Note on recent developments in the household balance sheet

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This note briefly reviews macroeconomic developments in the household balance sheet since 2003, updating the note on household wealth and balance sheets published in the September 2010 *Quarterly Bulletin*. Household balance-sheet data are important for assessing the economic behaviour of the household sector and provide valuable insights regarding the wealth of the sector.

The net wealth position of households is the difference between the total assets and liabilities of the household sector. An increase in the net wealth position of households in general improves individuals' ability to accommodate or withstand abrupt economic shocks or a fall in income. Furthermore, it affects households' capacity to borrow and thus to spend or invest. In addition, an improved wealth position generates additional income for the household sector. The total assets of the household sector primarily comprise produced non-financial or fixed assets and financial assets, whereas total household liabilities consist of mortgage advances and other borrowing by households, largely from the banking and trade sectors.

Between 2003 and 2010 the value of households' total liabilities increased, on average, by 15,8 per cent per annum, and amounted to R1,3 trillion at the end of 2010. By contrast, households' assets increased at a slower pace of 13,4 per cent per annum over the same period, amounting to R6,6 trillion at the end of 2010. With the growth in household debt outpacing that in household assets, the ratio of household debt to total assets advanced from 16,6 per cent at the end of 2003 to 19,1 per cent at the end of 2010, suggesting that South African households over time became more vulnerable to changes in lending interest rates and conditions.

The net wealth of the household sector, however, rose steadily from R2,3 trillion at the end of 2003 to R4,5 trillion at the end of 2007, before receding marginally to R4,3 trillion at the end of 2008. In the subsequent years it increased further to R5,3 trillion at the end of 2010. Relative to the annual disposable income of households, the net wealth of the household sector advanced from 264 per cent in 2003 to 323 per cent in 2010.

Condensed balance sheet of South African households

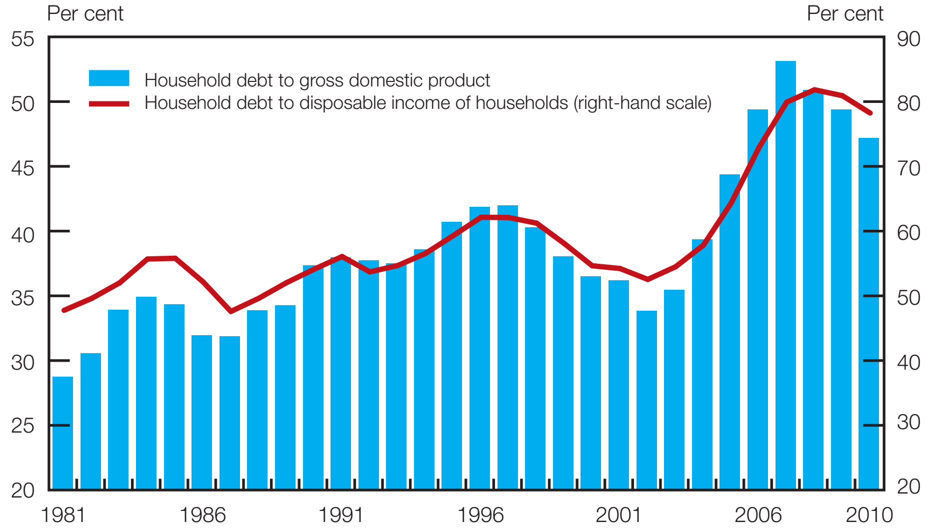
Selected household assets and liabilities at year-end
R billions

	2003	2004	2005	2006	2007	2008	2009	2010
Non-financial assets........................	796	1 043	1 256	1 482	1 723	1 790	1 900	1 965
Residential buildings.........................	608	839	1 030	1 237	1 446	1 496	1 590	1 644
Other non-financial assets	188	204	226	245	277	294	310	321
Financial assets...............................	1 923	2 265	2 740	3 401	3 859	3 624	4 087	4 605
Assets with monetary institutions.......	285	314	352	400	463	546	563	577
Interest in pension funds and long-term insurers	1 014	1 214	1410	1 762	1 969	1 927	2 126	2 406
Other financial assets	624	737	978	1 239	1 427	1 151	1 398	1 622
Total household assets....................	2 719	3 308	3 996	4 883	5 582	5 414	5 987	6 570
Total household liabilities	451	557	697	873	1 071	1 157	1 183	1 257
Mortgage advances..........................	235	307	395	517	658	731	752	781
Other debt.......................................	216	250	302	356	413	426	431	476
Net wealth	2 268	2 751	3 299	4 010	4 511	4 257	4 804	5 313
Total liabilities and net wealth	2 719	3 308	3 996	4 883	5 582	5 414	5 987	6 570
Memo item: net wealth including durable consumer goods..................	2 480	2 996	3 585	4 344	4 886	4 653	5 206	5 736

Data are subject to revision

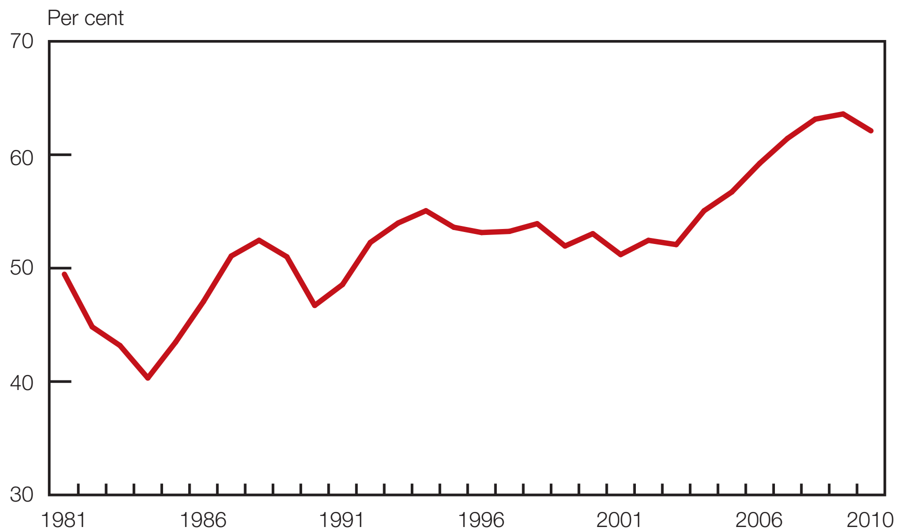
Total household liabilities as a proportion of disposable income rose to record levels in 2007 and early 2008 due to a combination of favourable financial conditions and the buoyant housing market. The introduction of the National Credit Act in 2007 and the spill-over effect of the global financial crisis have, however, slowed the pace of debt accumulation in the period 2008 to 2010. As a result, average annual growth in mortgage advances moderated from 29 per cent during the period 2003 to 2007 to 3,4 per cent in the subsequent period from 2008 to 2010. Relative to total household debt, mortgage advances increased from 52,1 per cent at the end of 2003 to a high of 63,6 per cent at the end of 2009 before moderating to 62,1 per cent at the end of 2010. The market value of residential buildings relative to total outstanding mortgage debt decreased gradually from a recent high of 274 per cent at the end of 2004 to a still-firm 211 per cent at the end of 2010. This was an indication that home-owners, on average, had less home equity available to cushion their finances.

Household debt as a percentage of gross domestic product and disposable income



Compared with the growth in mortgage debt, other household debt (which mainly comprises personal loans, credit card debt and instalment sale and leasing finance extended by banks and the trade sector) increased at a much slower average pace of 12 per cent per annum over the period 2003 to 2010. As a share of total household debt, other household debt consequently contracted from 47,9 per cent at the end of 2003 to 37,9 per cent at the end of 2010.

Mortgage debt as a percentage of household debt



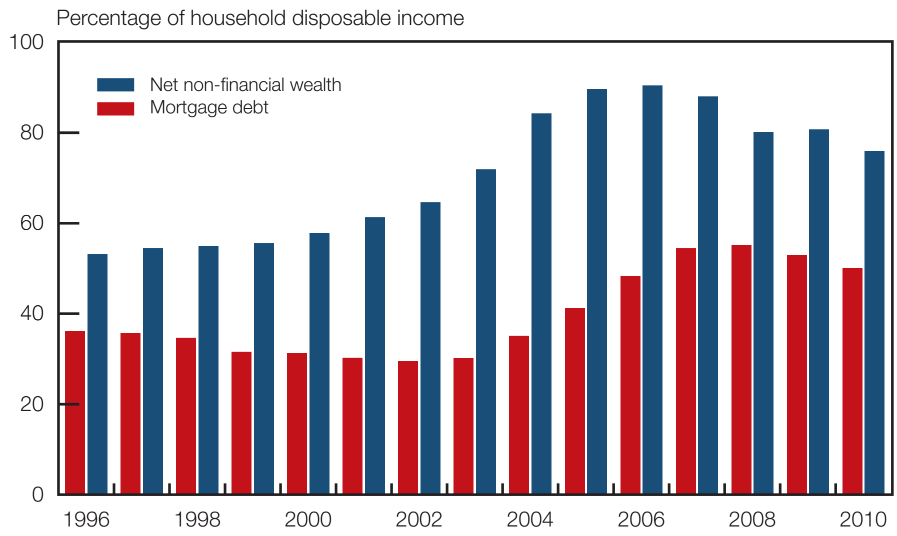
The market value of financial assets owned by households, on average, accounted for about 69 per cent of total household assets between 2003 and 2010. These assets consist mainly of households' interest in pension funds and long-term insurers, shares and bonds, and deposits and investments with monetary institutions. Financial assets with monetary institutions expressed as a ratio of total financial assets declined marginally from 14,8 per cent at the end of 2003 to 12,5 per cent at the end of 2010, while the ratio of shares and bonds to total financial assets increased from 32,5 per cent to 35,2 per cent over the same period. Lower interest rates since the middle of 2008, alongside meaningful capital gains generated by shares and bonds prior to the global financial crisis, probably enticed households to invest in higher-yielding financial assets, including the more readily available retail bonds for smaller investors.

Relative to total household assets, the share of non-financial assets remained fairly stable over the period, fluctuating at around 30 per cent. Non-financial assets comprise residential and non-residential buildings, construction works, transport equipment, machinery and equipment, computers, inventories and orchards, that is, capital goods of the unincorporated business enterprises and non-profit institutions serving households. The sustained growth in the value of non-financial assets was recorded in the context of the prolonged upward phase in domestic economic activity from 1999 to 2007, buoyant property prices, firm employment gains and a concomitant increase in real disposable income of households.

Over the same period, the share of residential buildings in total household-sector assets advanced from a low of 16 per cent in 1996 to a recent high of 28 per cent in 2008 before declining somewhat to 25 per cent in 2010. At the end of 2010, investment in residential buildings constituted the second-largest asset class following households' interest in pension funds and long-term insurers. The firm increase in the share of residential buildings between 2003 and 2008 could be attributed to the significant additions to the housing stock and buoyancy of real-estate prices, indicative of the underlying strong demand for real estate during the upward phase of the business cycle and growth in the disposable income of households. However, the demand for residential buildings has receded since 2008, influenced in part by the subdued performance of house prices, persistent high debt levels, rising inflation which hampered households' finances, and the requirements of the National Credit Act.

While debt levels have increased notably since 2003, the net wealth of the household sector has also advanced, reflecting, *inter alia*, the appreciation in property prices, an increase in home ownership and buoyant conditions in equity markets over most of this period. The increase in the stock of household assets helped to cushion the household sector against negative financial shocks. As shown in the accompanying graph, the increase in households' mortgage debt was accompanied by gains in the net non-financial wealth of the household sector.

Net non-financial wealth and mortgage debt



While the net wealth position of South African households appears to be fairly healthy, the overall leverage ratio of households, defined as the ratio of total debt to net wealth, increased markedly from 19,3 per cent at the end of 2001 to 27,2 per cent at the end of 2008 before receding somewhat to 23,7 per cent at the end of 2010. At the same time, the non-financial leverage ratio of the household sector, defined as the ratio of mortgage debt to the net non-financial wealth of households, reached an all-time high of 68,9 per cent at the end of 2008 before declining to about 66 per cent at the end of 2010. These fairly elevated leverage ratios suggest that the South African household sector could be more vulnerable to asset-price declines than in the past.

Overall and non-financial leverage ratios