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SUMMARY

South African Household Wealth Index
Q4 2019

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Household Financial Wellness Index 2018

SOUTH AFRICAN HOUSEHOLDS' REAL NET WEALTH ENDED 2019 ON A HIGH NOTE

SUMMARY

Although the South African economy contracted again (-1.4%) in the fourth quarter of 2019 (Q4 2019) to register a second recession in as many years, the real value of households' net wealth managed to end the year slightly higher compared to Q4 2018.

With the economy growing by just 0.2% in 2019, it was to be expected that households' real net wealth will not shoot the lights out. Momentum/Unisa estimated the real value of household net wealth at R7 031.2 billion at the end of 2019. It is R116.1 billion higher compared to Q4 2018 – and represents an increase of 1.7% – following a decline of 5.8% in 2018 (compared to Q4 2017).

The increase in households' real net wealth can be attributed to an increase in the real value of their assets, which exceeded that of their liabilities. Households' real assets ended 2019 R144.5 billion higher compared to Q4 2018, while the real value of their liabilities grew by R28.4 billion. However, when measured over a longer period, real net wealth per household was less in 2019 compared to 2009.

Household Net Wealth

The real value¹ of households' net wealth is calculated by subtracting the real value of their liabilities from the real value of their assets.

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).

From the earliest of times 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. Momentum/Unisa estimates that the real value of household net wealth increased by R87.1 billion in Q4 2019 compared to Q3 2019. This enabled a total increase of R116.1 billion over the course of 2019.

However, when analysing the performance of real household net wealth over time, households, on average, got poorer over the decade between 1999 and 2019 (see table 1), following reasonably strong growth between 1999 and 2009.

Table 1: Real net wealth per household over the past two decades

	Real net wealth: Per household	Average growth per household (%)	Real net wealth in 2019 - if increased at the 2000 – 2009 rate
1999	307 044		
2009	396 991	29.29	
2019	392 955	-1.02	513 270

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

Had their net wealth grown at the same rate registered between 1999 to 2009, the real net wealth per household would have been R120 315 more in 2019 (an estimated R513 270 instead of R392 955).

The poor showing of real net wealth per household can be ascribed to the number of households increasing by almost 24% between 1999 to 2019, while real assets grew by only 19% and real liabilities by 6% (thus on average 0.6% per year). This means that, on average, South African households' poor net wealth values can be attributed to the inadequate ownership and performance of assets – and not so much by excessive debt, although the latter is eroding the wealth of the low to middle income groups.

Household Assets

The real value of household assets increased by R99.6 billion in Q4 2019 from Q3 2019. This contributed to real assets increasing by R144.5 billion over the course of 2019 – to R8 463.6 billion.

The increase in the real value of household assets were driven by a small increase in financial assets – as non-financial assets (predominantly residential buildings) is estimated to have declined over the period from Q4 2018 to Q4 2019. The real value of residential buildings decreased by 0.24% between Q4 2018 and Q4 2019 to an estimated R1 852.2 billion. Contrastingly, the real value of financial assets increased by 2.9% over the same period. However, an analysis of the different types of financial assets suggests that households were more risk averse in 2019 compared to 2018 and saved less in risky assets. The real value of cash holdings was 4.8% higher at the end of 2019 compared to a year before, that of retirement funds 1.3% higher and that of other investments 4.7% more.

Analysis over time shows that especially residential property experienced a good patch over the period between 1999 to 2009 (see table 2). The strong run, however, ended with financial assets taking over as driver between 2009 to 2019, albeit at a moderate rate of 3.2% per annum. These dynamics contributed to changes in the different categories of household assets (see table 2). Whereas the proportion of financial assets declined from 70% in 1999 to 61.2% in 2009 (due to the increase in residential assets), it gained back some lost ground over the next decade to 65.5%.

Table 2: Percentage change and composition of real household assets over the past two decades

	% change between 1999 - 2009	% change between 2009 - 2019	% of total assets 1999	% of total assets 2009	% of total assets 2019
Residential structures	152.8	13.3	16.2	23.9	21.9
Other non-financial assets	85.2	5.1	13.8	14.9	12.7
Cash holdings	52.8	49.2	9.5	8.5	10.2
Retirement funds	46.5	32.5	37.1	31.7	34.0
Other savings and investments	54.5	25.3	23.3	21.0	21.3
Total non-financial assets	121.7	10.1	30.0	38.8	34.5
Total financial assets	50.0	32.3	70.0	61.2	65.5

Analysing real assets per household, however, reveals a decline from an average of R485 714 in 2009 to R473 011 in 2009. This is the main reason why real net wealth per household declined over the decade.

Household Liabilities

The real value of households' outstanding liabilities increased by R12.5 billion over the last quarter of 2019 to end the year at R1 432.4 billion. This was also R28.4 billion higher compared to the end of 2018.

Over the past two decades the composition of household liabilities changed drastically in a dynamic fashion (see table 3). Whereas mortgages grew sharply from 1999 to 2009 (to among others finance the strong growth in residential assets), it declined by 11.9% in real terms over the next decade.

Consequently, mortgages' share of total liabilities increased from 54.0% in 1999 to 61.2% in 2009 following which it declined to 47.0% in 2019. Contrastingly, other debt (especially unsecured debt) increased by 56.5% from 2009 to 2019, increasing its share from 38.8% in 2009 to 53.0% in 2019.

Table 3: Percentage change and composition of real household liabilities over the past two decades

	% change between 1999 - 2009	% change between 2009 - 2019	% of total liabilities 1999	% of total liabilities 2009	% of total liabilities 2019
Mortgages	139.8	-11.9	54.0	61.2	47.0
Other debt	78.7	56.5	46.0	38.8	53.0
Total liabilities	111.7	6.1			

Outlook for the first quarter of 2020

Given the negative impact of the lockdown (a government initiative to limit the spreading of the Covid-19 disease) on households' ability to earn and generate an income and save and invest, the sharp decline in the value of financial assets, and uptake of unsecured debt to finance a living, real household wealth should decline sharply.

Table 4: Household balance sheet variables expressed as a percentage of their gross income

Quarter	Liabilities	Assets	Net wealth
2014Q4	59.3	352.1	292.8
2015Q1	57.9	354.8	297.0
2015Q2	57.3	348.1	290.8
2015Q3	56.5	337.8	281.4
2015Q4	55.9	334.9	278.9
2016Q1	56.6	344.5	287.9
2016Q2	56.3	338.7	282.3
2016Q3	55.2	334.3	279.1
2016Q4	54.8	330.8	276.0
2017Q1	55.7	341.8	286.1
2017Q2	52.5	321.7	269.2
2017Q3	54.5	335.7	281.2
2017Q4	54.6	341.3	286.7
2018Q1	54.4	333.8	279.4
2018Q2	53.8	335.1	281.4
2018Q3	54.1	330.1	276.0
2018Q4	54.4	322.0	267.7
2019Q1	54.1	327.4	273.3
2019Q2	54.2	327.9	273.7
2019Q3	53.9	317.7	263.8
2019 Q4	54.1	319.4	265.3

Table 5: 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	107.0	123.0	126.8
2015Q3	107.7	122.0	125.3
2015Q4	107.1	121.4	124.8
2016Q1	105.8	121.9	125.7
2016Q2	106.1	120.8	124.2
2016Q3	104.8	120.2	123.8
2016Q4	104.4	119.4	122.9
2017Q1	104.3	121.2	125.1
2017Q2	103.9	120.6	124.5
2017Q3	105.5	123.1	127.2
2017Q4	106.9	126.5	131.1
2018Q1	106.5	123.8	127.8
2018Q2	106.0	125.1	129.6
2018Q3	106.5	123.0	126.8
2018Q4	107.3	120.4	123.5
2019Q1	107.5	123.2	126.8
2019Q2	108.6	124.5	128.2
2019Q3	108.5	121.1	124.0
2019 Q4	109.5	122.5	125.6

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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