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SUMMARY

South African Household Wealth Index

Q4 2020

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HOUSEHOLDS' REAL NET WEALTH INCREASED BY MORE THAN R1 TRILLION SINCE THE FIRST QUARTER OF 2020

Wealthiest 2% households own almost 50% of the wealth, but be careful with the interpretation

SUMMARY

South African households' real net wealth increased by an estimated R1 009.1 billion (R1.009 trillion) from the onset of the second quarter of 2020 (Q2 2020) to the end of the year (Q4 2020). This happened despite COVID-19, the lockdown, job losses and an economic contraction.

This recovery follows an estimated decline of R772.8 billion during Q1 2020 that resulted from the introduction of lockdowns in many countries (including South Africa) to limit the spread of COVID-19.

Momentum-Unisa estimates that the real value (expressed in 2010-prices) of household net wealth increased to R7 797.4 billion by the end of Q4 2020. This is R236.3 billion higher than a year before.

The increase in household net wealth was even more spectacular when measured in nominal terms (current prices). It is estimated that household net wealth increased by R1 958.8 billion (almost R2 trillion) from the end of Q1 2020 to the end of Q4 2020 (refer to table 4).

The huge increase in household net wealth can mainly be ascribed to strong growth in the value of financial assets such as shares and bonds. Households' pension funds and financial investments benefitted immensely from the increases in these financial instruments.

A distributional analysis of the ownership of household net wealth revealed that the wealthiest 2% of households owned almost 50% of household net wealth (just before the start of the pandemic). In contrast, the bottom 16% had negative net wealth values (their outstanding debts exceeded the value of their assets). These numbers should, however, be interpreted with caution. For instance, the wealthiest 2% are not necessarily the top 2% income earners. Many middle-income earning households formed part of the wealthiest 2% of households as they, among others, saved, invested, and insured in the right way, whilst not borrowing beyond their affordability thresholds. Contrastingly, some high-income earners had a negative net wealth position as they used their income sub-optimally from a wealth creation point of view.

The lockdown also exposed the dangers of using household balance sheet ratios as measurements of households' indebtedness and state of wealth. Ratios such as debt to disposable income and net wealth to disposable income increased sharply, when in fact, the actual monetary situation revealed that households had less debt and their wealth decreased. It is therefore necessary to analyse both the ratios and the balance sheet values to make sense of households' indebtedness and net wealth.

Household Net Wealth

Momentum-Unisa estimates that the real value of household net wealth increased by R297.1 billion during Q4 2020 to end the year at an estimated R7 797.4 billion.

Over the year, from the end of Q4 2019 to the end of Q4 2020, households' real net wealth increased by R236.3 billion. This means that the sharp decline that occurred in Q1 2020 was completely reversed by Q4 2020 and on top of it, real net wealth was 3.1% higher than at the end of Q4 2019.

The real value of households' net wealth fluctuated during the year. It declined sharply during the second half of March 2020 when COVID-19 started spreading across the world and governments responded with lockdowns. This caused the value of all types of assets to decline. The decrease was, however, more pronounced in the value of financial assets.

The recovery in asset values started in April 2020, stagnated in Q3 2020, and accelerated again in Q4 2020. At the same time the outstanding values of household debt declined in Q2 2020 as households' repayment of debts exceeded the uptake of new credit. However, there was a steady increase in the extension of new credit to households from Q3 2020 onward.

Household Assets

Momentum-Unisa estimated the real value of household assets at R9 250.3 billion at the end of Q4 2020 (refer to table 1). The estimated quarterly increase in Q4 2020 was R309.6 billion. From Q4 2019 to Q4 2020 the real value of household assets increased by R231.9 billion.

Table 1: Estimated real value and change in household assets (2010 prices)

HOUSEHOLD ASSETS					
R' billion	Q1 2020	Q2 2020	Q3 2020	Q4 2020	% Change Q3 20 - Q4 20
Residential buildings	1 864.9	1 867.7	1 875.7	1 879.3	0.2
Durable goods	486.1	493.4	501.2	500.9	-0.1
Other non-financial assets	1 088.0	1 091.2	1 094.3	1 096.7	0.2
Non-financial assets	3 439.0	3 452.3	3 471.1	3 476.9	0.2
Cash	857.5	903.7	913.7	921.5	0.8
Pension funds	2 517.1	2 887.1	2 868.7	3 025.5	5.5
Other investments	1 430.7	1 712.3	1 687.1	1 826.4	8.3
Financial assets	4 805.3	5 503.1	5 469.5	5 773.4	5.6
Total assets	8 244.3	8 955.4	8 940.7	9 250.3	3.5

*Numbers may not add up due to rounding.

Although all the asset classes performed well during 2020, households with financial assets benefitted most. A strong recovery took place in financial markets after the initial pandemic scare during Q1 when the combined value of pension funds and financial investments decreased by an estimated R770.0 billion. Huge fiscal support, lower interest rates, the injection of liquidity into financial markets, news of a possible vaccine and a recovery in employment contributed to higher share prices and lower bond yields over the course of the year.

This caused the real value of pension funds and financial assets to recover and increase beyond the levels registered before the pandemic. However, many households who lost their jobs and once belonged to a pension fund or had financial investments would not have benefitted from this increase in financial assets. It should therefore not be unreasonable to assume that less people shared in the higher value of household assets.

Household Liabilities

The real value of households' outstanding liabilities (mostly credit) increased by an estimated R12.6 billion during the period from the end of Q3 2020 to the end of Q4 2020 (refer to table 2). Real outstanding liabilities is estimated to have been R1 452.9 billion at the end of Q4 2020 – some R4.4 billion less than a year before.

Table 2: Estimated real value and change in household liabilities (2010 prices)

HOUSEHOLD LIABILITIES					
R' billion	Q1 2020	Q2 2020	Q3 2020	Q4 2020	% Change Q3 20 - Q4 20
Mortgages	666.1	664.6	663.3	672.1	1.3
Other liabilities	790.0	778.6	777.1	780.7	0.5
Total liabilities	1 456.0	1 443.2	1 440.3	1 452.9	0.9

*Numbers may not add up due to rounding.

Outstanding household liabilities decreased in Q2 2020 and Q3 2020 as the repayment of debts exceeded the acquisition of new credit. However, the real value of outstanding credit accelerated in Q4 2020 on the back of a sharp increase in new mortgages. The growth in the real value of mortgages exceeded that of other credit such as personal loans and credit cards.

Distribution of Household net wealth among households

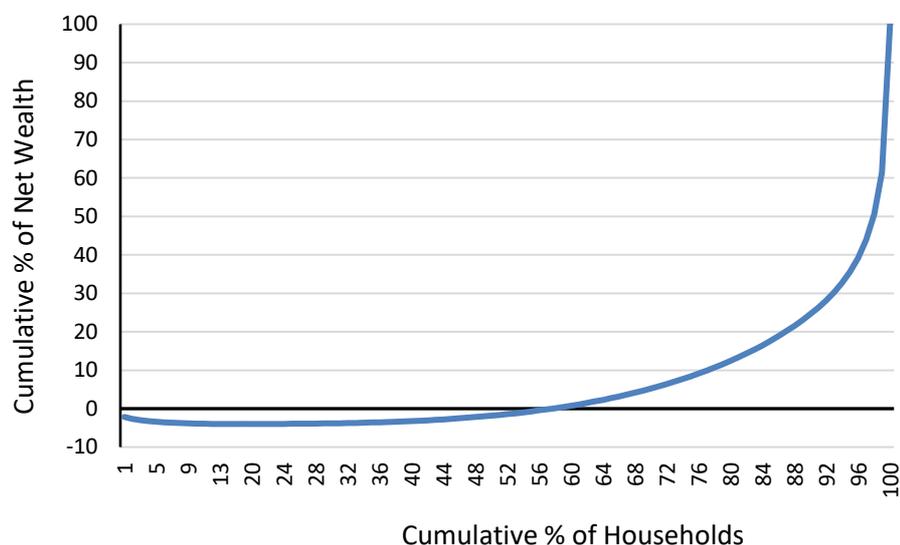
As is the case in most countries, household wealth in South Africa is more unequally distributed than household income. In the case of South Africa, the distribution of household net wealth is highly unequal. The Momentum-Unisa Household Finance database revealed that the top 2% of households owned just about 50% of South African household net wealth just before COVID-19 and lockdown. The top 10% owned 75.5% on household net wealth.

In contrast, the bottom 16% had a negative net wealth position, meaning what they owe in debts exceeds what they own in assets. Although the next 41% of households had a zero to positive net wealth position, the combined position of the bottom 57% (bottom 16% and next 41%) show that they cumulatively owned 0% of household net wealth. This is portrayed by Figure 1.

However, analysis of the wealthiest households revealed that many of them do not form part of the top income earning groups. They were average income earners, while several of the households in the higher income groups have negative net wealth positions (meaning that their debts exceeded their assets).

This, again, confirmed that earning a high income is not a guarantee for a high net wealth position. It is what you do with your income that plays a defining role in wealth creation. Further analysis from the Momentum-Unisa Household Finance Database identified a few common traits among the wealthiest 10% of households. They accumulated savings in retirement funds and other financial instruments such as shares and unit trusts, while their debts were affordable. The wealthiest 1% to 2% households also owned high-value properties in addition to large financial assets.

Figure 1: Cumulative distribution of net wealth among households: Pre COVID-19 and lockdown



Source: Momentum-Unisa Household Finance Database

Lockdown revealed the problems with the household balance sheet ratios

Balance sheet ratios have become popular to gauge the state of a country's households' indebtedness and net wealth. It also serves as financial stability indicators.

These ratios are household liabilities/debt to disposable income, household assets to disposable income and household net wealth to disposable income. They express households' debt, assets, and net wealth in relation to one year's worth of households' disposable income. For instance, a household debt to disposable income ratio of 75.7% means that households' total outstanding debt comprise 75.7% of one year's disposable income (therefore less than one year's disposable income). Or, a household net wealth to disposable income ratio of 366.6% means that total household wealth is equal to 3.666 times one year's disposable income.

However, confusion regarding households' financial realities occurred due to the challenges created by lockdown, as table 3 shows.

The ratio of household debt to disposable income increased from 73.5% in Q1 2020 to 86.5% in Q2 2020, giving the impression that households' indebtedness increased sharply. Closer inspection, however, reveal that outstanding household debt actually decreased in Q2 2020. So, although outstanding debt decreased, the ratio gave the impression that households' indebtedness increased quite dramatically.

Similarly, the ratio of household net wealth to disposable income declined from 424.0% in Q2 2020 to 366.6% in Q3 2020. This creates the impression that households became a lot poorer very quickly. However, the reality is that households as a collective became wealthier as their net wealth increased from R11 107.1 billion to R11 182.0 billion over the same period (from Q2 2020 to Q3 2020).

Table 3: Values and ratios tell different stories

	Disposable income (R' billion)	Liabilities / Debt (R' billion)	Debt to disposable income	Net wealth (R' billion)	Net wealth to disposable income
Q4 2019	3 104.6	2 272.6	73.2%	11 123.8	358.3%
Q1 2020	3 127.4 ↑	2 298.6 ↑	73.5% ↑	10 204.7 ↓	326.3% ↓
Q2 2020	2 619.6 ↓	2 265.9 ↓	86.5% ↑	11 107.1 ↑	424.0% ↑
Q3 2020	3 050.2 ↑	2 309.0 ↑	75.7% ↓	11 182.0 ↑	366.6% ↓

Source: South African Reserve Bank Quarterly Bulletin December 2020.

The confusion resulted from lockdown which caused significant changes in disposable income between Q1 2020 and Q2 2020 and Q3 2020. At lockdown levels 5 and 4, which predominantly occurred during Q2 2020, millions of workers were not able to work, causing a sharp decline in their disposable income (and therefore the large changes in the ratios).

However, when lockdown was eased to levels 3 and 2 during Q3 2020, many workers were able to return to their jobs, and disposable income increased again. In this respect South African Reserve Bank statistics show that annualised disposable income declined from R3 127.4 billion in Q1 2020 to R2 619.6 billion in Q2 2020, where after it increased again to R3 050.2 billion in Q3 2020. These changes caused the abovementioned ratios to show a different trend than the actual monetary values, leading to the confusion.

What this shows is that an analysis of the ratios alone can provide the wrong impression about the true state of households' balance sheets. It is necessary to calculate the actual numbers in conjunction with the ratios to analyse the state of households' debt, assets and net wealth.

Outlook for Q1 2021

Early indications are that the real value of household wealth should increase further in Q1 2021. Continued liquidity injected into financial markets and a stronger underlying economy should support financial assets. At the same time unsecured debts seem to increase at a slow pace.

Table 4: Estimates of household balance sheet values in nominal terms (current prices)

Household Balance Sheet						
R' billion	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	% Change Q4'19 - Q4'20
Household Assets						
Residential buildings	2 939.5	2 917.8	2 968.3	3 048.4	3 065.9	4.3
Durable goods	796.8	792.8	799.8	825.9	829.0	4.0
Other non-financial assets	1 710.5	1 702.3	1 734.2	1 778.4	1 789.2	4.6
Non-financial assets	5 446.9	5 412.9	5 502.3	5 652.7	5 684.1	4.4
Cash	1 372.0	1 398.6	1 465.0	1 505.8	1 525.1	11.2
Pension funds	4 693.6	4 105.5	4 680.5	4 727.5	5 007.2	6.7
Other investments	2 881.6	2 333.5	2 775.9	2 780.3	3 022.8	4.9
Financial assets	8 947.2	7 837.7	8 921.4	9 013.7	9 555.1	6.8
Total assets	14 394.0	13 250.6	14 423.7	14 666.4	15 239.1	5.9
Household Liabilities						
Mortgages	1 071.6	1 086.4	1 077.4	1 093.0	1 112.4	3.8
Other liabilities	1 268.2	1 288.4	1 262.3	1 280.6	1 292.1	1.9
Total liabilities	2 339.8	2 374.8	2 339.7	2 373.6	2 404.6	2.8
Household Net Wealth						
Household net wealth (Assets less Liabilities)	12 054.2	10 875.8	12 084.0	12 292.8	12 834.6	6.5

Sources: South African Reserve Bank Quarterly Bulletin December 2020; Stats SA; FNB House Price Index; Momentum-Unisa Household Finance Database.

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 gathered assets. For good reason too, as more assets normally translate to a 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).

About the Index

As part of Momentum's Science of Success campaign, the Household Wealth Index is produced in partnership with Unisa. It aims to provide South Africans with information to assist with their journey to financial success. Momentum-Unisa used data from previous Momentum-Unisa Household Financial Wellness Surveys of more than 20 000 deidentified households to estimate and distribute households' assets, liabilities and net wealth.

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 official estimates. An estimated value of household durable goods is included in the value of household assets. It forms part of the non-financial-assets category.

Table 5: 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	
2012Q1	102.1	109.3	101.6	103.0	103.6	104.0	104.9	104.3	103.7	94.1	118.7	104.3	103.6
2012Q2	102.5	109.9	101.9	103.4	106.9	104.9	105.5	105.3	104.5	93.9	123.2	106.0	104.2
2012Q3	103.0	110.2	102.3	103.8	108.5	108.4	109.9	108.9	106.8	93.0	127.5	107.2	106.7
2012Q4	103.5	110.5	102.5	104.2	108.7	114.3	117.5	114.7	110.3	93.9	135.8	111.2	110.1
2013Q1	103.9	109.5	102.7	104.4	107.6	113.2	116.3	113.5	109.7	92.3	137.8	111.1	109.4
2013Q2	104.4	110.6	103.1	104.8	110.2	112.7	114.1	112.8	109.5	92.6	140.0	112.1	108.9
2013Q3	104.8	110.5	103.3	105.2	110.4	120.1	123.1	119.8	113.7	91.5	139.6	111.3	114.3
2013Q4	105.5	112.5	103.6	105.9	112.5	124.3	127.5	123.8	116.3	91.2	142.7	112.4	117.2
2014Q1	106.0	111.4	104.0	106.1	112.4	124.2	127.0	123.6	116.3	89.0	141.2	110.6	117.6
2014Q2	106.4	111.8	104.3	106.5	114.1	129.5	133.2	128.8	119.5	88.9	140.9	110.3	121.5
2014Q3	106.7	112.0	104.5	106.8	116.2	126.3	128.6	125.8	117.9	88.1	140.3	109.7	119.7
2014Q4	107.1	113.7	104.9	107.3	120.5	128.5	130.5	128.1	119.4	88.5	143.3	111.1	121.3
2015Q1	107.6	113.7	105.2	107.7	120.4	130.9	133.7	130.5	121.0	87.8	142.7	110.5	123.3
2015Q2	108.0	113.8	105.5	108.0	123.1	129.7	130.6	129.1	120.3	87.2	140.9	109.4	122.8
2015Q3	108.3	113.8	105.9	108.3	125.5	126.7	125.9	126.2	118.8	87.4	140.9	109.5	120.9
2015Q4	108.7	115.0	106.3	108.9	129.8	128.5	125.0	127.5	119.7	87.7	142.5	110.3	121.8
2016Q1	109.2	113.9	106.5	109.0	127.7	127.9	125.8	127.2	119.6	86.3	140.8	108.8	122.0
2016Q2	109.5	113.6	106.8	109.2	129.7	127.2	124.7	126.7	119.4	85.4	135.2	106.0	122.4
2016Q3	109.7	113.1	107.1	109.3	132.0	126.7	123.7	126.4	119.3	85.3	133.3	105.1	122.5
2016Q4	109.9	113.0	107.3	109.5	133.6	124.3	119.9	124.0	118.0	84.7	133.4	104.8	120.9
2017Q1	110.3	112.4	107.5	109.7	132.2	124.1	120.2	123.8	117.9	83.8	132.4	103.8	121.1
2017Q2	110.6	112.7	107.8	110.0	135.0	123.9	119.1	123.7	118.0	83.8	131.8	103.6	121.2
2017Q3	110.7	112.4	108.0	110.1	137.7	129.9	126.1	129.6	121.5	83.7	131.4	103.4	125.5
2017Q4	110.9	112.3	108.3	110.3	139.9	135.7	132.7	135.2	124.8	83.8	132.6	103.9	129.5
2018Q1	111.2	112.2	108.4	110.5	139.2	128.3	125.2	128.7	121.1	83.2	133.7	104.0	124.9
2018Q2	111.5	112.2	108.7	110.7	140.8	130.8	126.5	130.7	122.4	82.9	133.0	103.6	126.6
2018Q3	111.7	111.9	109.0	110.9	143.2	127.9	121.9	127.9	120.8	82.8	133.4	103.7	124.6
2018Q4	111.9	112.0	109.2	111.1	143.9	123.6	116.8	123.9	118.6	83.3	136.7	105.3	121.5
2019Q1	112.2	111.4	109.4	111.2	143.1	127.4	122.6	127.8	120.9	83.2	138.4	106.0	124.2
2019Q2	112.5	111.6	109.7	111.5	146.0	129.7	124.6	130.1	122.3	83.1	138.4	105.9	126.0
2019Q3	112.8	111.8	110.0	111.8	148.5	125.2	118.0	125.8	119.9	83.5	139.1	106.4	123.0
2019Q4	112.9	111.5	110.3	111.8	150.3	128.6	121.7	129.1	121.9	84.1	141.6	107.8	125.1
2020Q1	112.9	109.2	110.5	111.6	150.8	110.7	97.1	111.3	111.4	83.9	141.6	107.7	112.3
2020Q2	113.1	110.8	110.9	112.0	159.0	127.0	116.2	127.5	121.1	83.7	139.6	106.8	124.2
2020Q3	113.5	112.6	111.2	112.7	160.7	126.2	114.4	126.7	120.9	83.5	139.3	106.6	124.1
2020Q4	113.8	112.5	111.4	112.8	162.1	133.1	123.9	133.8	125.0	84.7	139.9	107.5	129.0

Sources: South African Reserve Bank Quarterly Bulletin December 2020; Stats SA; FNB House Price Index; Momentum-Unisa Household Finance Database.

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