitude.

Household Net Wealth

Momentum/Unisa estimates that the real value of household net wealth (expressed in 2010 prices) increased by R722.9 billion during Q2 2020 – from R6 808.8 billion in Q1 2020 to R7 531.6 billion at the end of Q2 2020. This follows a decrease of R774.4 billion during Q1 2020.

Both the decrease in Q1 2020 and increase in Q2 2020 were the largest quarterly changes registered in the real value of household net wealth over the past decade.

The strong increase in the real value of household net wealth during Q2 2020 can be ascribed to several reasons. First, a recovery from a low base following the sharp decline in Q1 2020. Second, financial markets regaining lost ground, propelling the real value of financial assets. Third, the gradual opening of the economy since May supported house prices and an accumulation of durable goods. Lastly, a decline in the real value of liabilities as households struggled to access new debt whilst repaying existing debt.

Household Assets

The real value of household assets is estimated at R8 945.4 billion (at the end of Q2 2020). It is estimated to have increased by R709.4 billion during Q2 2020 following a decline of R774.9 billion in Q1 2020 (see table 1). This means that 91.6% of the Q1 2020 decline had been recovered in Q2 2020.

Table 1 shows that household cash and deposit assets increased strongly during Q2 2020. This can be ascribed to the lockdown preventing households from purchasing goods, while also benefitting from the sale of some financial assets. However, the numbers reflect the situation of households who managed to receive an income / inflow from other sources during Q2 2020. According to Stats SA's economic growth statistics, total compensation of employees declined by R36.7 billion in Q2 2020 from Q1 2020.

The real value of pension funds and other investments benefitted from a recovery in share and bond markets during Q2 2020. Although an analysis from the income side of the economic growth statistics for Q2 2020 revealed that company profits tumbled more than compensation of employees – gross operating profits decreased by R90.1 billion, contributing to economic growth contracting by 16.4% in Q2 2020 – this was predicted by the decline in share prices in Q1 2020. The recovery in share prices mainly reflects an expectation of higher profits of commodity and dual listed shares, while higher bond prices were supported by among others lower inflation and reductions in the repo rate.

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

Household assets					
(2010 prices) R' billion	Q4 2019	Q1 2020	Q2 2020	Change Q4'19 - Q1'20	Change Q1'20 - Q2'20
Residential buildings	1,860.9	1,860.2	1,861.1	-0.7	0.9
Durable goods	496.3	486.1	493.4	-10.2	7.3
Other non-financial assets	1,082.8	1,085.4	1,089.1	2.6	3.7
Non-financial assets	3,439.9	3,431.7	3,443.5	-8.3	11.8
Cash	854.3	857.7	904.0	3.4	46.3
Pension funds	2,921.9	2,515.9	2,885.6	-406.0	369.7
Other investments	1,794.7	1,430.7	1,712.3	-364.6	282.2
Financial assets	5,570.9	4,804.3	5,501.9	-766.6	697.6
Total assets	9,010.8	8,235.9	8,945.4	-774.9	709.4

*Numbers may not add up due to rounding.

Household Liabilities

The real value of households' outstanding debt decreased by another R13.5 billion in Q2 2020 following a decrease of R400 million (R0.4 billion) in Q1 2020. (refer to table 2). This means that the real value of households' outstanding liabilities has declined from R1 427.6 billion at the end of Q4 2019 to R1 413.7 billion six months later.

The decline in the real value of household liabilities resulted from households struggling to access additional credit (to for instance purchase cars, houses, clothes, furniture and food), whilst at the same time they continued to repay their current debts.

However, it should be borne in mind that the reduction in the real value of outstanding household liabilities represents the collective of all households. Many households lost their income and were not able to repay debts, while others benefitted from payment holidays. The households that could not repay their debts are likely more heavily indebted than before the lockdown.

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

Household liabilities					
(2010 prices) R' billion	Q4 2019	Q1 2020	Q2 2020	Change Q4'19 - Q1'20	Change Q1'20 - Q2'20
Mortgages	667.4	666.1	664.6	-1.3	-1.5
Other liabilities	760.2	761.1	749.1	0.9	-12.0
Total liabilities	1,427.6	1,427.2	1,413.7	-0.4	-13.5

Outlook for Q3 2020

Indications are that the real value of household wealth will be stable to marginally higher as the financial markets search for direction and the economy started to recover during Q3 2020. Consequently, growth from non-financial assets should be possible due to among others a further easing of the lockdown to level 2. However, electricity shortages would have stifled a strong recovery.

Calculating Household Net Wealth

The real value¹ of households' net wealth is calculated by subtracting the real value of their outstanding liabilities (debt) 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 into higher wealth, enabling them to, among other things, live better-quality lives.

Household assets consist of non-financial (tangible) 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, durable goods² and other non-financial assets. Durable goods include the value of vehicles and household content, while small-scale holdings, livestock and orchards form part of 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).

¹ 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. However, the FNB House Price Index is used to deflate the value of Residential structures and Other non-financial assets (opposed to the CPI) as it will provide a better indication of the real value of these assets.

² The estimates of this research differ somewhat from previous publications. An estimated value of household durable goods is – for the first time – included in the value of household assets. It forms part of the non-financial-assets 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	Durable goods	Other non-financial assets	Total non-financial assets	Cash	Pension funds	Other investments	Total financial assets		Mortgages	Other debt	Total Liabilities	
2011Q1	100.6	98.8	100.4	100.3	98.1	103.7	105.3	103.5	102.2	98.5	107.0	101.9	102.2
2011Q2	101.0	110.6	100.7	102.3	100.2	102.8	103.9	102.8	102.6	97.4	109.0	102.0	102.7
2011Q3	101.3	110.1	101.0	102.5	103.1	98.2	97.3	98.6	100.2	95.7	109.5	101.2	100.0
2011Q4	101.6	110.3	101.3	102.8	105.0	102.9	102.9	103.2	103.0	95.3	115.7	103.4	102.9
2012Q1	102.1	109.3	101.5	103.0	103.6	104.0	104.9	104.3	103.7	94.1	118.2	103.7	103.8
2012Q2	102.5	109.9	101.9	103.4	106.9	104.9	105.5	105.3	104.5	93.9	122.6	105.3	104.4
2012Q3	103.0	110.2	102.3	103.8	108.5	108.4	109.9	108.9	106.8	93.0	126.8	106.5	106.9
2012Q4	103.4	110.5	102.5	104.2	108.7	114.3	117.5	114.7	110.3	93.9	127.2	107.2	111.0
2013Q1	103.9	109.5	102.8	104.4	107.6	113.2	116.3	113.5	109.7	92.3	129.5	107.1	110.3
2013Q2	104.4	110.6	103.1	104.8	110.2	112.7	114.1	112.8	109.5	92.6	131.7	108.2	109.8
2013Q3	104.8	110.5	103.3	105.2	110.4	120.1	123.1	119.8	113.7	91.5	131.5	107.4	115.1
2013Q4	105.5	112.5	103.7	105.9	112.5	124.3	127.5	123.8	116.4	91.2	134.7	108.5	118.1
2014Q1	106.1	111.4	104.0	106.2	112.4	124.2	127.0	123.6	116.4	89.0	133.5	106.8	118.4
2014Q2	106.4	111.8	104.3	106.5	114.1	129.5	133.2	128.8	119.5	88.9	133.3	106.5	122.3
2014Q3	106.8	112.0	104.6	106.8	116.2	126.3	128.6	125.8	117.9	88.1	132.8	105.9	120.5
2014Q4	107.1	113.7	104.9	107.4	120.4	128.5	130.5	128.1	119.5	88.5	135.8	107.4	122.1
2015Q1	107.7	113.7	105.2	107.8	120.4	130.9	133.7	130.5	121.0	87.8	135.4	106.8	124.1
2015Q2	108.0	113.8	105.6	108.1	123.1	129.7	130.6	129.1	120.4	87.2	133.8	105.8	123.5
2015Q3	108.4	113.8	105.9	108.4	125.5	126.7	125.9	126.2	118.8	87.4	133.9	105.9	121.6
2015Q4	108.8	115.0	106.3	108.9	129.9	128.5	125.0	127.5	119.8	87.7	135.6	106.8	122.6
2016Q1	109.3	113.9	106.5	109.1	127.8	127.9	125.8	127.2	119.6	86.3	134.0	105.3	122.7
2016Q2	109.6	113.6	106.8	109.3	129.9	127.2	124.7	126.7	119.4	85.4	136.0	105.6	122.4
2016Q3	109.7	113.1	107.1	109.4	132.2	126.7	123.7	126.4	119.3	85.3	134.9	105.1	122.4
2016Q4	109.9	113.0	107.3	109.5	133.6	124.3	119.9	124.0	118.0	84.7	134.4	104.5	120.9
2017Q1	110.4	112.4	107.5	109.8	132.2	124.1	120.2	123.8	118.0	83.8	133.5	103.6	121.1
2017Q2	110.6	112.7	107.8	110.0	135.0	123.9	119.1	123.7	118.0	83.8	132.9	103.3	121.2
2017Q3	110.7	112.4	108.1	110.1	137.6	129.9	126.1	129.6	121.5	83.7	132.6	103.2	125.5
2017Q4	110.9	112.3	108.3	110.3	139.9	135.7	132.7	135.2	124.8	83.8	134.0	103.8	129.4
2018Q1	111.2	112.2	108.4	110.5	139.2	128.3	125.2	128.7	121.1	83.2	135.4	104.0	124.8
2018Q2	111.5	112.2	108.7	110.7	140.9	130.8	126.5	130.7	122.4	82.9	134.7	103.6	126.5
2018Q3	111.7	111.9	109.0	110.9	143.2	127.9	121.9	127.9	120.8	82.8	135.3	103.7	124.5
2018Q4	111.9	112.0	109.2	111.1	143.9	123.6	116.8	123.9	118.6	83.3	138.9	105.5	121.4
2019Q1	112.2	111.4	109.3	111.1	143.2	127.4	122.6	127.8	120.9	83.2	140.9	106.2	124.1
2019Q2	112.5	111.6	109.7	111.5	146.0	129.7	124.6	130.1	122.3	83.1	141.0	106.2	125.8
2019Q3	112.7	111.8	110.0	111.7	148.4	125.1	118.0	125.7	119.9	83.5	142.0	106.8	122.8
2019Q4	112.8	111.5	110.2	111.8	150.3	128.5	121.7	129.1	121.9	84.1	144.6	108.2	124.8
2020Q1	112.8	109.2	110.4	111.5	150.9	110.6	97.1	111.3	111.4	83.9	144.8	108.2	112.1
2020Q2	112.8	110.8	110.8	111.9	159.0	126.9	116.2	127.5	121.0	83.7	142.5	107.1	124.0

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

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