SUMMARY

South African Household Wealth Index 2017

momentum | UNISA university of south africa

Purposeful collaboration towards Financial Wellness in South Africa

SOUTH AFRICAN HOUSEHOLDS RICHER IN 2017, BUT THEIR WEALTH IS UNEQUALLY DISTRIBUTED

1. EXECUTIVE SUMMARY

Despite all the negativities surrounding them, South African households have something to cheer about – collectively they managed to end 2017 in a richer state. This is good news as the financial purpose of households is to build their wealth and in so doing improve their chances of being financially well.

With consumer confidence at negative levels and consumers perceiving themselves in a state of financial vulnerability, it would have been easy to assume that households became poorer in 2017. However, the latest Momentum/Unisa Household Net Wealth Index shows that South African households' real net wealth increased by R451.6 billion in 2017 - the first real yearly increase since 2014.

The real value of household net wealth is often mistaken as their net income. However, it actually is the difference between the real value[1] of their assets and liabilities. Household assets mostly consist of the value of their retirement funds, other financial investments and residential buildings; while their liabilities typically comprise their outstanding credit and other debts.

The increase in households' net wealth in 2017 can be ascribed to a strong increase in the real value of their financial assets in the second half of 2017, while they kept their borrowing in check. The respective increases in the real value of households' financial assets and liabilities are estimated at 7.9% and 2.4% from the end of 2016 to the end of 2017. Financial assets, in turn, received a boost from the strong performances of listed shares and bonds – the instruments in which households' retirement funds and other savings are invested in. As for liabilities, it seems as if households' arrears in terms of borrowing declined during 2017, but that their arrears commitments towards, for instance municipalities increased sharply.

Despite the increase in households' real net wealth during 2017, not all households shared equally in this positive development. Financial Wellness research performed by Momentum/Unisa revealed that the top 20% household income earners own 72.2% of households' net wealth, while the bottom 20% possess only 2.7%. This is not surprising, though, given that income is unequally distributed in South Africa; and net wealth is a function of how households use their income.

At the same time, though, it is difficult to perceive the majority of the top 20% household income group as rich - as they earn between R20 000 and R45 000 per month. Given the income taxes they pay, the proportion of their income they use to repay debt (instalments), the high prices of transport, education and medical care, as well as the recent steep increases in the prices of food, they have a number of financial challenges to confront – hardly the characteristics of a rich household.

The rest of this report is structured to provide a more detailed summary of the above issues, starting with the state and change in household net wealth - and concluding with the findings of the distributional exercise and methodology that was followed to arrive at such distributions.

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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, in other words excluding the impact of price increases.*

2. HOUSEHOLD NET WEALTH

Momentum/Unisa estimates the real value of household net wealth at R7 344.3 billion in the fourth quarter of 2017 Q4 2017). This is R451.6 billion higher compared to Q4 2016.

However, a quarterly analysis shows that the real value of household net wealth was going nowhere during the first half of 2017 and that it only recovered from Q3 2017 onward - specifically in Q4 2017. Indeed, at the end of Q2 2017, the real value of household wealth was still 0.3% lower than a year earlier. But annualised quarterly increases of respectively 7.8% and 15.3% in Q3 2017 and Q4 2017 ensured that the real value of household net wealth ended 2017 6.6% higher than a year before.

To obtain a sense of the magnitude of households' net wealth, it can be expressed as a percentage of their disposable or *gross*[2] income. However, although disposable income is used, internationally, gross income is preferred in this report (see footnote). Momentum/Unisa estimates that household net wealth increased from 275.2% of gross income in Q4 2016 to 285.9%. However, it is still some distance away from the estimated 302.1% registered in Q2 2014.

To allow for international comparison, an expression in terms of disposable income is necessary. South African household net wealth is estimated to have ended 2017 at 378.3% of disposable income, up from 370.6% at the end of 2016. This puts South Africa in the same category as countries such as Finland, Greece, Hungary and South Korea. However, it is just more than half of the Netherlands' 699.0% (in 2016) and Belgium's 695.0% (in 2014), and at about two thirds of Japan's 598.7% (in 2015) and the USA's 590.1% (in 2016).

These ratios show that South Africa still has a long way to go to narrow the wealth gap with the developed countries, which can serve as benchmark for all countries. In this respect South Africa will need at least two decades of uninterrupted 2017-like growth in net wealth in order to catch up with developed countries.

The real year on year growth of 6.6% in household net wealth – compared to 2016 – was driven by a strong increase in household assets, especially financial assets, while household debt was growing at a more subdued rate compared to previous years.

[2] *Household net wealth, liabilities and assets are normally expressed as a percentage of disposable income – and not of gross income. Disposable income is calculated by subtracting a number of items from gross income. These items include personal income- and wealth taxes, the interest households pay on their debt and households' contributions to social security, including to retirement funds. However, as net wealth is dependent on among others how households use their income to accumulate wealth, disposable income is a distorted measure as it is arrived at after deducting (from gross income) what households did to accumulate wealth – namely their contributions to retirement funds and the interest on debt. Put differently, household balance sheet items should be expressed in terms of the income households have available for the accumulation of wealth. As such a measure is not yet available, gross income is used in this report.*

3. HOUSEHOLD ASSETS

The real value of South African households' assets is estimated to have increased from R8 246.6 billion in Q4 2016 to R8 730.9 billion in Q4 2017. This represents an increase of R484.3 billion, or 5.9%, which is the biggest year on year percentage increase since 2012.

Financial assets are estimated to have been responsible for 88.0% of the growth in the real value of household assets, while non-financial assets – which include residential buildings – contributed 12.0%. As a result of the strong contribution of financial assets, its share of total assets increased to an estimated 66.6% (from 65.4% in 2016), while that of non-financial assets decreased to 33.4%.

Households' investments in retirement funds play a huge role in accumulating wealth. Some 53.0% of the real value of households' financial assets accrues from the real value in their retirement funds. The real value of their retirement funds is mainly driven by the performances of listed shares and bonds. However, it was only in the second half of 2017, more specifically in Q4 2017, that shares and bonds delivered value. In real terms the JSE All Share Index (ALSI) was 12.9% higher at the end of Q4 2017 compared to a year before, while the All Bond Index (ALBI) was 6.2% higher. This was a remarkable turnaround considering that the real ALSI was at the end of Q2 2017 still 5.3% lower than a year before, while the real ALBI was only 3.5% higher.

However, it is not just the performances of the underlying instruments in retirement funds that matter in the accumulation of net wealth. Households also need to save towards retirement instruments such as their pension- and provident funds and retirement annuities. Unfortunately it seems as if households' contributions to retirement funds are on a declining trend. It is estimated that South African households (in 2017) invested only 10.8% of their gross income in wealth creating and protection instruments, including retirement funds, retirement annuities and group life schemes. This is down from 11.1% in 2016 and much lower than the 15.0% in 2008. This negatively impacted their potential to increase the value of their assets and their net wealth.

To obtain a view of the magnitude of household assets, estimates show that it increased to 339.8% of gross income at the end of 2017 from 329.3% a year before. When expressed as a percentage of disposable income, the increase was from 438.6% at the end of 2016 to 449.8% at the end of 2017. However, this ratio is one of the lowest, when compared to the countries tracked by the Organisation for Economic Co-operation and Development (OECD). The average assets to disposable income ratio, of these countries was 588% in 2014 and should now be closer to 600%.

These ratios combined with the low contribution rates to retirement funds show that asset accumulation is a big problem in South African households' wealth building process. South African households need to increase their contributions towards retirement funds in order to improve the state of their financial wellness and narrow the gap with other countries. But in order for this to happen, more households need to earn an income and more households need to earn a higher income. This necessitates policy changes as well as substantially higher economic growth and employment rates, as well as more companies offering retirement benefits as part of employees' remuneration package.

4. HOUSEHOLD LIABILITIES

Debt to income ratios also suggest that a lack of and insufficient assets are the biggest challenge that South African households face in the wealth accumulation process. Momentum/Unisa estimates South Africa's household debt to disposable income ratio at 71.4% at the end of 2017. This is much lower – in fact it is half the average of the OECD-countries of around 140% in 2016. It is also almost 20 percentage points lower than the high point of close to 90% of disposable income that South African households ran up in 2007.

Momentum/Unisa estimate that the real value of South African households' debt increased by R32.7 billion to R1 386.6 billion over the year from end 2016 to end 2017. This represents a real increase of 2.4% over the year.

An analysis of the changes in the types of debt revealed that the real value of mortgages increased by only 1.0% over the year, while other debt was 3.8% higher compared to the end of 2016. Consequently the share of mortgages in total outstanding debt declined further to 48.3%, while that of other debt increased to 51.7% from 51.0% in 2016.

However, just about 76% of all household liabilities are in the form of credit granted by banks. Households also owe money to institutions such as retailers, non-bank vehicle credit providers, micro-lenders, universities and municipalities. It is especially household arrears to municipalities that are growing larger. According to the National Treasury the nominal outstanding amount owed to municipalities increased to R101.6 billion (R69.7 billion in real terms) at the end of Q3 2017 from R83.1 billion (R57.5 billion in real terms) at the end of Q2 2017.

As for credit in default, statistics published by the National Credit Regulator shows that the size of the arrears are declining steadily in relation to total outstanding credit. Credit in arrears declined to 11.3% of total outstanding credit in Q3 2017 from 11.5% in Q2 2017 and 12.0% in Q3 2016.

5. SUMMARY

The above sections clearly showed that households grew richer as a result of a surge in the real value of household assets which was driven by an increase during the second half of 2017 in the real value of the shares and bonds they invested in.

However, the analysis did not deal with the distribution of assets, liabilities and net wealth among households. This is the purpose of the next section.

6. DISTRIBUTION OF HOUSEHOLD ASSETS, LIABILITIES AND NET WEALTH BY DEMOGRAPHIC STATUS

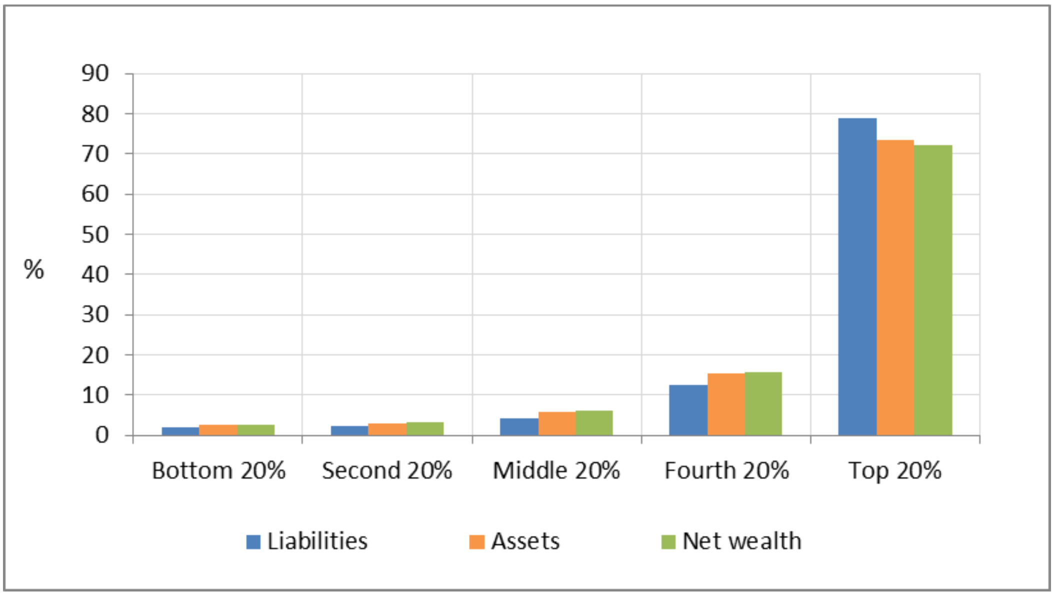
The distribution of the South African household balance sheet is still in its infancy stage. Although more data is available to perform a wide ranging distribution analysis, the focus of this report is limited to distributions by income group (see table in the methodology section), age and education status.

More detailed distributions will be performed as more data becomes available and more knowledge is gained about the way households use their income. A short summary of the methodology applied to perform the distributions follows after the discussion.

6.1 DISTRIBUTION OF HOUSEHOLD NET WEALTH ACCORDING TO INCOME QUINTILE

South African households' net wealth is distributed unequally among income quintiles. The top household income quintile (top 20%) is estimated to possess 72.2% of all household net wealth - with 51.2% in the hands of the top 10% (households with an annual income of more than R506 188). Contrastingly, the bottom income quintile (bottom 20%) only has 2.7% of household net wealth (see figure 1 below).

Figure 1: Distribution of household assets, liabilities and net wealth by income quintiles



Source: Momentum/Unisa estimates.

However, contrary to popular belief, the top 20% - as a group - is not very wealthy (refer to the income groups in the methodology section). This is evident from both their total household income; and their net wealth to total income ratio. The top 20% is estimated to include households with a monthly household income of as low as R21 931; while their net wealth to income ratio is estimated at just below 220%. This shows that a lot of households in the top 20% do not possess sufficient financial assets/net wealth to retire financially well or to take care of emergency expenses when the unexpected happens.

At the same time this ratio should be interpreted carefully as it is an average of vastly different households. As table 1 below shows, it includes households of all age groups (those at the beginning of their working life who only started saving and those in retirement who completed their saving).
In addition, it includes households with high and low levels of wealth. It does, however, show that 53.3% of the net wealth is in the hands of the 35-54 year olds.

Table 1: Distribution of household net wealth by income- and age group

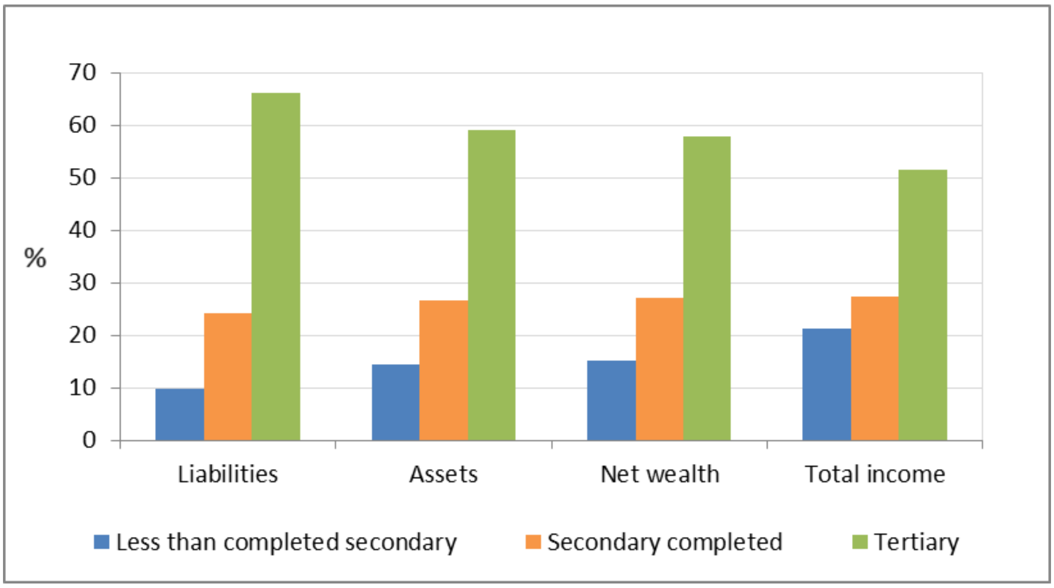
Age group →	<24	25 - 34	35 - 44	45 - 54	55 - 64	65+	Total
Bottom 20%	0.3	0.9	0.7	0.4	0.3	0.1	2.7
Second 20%	0.3	0.8	0.7	0.5	0.4	0.4	3.2
Middle 20%	0.2	1.4	1.6	1.1	0.8	1.0	6.1
Fourth 20%	0.7	3.1	4.1	3.5	2.0	2.4	15.8
Top 20%	0.6	10.4	20.2	20.5	12.1	8.3	72.2
Top 20% divided in two deciles (10% components)							
81% - 90%	0.3	4.7	5.6	5.1	2.9	2.4	21.0
91% - 100%	0.3	5.7	14.6	15.4	9.2	6.0	51.2

Source: Momentum/Unisa estimates.

6.2 DISTRIBUTION OF THE HOUSEHOLD BALANCE SHEET ACCORDING TO EDUCATION STATUS

The distribution of the different components of the household balance sheet according to education status is pretty much in accordance with expectations. It is highly skewed in favour of households with a higher education. Figure 2 shows that households with a tertiary education possess 51.6% of total income, 57.8% of net wealth, 59.2% of assets, while they are also responsible for 66.2% of all outstanding liabilities.

Figure 2: Distribution of household assets, liabilities and net wealth by education status



Source: Momentum/Unisa estimates.

The analysis highlighted the difference in the way households employ their income. Those with a tertiary education employed their income more effectively towards growing their wealth (51.6% of total income, but 57.8% of net wealth). In contrast, households with a less than completed tertiary education had 21.1% of total income, but only 15.2% of net wealth.

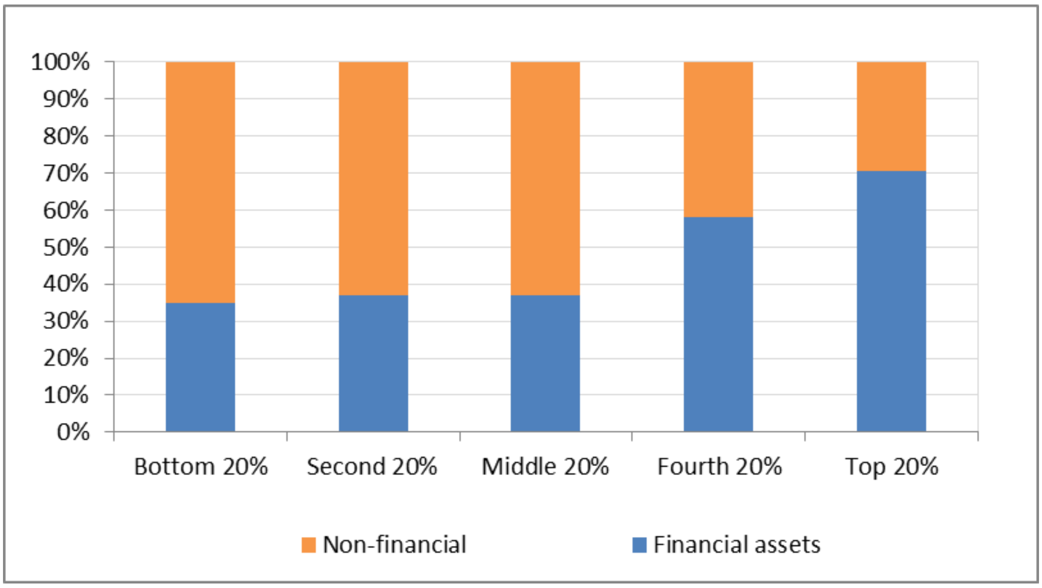
However, in many cases the households with a less than completed secondary education are earning a small income and therefore don't have the earning capacity to convert their income into wealth. This is also evident via the assets to income ratio. Households with a tertiary education's assets to income ratio is 2.9 (R2.90 in assets for every R1 in income), while the same ratio for households with a less than completed secondary education is 1.7.

6.3 DISTRIBUTION OF HOUSEHOLD ASSETS

Analysis of the ownership of assets by income group reveals an important pattern, namely lower income groups' asset portfolio mostly comprises non-financial assets. For instance, 65.1% of household assets in the bottom 20% income group are of a non-financial nature (see figure 3). So, the bulk of their assets consist of durable goods, livestock and residential buildings. They don't earn enough to contribute sufficiently to retirement annuities and other protection instruments.

However, once households move into the fourth 20% income group, the majority of their assets are of a financial nature - consisting of cash, the value of their retirement funds and other savings and investments. Financial assets are estimated to make up 70.7% of the assets of the top 20% household income group.

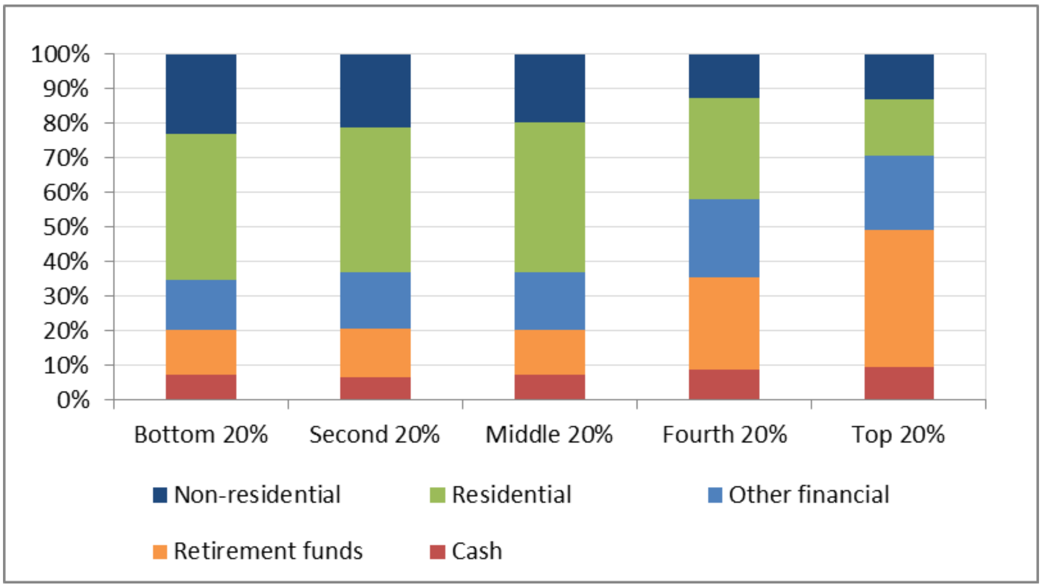
Figure 3: Distribution of household assets by income group



Source: Momentum/Unisa estimates.

A breakdown of households' assets reveals that almost 40% of the assets of the top 20% household income group consist of the amount they accumulated in their retirement funds (see figure 4). The bottom 20% household income group holds 42% of their assets in the form of residential property. In fact residential property is the major asset type for the bottom 80% household income groups.

Figure 4: Distribution of household assets by type of asset according to income group

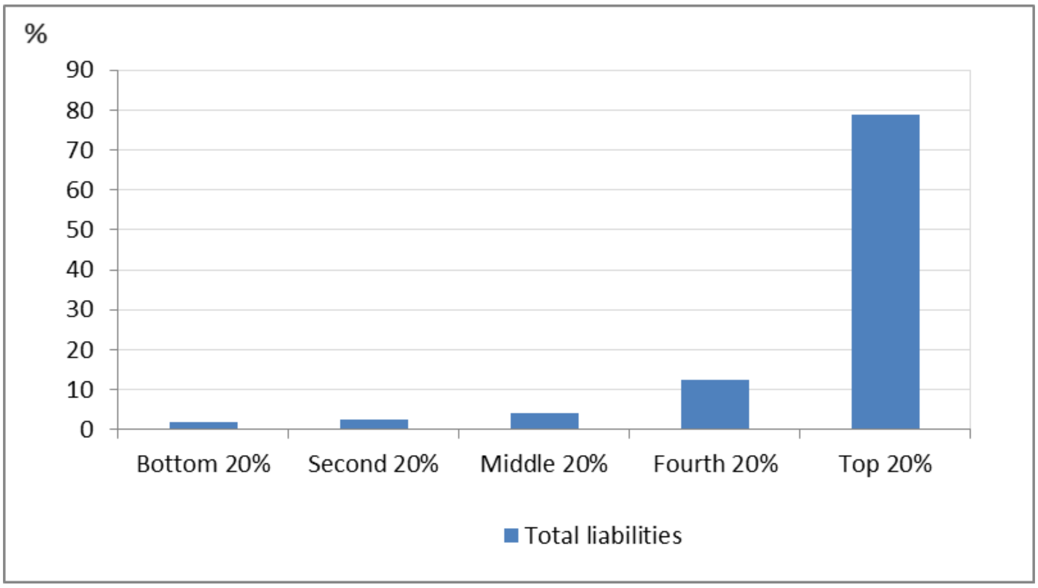


Source: Momentum/Unisa estimates.

6.4 DISTRIBUTION OF HOUSEHOLD LIABILITIES

Almost 80% of household liabilities (outstanding debt and other accounts) are owed by the top 20% household income group, while the fourth 20% household income group has 12.5% of the liabilities. The bottom 60% owes less than 10% of all the outstanding household liabilities (see figure 5).

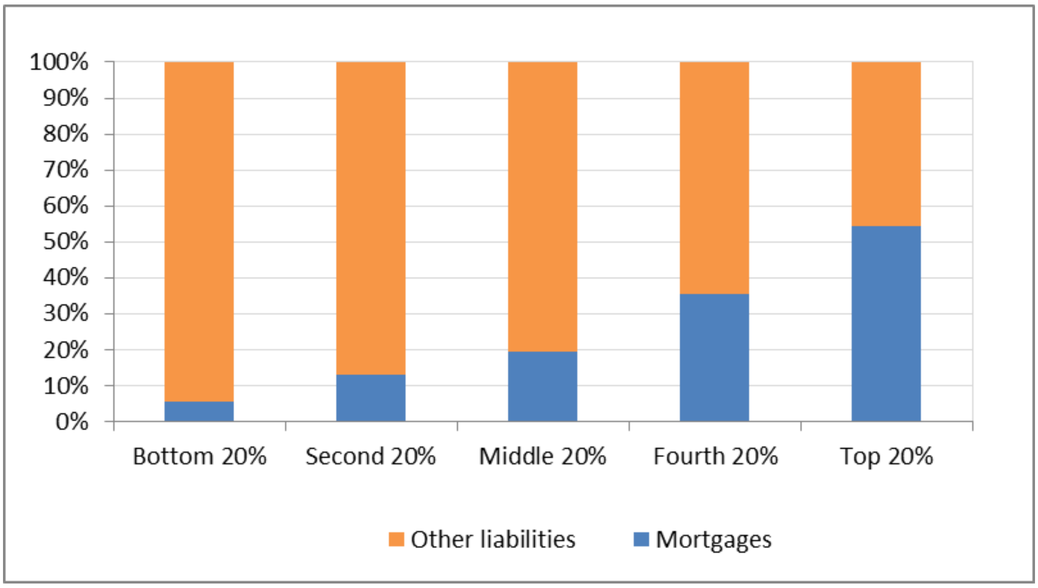
Figure 5: Distribution of household liabilities according to income group



Source: Momentum/Unisa estimates.

Deeper analysis revealed that 54.3% of the top 20% household income group's liabilities are in the form of mortgages (see figure 6), which is equal to 42.8% of all household liabilities. On the other end, the bottom 20% income group's liabilities consist of 5.5% mortgages and 94.5% other debt (mostly high interest rate bearing loans).

Figure 6: Distribution of household liabilities by type of liability according to income group



Source: Momentum/Unisa estimates.

7. METHODOLOGY: DISTRIBUTION OF HOUSEHOLD INCOME AND BALANCE SHEET COMPONENTS

The distribution of South African households' balance sheets was performed using data obtained from five Momentum/Unisa Household Financial Wellness Index surveys, namely one completed survey for every year during the period 2011 to 2105. This comprises data from approximately 12 500 randomly selected households representing about 50 000 individuals covering the whole country.

The households who participated in the five surveys completed a questionnaire requiring them to provide detailed demographic- and socio-economic information on a variety of matters such as their income, expenses, savings, debt, assets, living environment and capability, as well as on financial behaviour and attitudes.

The five surveys were treated as one pooled data set – as prescribed by international best practice. This enabled stable elasticities between household capability, employment, household income, and household wealth variables. From the pooled data set, stable household asset to income ratios and stable household liabilities to income ratios were derived. This was fused into the Bureau of Market Research at Unisa's Household Income and Expenditure Database in order to derive 2016 distributional balance sheet statistics. The household balance sheet statistics in the 2016 fused data set were improved by using other available asset and liability data. For instance, household debt data was adjusted using unidentified user credit data provided by one of the big four credit bureaus in South Africa.

The resulting household income, expenditure, assets, liabilities and net wealth estimates were parameter identified against South African Reserve Bank household income, expenditure, assets, liabilities and net wealth published numbers.

A further process of parameter evaluation was followed during which the distributional balance sheet estimates were compared to other available distributional and non-distributional household balance sheet estimates. This was done to determine whether distributional parameter inaccuracies in the fused data set existed and to effect corrections if necessary.

To determine the quality of the 2016 household balance sheet estimates, two sets of analyses were conducted:

- correlation analyses - to determine the validity of the household balance sheet estimates produced: Such estimates were found to be highly valid; and
- reliability analyses - to determine the internal consistency of reported balance sheet estimates using the Cronbach's Alpha statistic: Such estimates were found to be highly reliable.

The data was then distributed by household income group deciles and quintiles in order to arrive at estimates of households' assets, liabilities and net wealth per decile and quintile. The table below provides the income groups in the deciles and quintiles.

Table 2: Annual household income by decile and quintile

<table>
<tr><td colspan="3">Income groups by decile and quintile (Annual income in Rands: 2016)</td></tr>
<tr><td colspan="2">10%</td><td>20%</td></tr>
<tr><td>1</td><td>0 to 14 578</td><td rowspan="2">Bottom 20% - 0 to 25 819</td></tr>
<tr><td>2</td><td>14 579 to 25 819</td></tr>
<tr><td>3</td><td>25 820 to 36 646</td><td rowspan="2">Second 20% - 25 820 to 50 180</td></tr>
<tr><td>4</td><td>36 647 to 50 180</td></tr>
<tr><td>5</td><td>50 181 to 66 931</td><td rowspan="2">Middle 20% - 50 181 to 94 772</td></tr>
<tr><td>6</td><td>66 932 to 94 772</td></tr>
<tr><td>7</td><td>94 773 to 144 087</td><td rowspan="2">Fourth 20% - 94 773 to 251 155</td></tr>
<tr><td>8</td><td>144 088 to 251 155</td></tr>
<tr><td>9</td><td>251 156 to 506 188</td><td rowspan="2">Top 20% - 251 156 and above</td></tr>
<tr><td>10</td><td>506 189 +</td></tr>
</table>

Source: Momentum/Unisa estimates.

Table 3: Household balance sheet components in real and nominal terms at year end

Real year end values (R' billion)				Nominal year end values (R' billion)			
	Liabilities	Assets	Net wealth		Liabilities	Assets	Net wealth
1993	545 285	3 003 792	2 458 507	1993	176 919	974 590	797 670
1994	539 225	3 486 528	2 947 303	1994	192 883	1 247 147	1 054 264
1995	565 256	3 571 523	3 006 268	1995	214 857	1 357 560	1 142 702
1996	565 685	3 702 939	3 137 254	1996	236 774	1 549 906	1 313 132
1997	570 630	3 628 881	3 058 250	1997	255 618	1 625 584	1 369 966
1998	522 776	3 482 823	2 960 047	1998	249 741	1 663 819	1 414 078
1999	590 731	3 990 554	3 399 823	1999	301 973	2 039 915	1 737 942
2000	629 291	4 060 894	3 431 603	2000	346 595	2 236 624	1 890 028
2001	666 319	4 443 068	3 776 749	2001	385 408	2 569 933	2 184 525
2002	663 442	4 178 678	3 515 236	2002	431 189	2 715 834	2 284 645
2003	741 646	4 446 065	3 704 419	2003	495 702	2 971 665	2 475 963
2004	895 626	4 992 379	4 096 752	2004	644 305	3 591 470	2 947 165
2005	1 022 077	5 816 434	4 794 358	2005	770 582	4 385 227	3 614 646
2006	1 178 242	6 887 465	5 709 223	2006	922 212	5 390 829	4 468 617
2007	1 402 185	7 298 979	5 896 794	2007	1 185 556	6 171 334	4 985 778
2008	1 345 380	6 591 302	5 245 922	2008	1 242 672	6 088 112	4 845 440
2009	1 248 627	6 839 299	5 590 672	2009	1 223 317	6 700 667	5 477 350
2010	1 352 056	7 092 429	5 740 373	2010	1 369 394	7 183 380	5 813 986
2011	1 298 056	7 052 144	5 754 088	2011	1 407 017	7 644 111	6 237 094
2012	1 366 932	7 579 310	6 212 379	2012	1 570 091	8 705 780	7 135 690
2013	1 384 306	7 994 870	6 610 564	2013	1 681 197	9 709 526	8 028 329
2014	1 415 517	8 403 836	6 988 319	2014	1 799 115	10 681 236	8 882 121
2015	1 412 897	8 399 518	6 986 622	2015	1 879 640	11 174 259	9 294 618
2016	1 353 947	8 246 594	6 892 647	2016	1 914 636	11 661 631	9 746 995
2017	1 386 645	8 730 911	7 344 267	2017	2 038 368	12 834 440	10 796 072

Source: Momentum/Unisa estimates.

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