Note on household wealth in South Africa

by K Kuhn

Introduction

Changes in the wealth of the household sector affect final consumption expenditure by households and, accordingly, final demand in the economy. The South African Reserve Bank (the Bank) published official balance-sheet estimates for the household sector for the first time in the June 2006 *Quarterly Bulletin* in an article entitled "Estimating household sector wealth in South Africa" by J Aron, J Muellbauer and J Prinsloo. These estimates, which covered the period from 1975 to 2005, were used as basis for the refinement of the Bank's quarterly estimates of household balance-sheet aggregates for South Africa. Taking account of new sources and standard international practice, the computation of household wealth was enhanced and extended to cover the period since 2005.

The purpose of this note is to highlight the more important refinements made to the computation of household balance-sheet estimates in South Africa, briefly indicating the relevant data sources and to analyse the trends in household wealth since 2005.

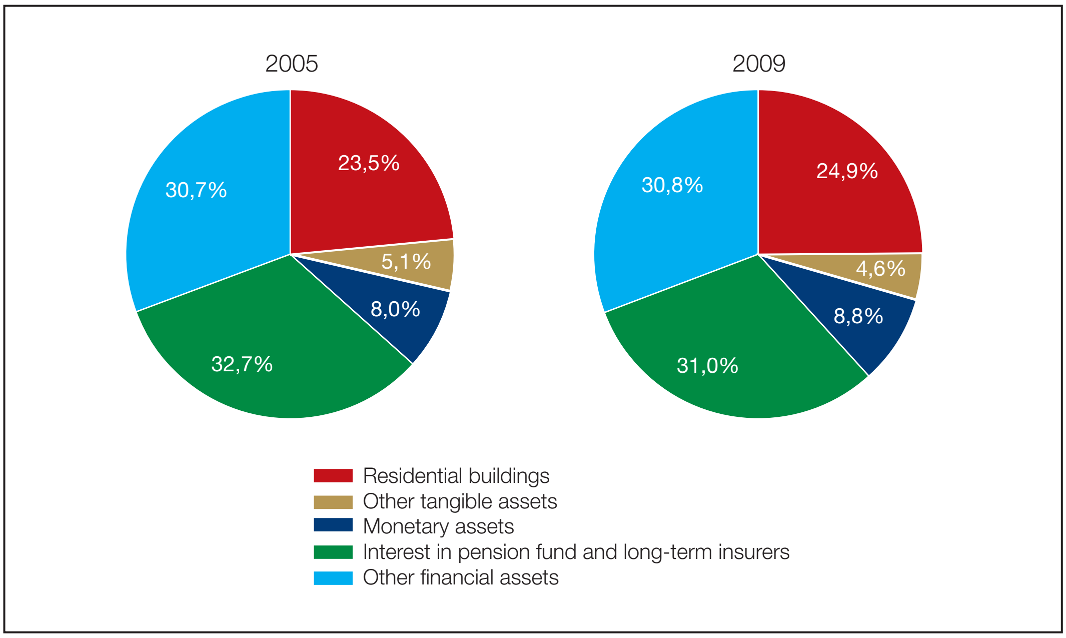
Household balance-sheet aggregates

Assets

Tangible assets

The tangible or non-financial assets of households, non-profit institutions and non-incorporated business enterprises comprise the market value of residential and non-residential buildings, non-agricultural land, construction works (structures), machinery and equipment, computer and related equipment, transport equipment, agricultural land and orchards, and inventories owned by this institutional sector. In total, tangible assets accounted for 29,4 per cent of total household assets in 2009.

Household assets



Balance-sheet estimates for tangible assets were, with the exception of inventories, derived from national accounts capital stock measures. To obtain the market value of these tangible assets, the stock values were multiplied by appropriate asset price indices. The market value of inventories held by the household sector was derived from the book value of the total industry using institutional sector ratios obtained from the Annual Financial Statistics surveys of Statistics South Africa (Stats SA).

Financial assets

The financial assets of the South African household sector comprise assets with monetary institutions; interest in pension funds and long-term insurers; equities, bonds and other domestic financial assets; as well as financial assets abroad. Financial assets constituted 70,6 per cent of total assets in 2009.

Monetary assets

Assets of households with monetary or banking institutions comprise deposits with banks and mutual banks, the Land and Agricultural Bank, and the Postbank. Information concerning deposit holdings was sourced from the Money and Banking Division of the Research Department of the Bank. Estimates were also made of the value of notes and coin in possession of the household sector.

Interest in pension funds and long-term insurers

Households' interest in pension funds includes investment in official and private self-administered pension and provident funds. Data were obtained from relevant institutions submitting information on a quarterly basis to the Bank.

Equities, bonds and other domestic financial assets

The household sector's investment in this group of assets comprises investment in government and public enterprise stock, deposits in participation mortgage-bond schemes, corporate bonds and equities and other, mainly longer-term, deposits. Information is primarily sourced from data submitted to the Bank.

The stock of shares owned by the household sector was estimated by using the flow-of-funds data of ordinary shares held by households. The conversion from book to market value of stocks was done by using the JSE All-Share Price Index, adjusted for trading or management costs.

The market value of the household sector's investment in collective investment schemes was classified as part of equity investment. Investment in such schemes was, however, kept tracked separately to avoid double counting.

In addition, deposits with non-bank financial institutions such as the Public Investment Corporation and with buy-aid associations were incorporated.

Foreign assets

Information regarding the stock of foreign assets owned by the household sector was sourced from the Balance of Payments Division. Among other sources, data were obtained from the Co-ordinated Portfolio Investment Survey conducted annually by the Bank under the auspices of the International Monetary Fund.

Balance sheet of the household sector for selected years

R billions

31 December	2005	2006	2007	2008	2009
Tangible assets	1 254,3	1 478,3	1 710,7	1 785,6	1 884,5
Residential buildings	1 029,8	1 237,2	1 446,2	1 496,3	1 592,3
Other tangible assets	224,5	241,1	264,5	289,3	292,2
Financial assets	3 128,7	3 931,5	4 440,2	4 073,0	4 521,7
Assets with monetary institutions	352,0	400,0	463,3	545,8	563,0
Interest in pension funds and long-term insurers	1 431,8	1 791,6	1 970,6	1 946,1	1 984,3
Other financial assets	1 345,0	1 739,8	2 006,3	1 584,1	1 974,4
Total assets	4 383,1	5 409,8	6 150,9	5 858,6	6 406,2
Total household debt	697,1	873,0	1 070,6	1 159,2	1 185,2
Mortgage advances	395,4	517,2	657,8	730,5	752,8
Other debt	301,7	355,8	412,8	428,7	432,4
Net worth	3 686,0	4 536,8	5 080,3	4 699,4	5 221,0
Total liabilities and net worth	4 383,1	5 409,8	6 150,9	5 858,6	6 406,2
Memo item: Net worth including durable consumer goods	*3 965,7*	*4 863,6*	*5 447,2*	*5 091,6*	*5 618,4*

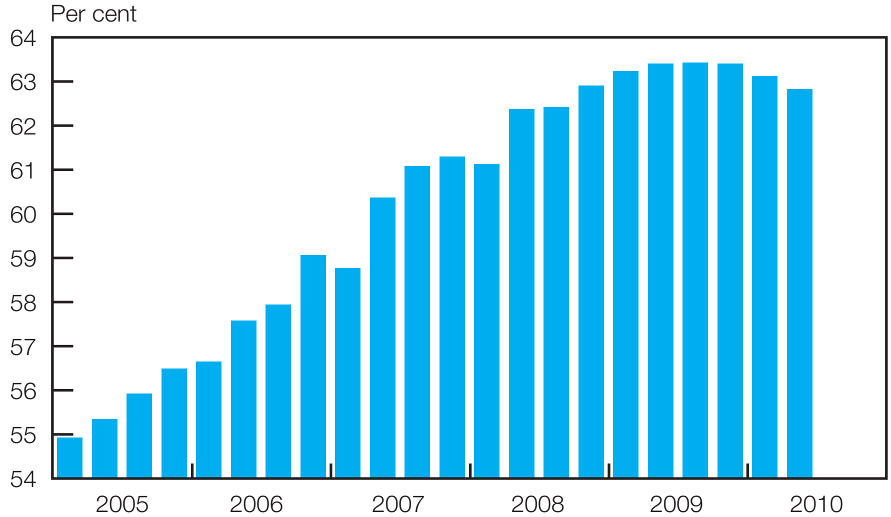
Household debt

Loan financing obtained from the private-banking sector forms the largest part of household debt. Relevant data are collected from monthly regulatory returns submitted to the Bank Supervision Department of the Bank, in compliance with section 90 of the Banks Act (Act No. 94 of 1990). The outstanding debt of the household sector also includes credit extended to non-incorporated business enterprises and to non-profit institutions serving households. Since 2008 more detail regarding sectoral disaggregation has become available, following the introduction of the Basel II framework for banking supervision.

The two main components of household debt are mortgage advances and consumer credit.

Mortgage debt as a ratio of total household debt

Per cent



Seasonally adjusted

Mortgage advances to households

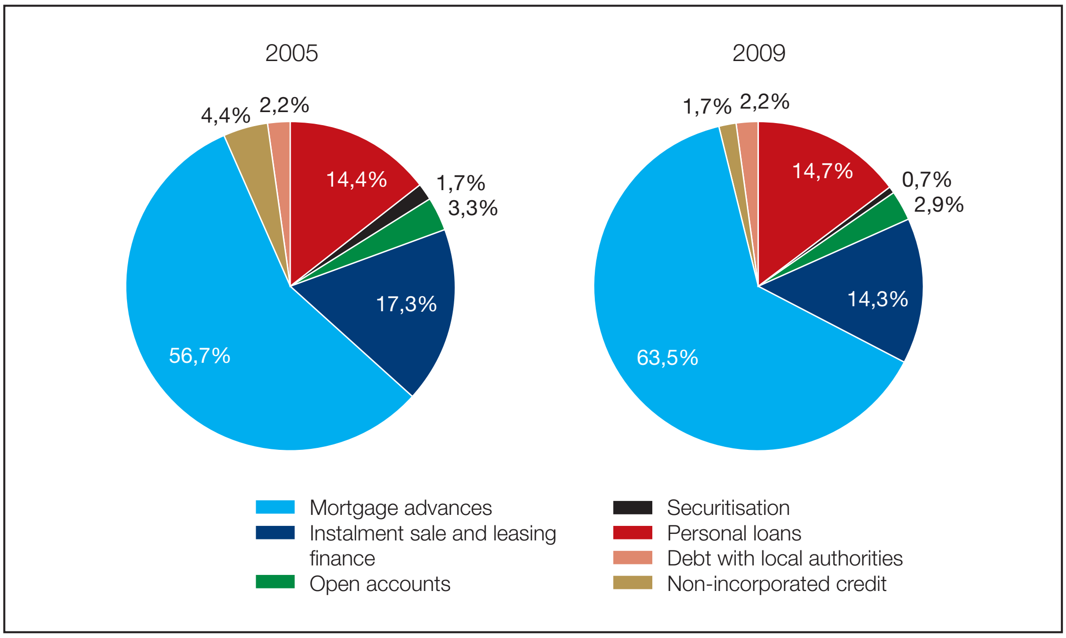
Mortgage advances extended to the household sector represent the largest component of household debt; its share in total debt increased steadily from 56,7 per cent in 2005 to 63,5 per cent in 2009. The information was sourced from monthly regulatory returns submitted to the Bank Supervision Department of the Bank.

Other household debt

Consumer credit accounted for roughly 35 per cent of aggregate household debt in 2009. Credit extension to the consumer was mainly done through open accounts, personal loans, instalment sale transactions, operational and financial lease agreements, and securitisation transactions. Consumer credit also encompasses debt owed to local authorities, information that was sourced from the National Treasury. Debt in arrears to local authorities increased meaningfully in the recent past, raising the level of household debt by about 2 per cent in 2009. Credit extended by buy-aid associations, while a comparatively small component of consumer credit, was obtained from such associations and incorporated in the estimates.

Bank credit extended to non-incorporated business enterprises constituted about 2 per cent of aggregate household debt.

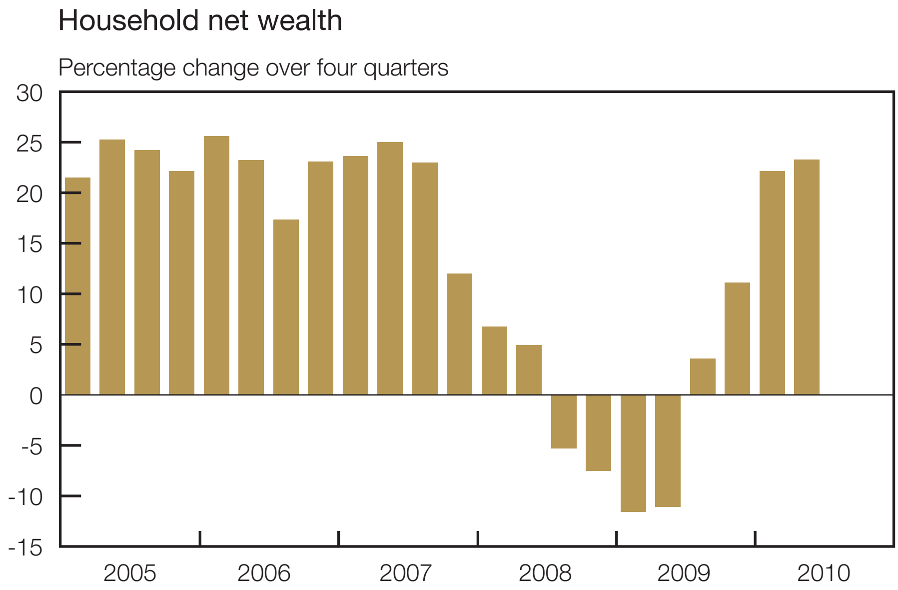
Household debt



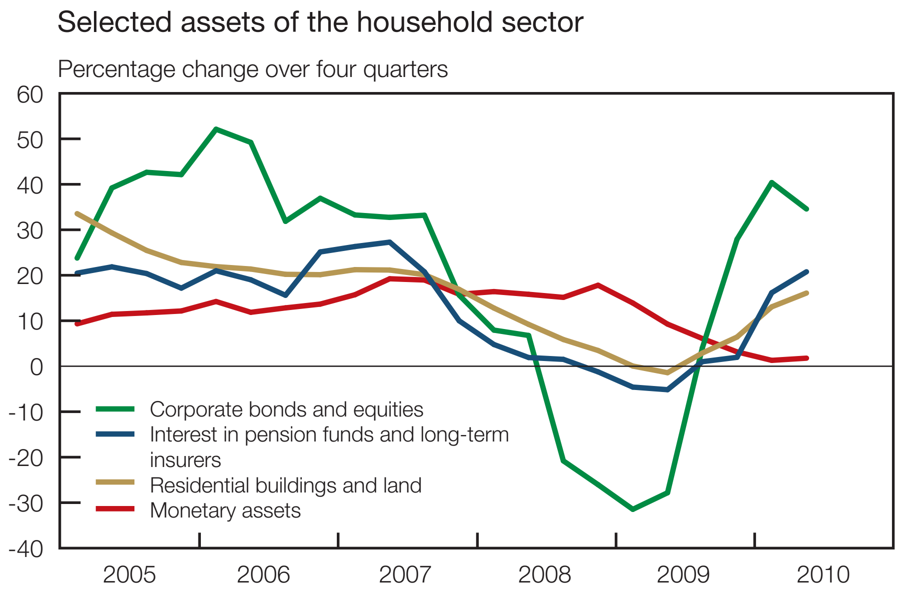
Household wealth

The net wealth of the household sector comprises the total of tangible and financial assets less household liabilities. Up to the second quarter of 2008 increases in the total value of household assets more than matched the increases in the debt levels of the household sector. Growing debt levels are a concern if not matched by a simultaneous increase in the assets of the household sector.

The net wealth of the household sector increased noticeably from the first quarter of 2003 up to the second quarter of 2008, largely reflecting the sharp appreciation in the value of residential property and the surge in equity prices. The global financial crisis that emerged in the latter part of 2007 subsequently spilled over to the South African economy, adversely affecting the net wealth of the household sector as property values declined alongside a sharp fall in the prices of most classes of equity during 2008 and early 2009. However, from the second half of 2009 growth in household wealth started to recover, partly due to the pickup in global and domestic economic activity, which positively affected equity markets. Furthermore, the household sector also benefited from steady increases in house prices from the middle of 2009.



An analysis of the components of household wealth showed that between 2005 and 2007 holdings of residential property, pension funds and directly held securities were the main contributors to household wealth, as these items rose substantially over the period. From the fourth quarter of 2007 households' holdings of pension fund assets and

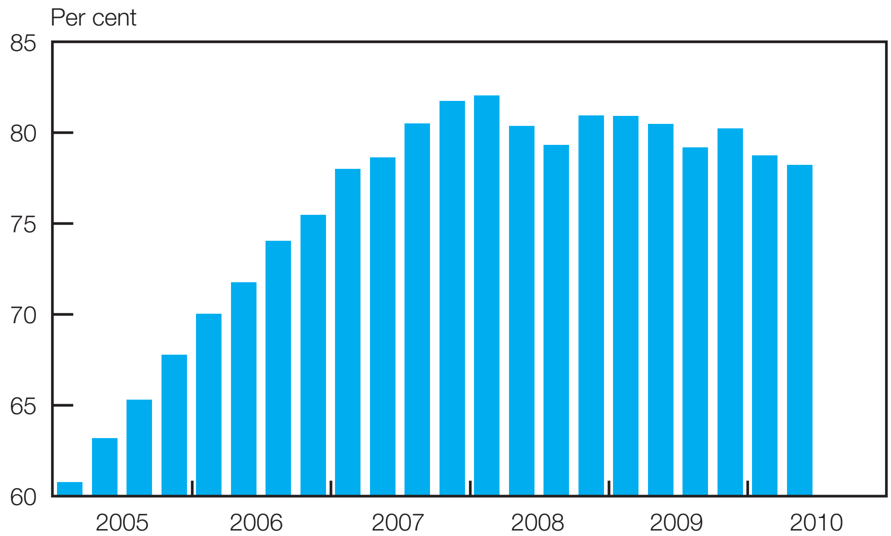


residential property deteriorated somewhat, but started to recover in the second half of 2009. Growth in monetary assets remained broadly unchanged during 2008, but slowed in 2009.

Household debt rose briskly between 2005 and 2007 with this increase mainly driven by the rapidly rising prices of residential property. The substantial debt accumulation was probably encouraged by the relatively low interest rate environment, easier access to credit and the rising number of people in paid employment. Disposable income of households also increased swiftly between 2005 and 2008 following strong growth in compensation of employees and property income. The ratio of household debt to disposable income accordingly reached an all-time high of 82 per cent during the first quarter of 2008.

At the end of 2008 growth in disposable income started to slow substantially as households experienced financial strain. Difficult economic conditions arose from the adverse global economic developments and continuous job losses in the domestic economy. The introduction of relevant provisions of the National Credit Act in June 2007 also affected growth in household debt during this period.

Ratio of household debt to disposable income

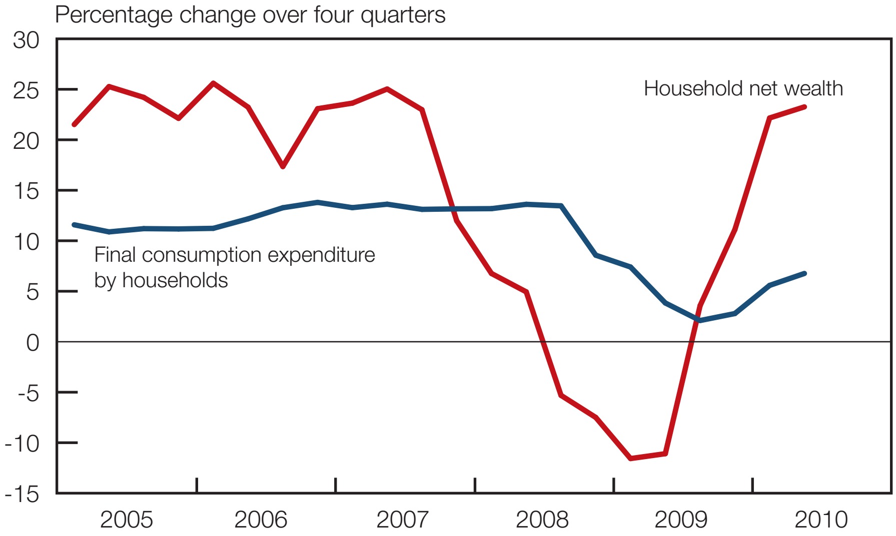


Despite the steady reduction in interest rates since December 2008, factors such as tighter lending conditions, a slowdown in disposable income and large-scale job shedding during 2009 probably constrained the household sector's appetite for debt.

Although the ratio of household debt to disposable income in South Africa has risen sharply in the past five years, it still compares favourably with similar ratios of countries such as the United States, the United Kingdom, Australia and New Zealand. Australia has one of the highest ratios of household debt to disposable income in the world at 155,3 per cent, which may be compared with South Africa's ratio of 80,2 per cent at the end of 2009.

Nominal final consumption expenditure by households increased at an average rate of about 13 per cent during the period 2005 to the third quarter of 2008. However, from the final quarter of 2008 final consumption expenditure of households increased at a substantially slower pace, partly explained by the decline in the net wealth of the household sector during the period.

Final consumption expenditure by households and household wealth



Conclusion

A steady increase in household debt could be misleading if the underlying trend in household assets is not simultaneously taken into account. It is therefore important to complement analysis of changes in the gross debt position of households with analysis of developments in the gross assets of the sector and the resulting changes in net household wealth.

To this end, the computation of comprehensive and timely estimates of household balance-sheet aggregates is invaluable. By adding reliable balance-sheet estimates to the national accounts data sets, the analyses that may be done are broadened significantly.

This note presents a brief summary of methodology used in compiling the assets and liabilities of the balance sheet in time series format. Notable developments in the balance-sheet aggregates were highlighted. These include the integration of stock values for tangible assets benchmarked to the year 2005 and improved estimates of household financial assets, that is, investment in government bonds and public enterprise stock, deposits with financial and other institutions, and ordinary shareholding.

Estimates of household debt were furthermore expanded to include the liabilities of the household sector to various domestic buy-aid associations and local authorities. In addition, improved data on instalment credit, personal loans and mortgage advances extended by banks to consumers were obtained using more detailed returns that became available when the *International Convergence of Capital Measurement and Capital Standards: A Revised Framework* (Basel II) for banking supervision was introduced. Securitised loans were also added to household debt from the second quarter of 2002.

Research to improve household balance-sheet estimates further will continue, but the advances made are such that estimates of the household sector's net wealth relative to disposable income will in future be disseminated in the statistical tables of the *Quarterly Bulletin*.

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