



SUMMARY
South African
Household Wealth Index

Q2 2015



momentum

UNISA



Purposeful collaboration towards Financial Wellness in South Africa

EXECUTIVE SUMMARY AND HIGHLIGHTS

- South African households' net wealth decreased in real terms (2010 prices) in the second quarter of 2015 (Q2 2015).
- Momentum/Unisa estimates that real household net wealth declined by 3.9% compared to Q1 2015 (Quarter over quarter seasonally adjusted and annualised - QoQSAA). This means that real household net wealth declined by R64.5 billion to R6 424 billion (R6.424 trillion) over the quarter.
- This decline was large enough to wipe out all wealth gains since a year ago (Q2 2014). In Q2 2015 real household net wealth was R9 billion less than a year ago.
- The consequence of this decline is that households will have to review their future lifestyle expectations, as well as adjust their other saving, retirement and investment goals.
- The main cause of the deterioration in the real value of household net wealth can be ascribed to a relatively strong decline in the purchasing power of the value (real value) of household assets.
- Momentum/Unisa estimates that the real value of household assets declined by R86.4 billion, or 4.3% on a QoQSAA basis. Similarly, the real value of household liabilities declined by R21.9 billion or 6.0% compared to the real value of liabilities in Q1 2015.
- The real value of household assets was adversely affected by a decline in the real value of financial assets invested in shares listed at the JSE, stagnation in households' contributions to contractual savings products (to annuities, official- and private retirement funds and pension- and group life business), and a slowdown in house price growth.
- The decline in the real value of household liabilities can be attributed to the un-affordability of debt as reflected by among others, a further increase in the average weighted interest rate on loans during Q2 2015. The average weighted interest rate increased to an estimated 12.1% in Q2 2015 from 11.9% in Q1 2015 and is now at the highest level since Q1 2015.
- At 21.9% of amended disposable income, the average instalment (to repay debt) was 6% higher than a year ago (Q2 2014).

TABLE 1: OVERVIEW OF HOUSEHOLD WEALTH INDICATORS (QUARTERLY)

Household wealth indicators	Q4 2014	Q1 2015	Direction	Q2 2015	Direction
Momentum/Unisa Household liabilities (Real R' billion)	1 415	1 420	↑	1 398	↓
Momentum/Unisa Household assets (Real R' billion)	7 721	7 908	↑	7 822	↓
Momentum/Unisa Household net wealth (Real R' billion)	6 307	6 488	↑	6 424	↓
Momentum/Unisa Household liabilities to Disposable Income	78.5	78.3	↓	76.8	↓
Household net saving(+)/dis-saving(-) (R' billion)	-51.4	-53.3	↑	-52.6	↓
Momentum/Unisa Household assets to Disposable Income	428.2	436.3	↑	429.8	↓
Momentum/Unisa Household net wealth to Disposable Income	349.8	357.9	↑	353.0	↓
Momentum/Unisa Household liabilities (Nominal QoQSAA %)	6.1	1.9	↘	1.6	↘
Momentum/Unisa Household assets (Nominal QoQSAA %)	4.8	10.5	↗	3.5	↘
Momentum/Unisa Household net wealth (Nominal QoQSAA %)	4.6	12.5	↗	3.9	↘
Momentum/Unisa Household liabilities (Real QoQSAA %)	2.1	1.6	↘	-6.1	↘
Momentum/Unisa Household assets (Real QoQSAA %)	0.9	10.1	↗	-4.3	↘
Momentum/Unisa Household net wealth (Real QoQSAA %)	0.7	12.0	↗	-3.9	↘
Household debt service costs (Nominal QoQSAA %)	15.5	7.0	↘	9.8	↗

Key: ↘ = growing at slower pace (QoQSAA % change); ↗ = growing at a faster pace (QoQSAA % change); **Red colour** = not preferred direction in terms of the pace (QoQSAA); **Black colour** = Preferred direction in terms of the pace (QoQSAA); ↑ = increase and preferred; ↑ = increase and not preferred; ↓ = decrease and preferred; ↓ = decrease and not preferred; ↔ = unchanged.

Note: The above analysis on the preferred direction and pace is done against the prevailing economic environment – which was muted in 2014. The colour coding may therefore be different during different economic circumstances. For instance, if households' debt increases and they have a negative net saving situation, it means that they borrow money to save –hence the arrow will be up and red. However, if their debt increases and they have a positive net savings situation, the arrow will be up and green.

1. SOUTH AFRICAN HOUSEHOLD BALANCE SHEET

1.1 Background

The strength or weakness of households' balance sheets as reflected by their liabilities, assets and net wealth, count among some of the most important economic indicators in South Africa. Analysis of the balance sheet provides valuable information on the sufficiency of households' savings, their retirement prospects, affordability of debt, and their lifestyle expectations. A strong balance sheet is needed for households to be financially well, which, in turn is essential for their resilience to deal with shocks and to contribute to a robust economy.

This household wealth report is constructed around the above-mentioned balance sheet measures, with a specific focus on the second quarter of 2015 (Q2 2015). Additional statistics are provided in the annexure.

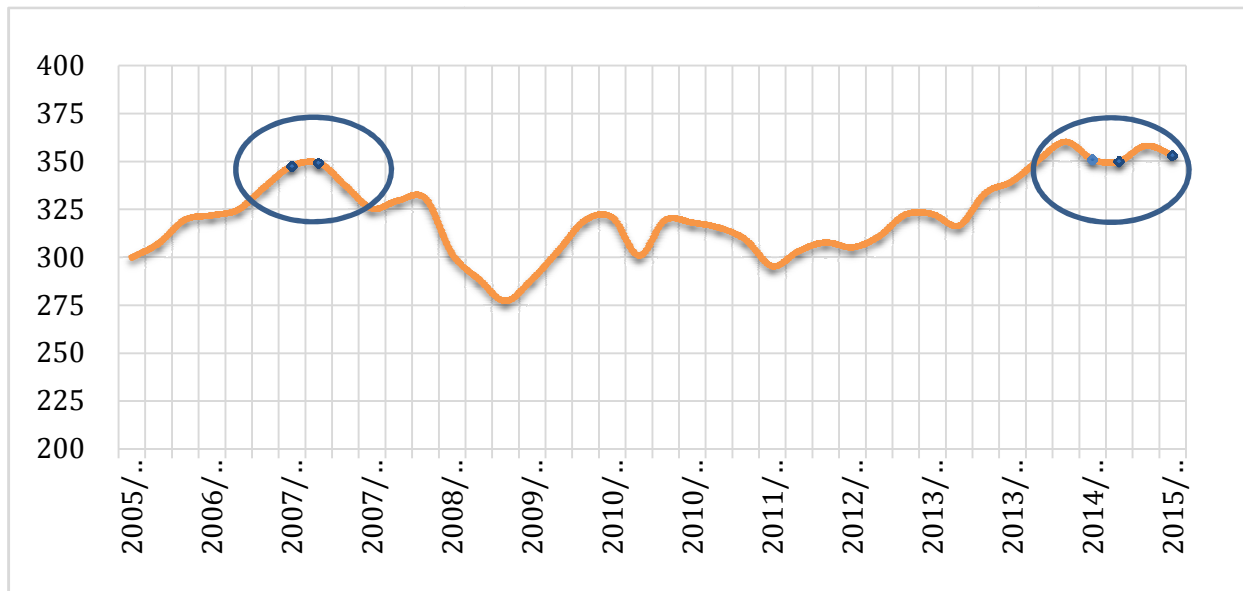
2. SOUTH AFRICAN HOUSEHOLD NET WEALTH

South African households' net wealth is very low by international standards. At around 350% as a percentage of disposable income it is just more than half the approximately 650% recorded in developed countries. And to rub further salt into the wounds, South African household net wealth took a further step backward in Q2 2015. Although household net wealth increased in current prices, deeper analysis shows that it actually deteriorated on a number of fronts and will negatively affect households' ability to achieve their goals, retire well, and maintain current lifestyles.

Momentum/Unisa estimated the value of South African households' net wealth – which is calculated by subtracting their liabilities from assets – to have increased by R78.9 billion during Q2 2015 to R8 351 billion.

However, the increase in household net wealth was smaller than the increase in the value of households' disposable income. Consequently the ratio of household net wealth to disposable income declined from 357.9% in Q1 2015 to 353.0% in Q2 2015 (see figure 1). This ratio had been stagnating for 18 months and is also at a similar level as eight years ago.

FIGURE 1: HOUSEHOLD NET WEALTH AS PERCENTAGE OF DISPOSABLE INCOME STAGNATING



Source: Momentum/UNISA calculations.

This phenomenon of stagnating net wealth to income at a relatively low level, is unsettling from a living standard point of view. It shows that households' income is not sufficiently employed to accumulate wealth in order to maintain or improve living standards - and where the income had indeed been employed for wealth creating purposes, it did not generate sufficient returns. The low returns are, among others, the consequence of an economy failing to grow at potential and at the same time sustaining large imbalances. This is illustrated by economic growth that contracted at a pace of 0.6% in Q2 2015 compared to Q1 2015, the rand exchange rate which depreciated by almost 10% against the US dollar over the past year, the expanded unemployment rate that remained elevated at 35%, electricity generation which is less than a year ago and the current account deficit that remained around 4% of gross domestic product (GDP).

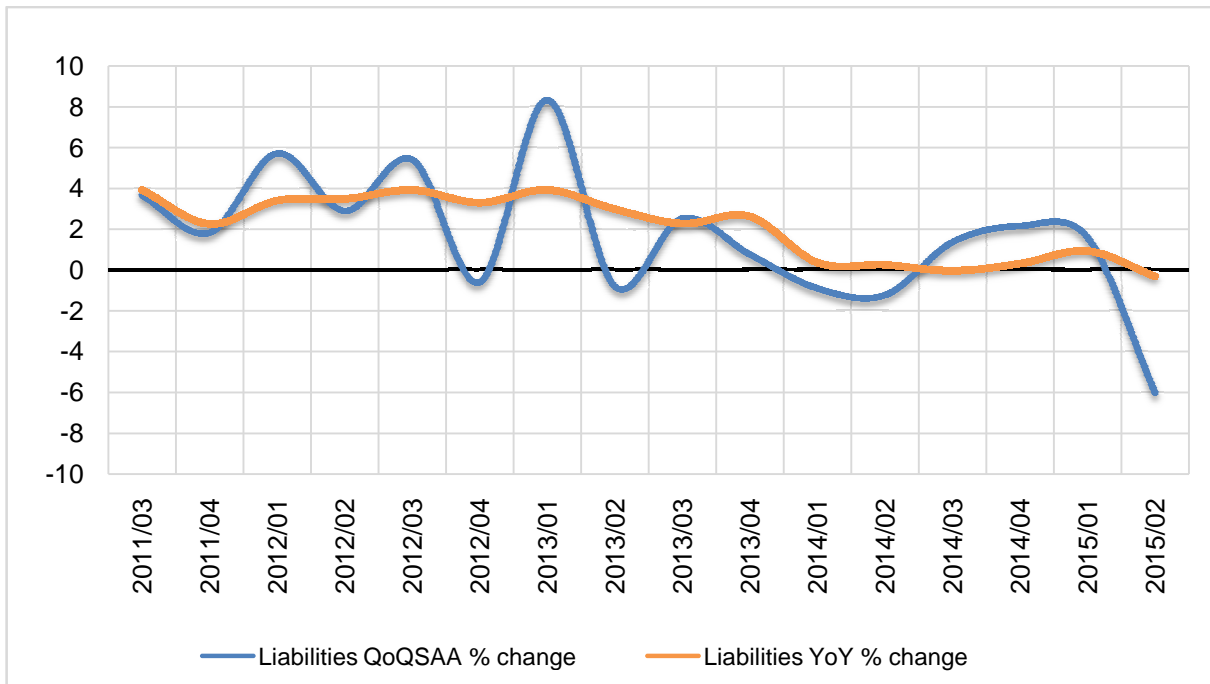
This lack of wealth creation is also visible from other statistics. When expressed in real terms (constant 2010 prices), household net wealth declined by 3.9% (QoQSAA) compared to Q1 2015. This means that prices increased at a faster rate than household net wealth, making the achievement of some personal financial goals more difficult. This decline in real household net wealth represents a decrease of R64.5 billion in Q2 2015 to R6 424 billion. And compared to a year ago (Q2 2014), real household net wealth was 1.9% or R9.1 billion less.

A decline in the purchasing power of household net wealth also means that on average households will not retire well, or according to their expectations – unless they adjust their behaviour by channelling a larger share of their income towards contractual and emergency savings, as well as reducing their outstanding debt levels.

3. SOUTH AFRICAN HOUSEHOLD LIABILITIES

South African households' liabilities - consisting of outstanding debts, namely loans/credit and unpaid accounts, such as municipal, cell phone, medical and school fees - were estimated at R1 817.6 billion at the end of Q2 2015. Nevertheless, household liabilities showed a slow growing and sometimes contracting trend over the past few years - as shown by figure 2.

FIGURE 2: THE PACE AND GROWTH IN REAL HOUSEHOLD LIABILITIES ARE CONTRACTING

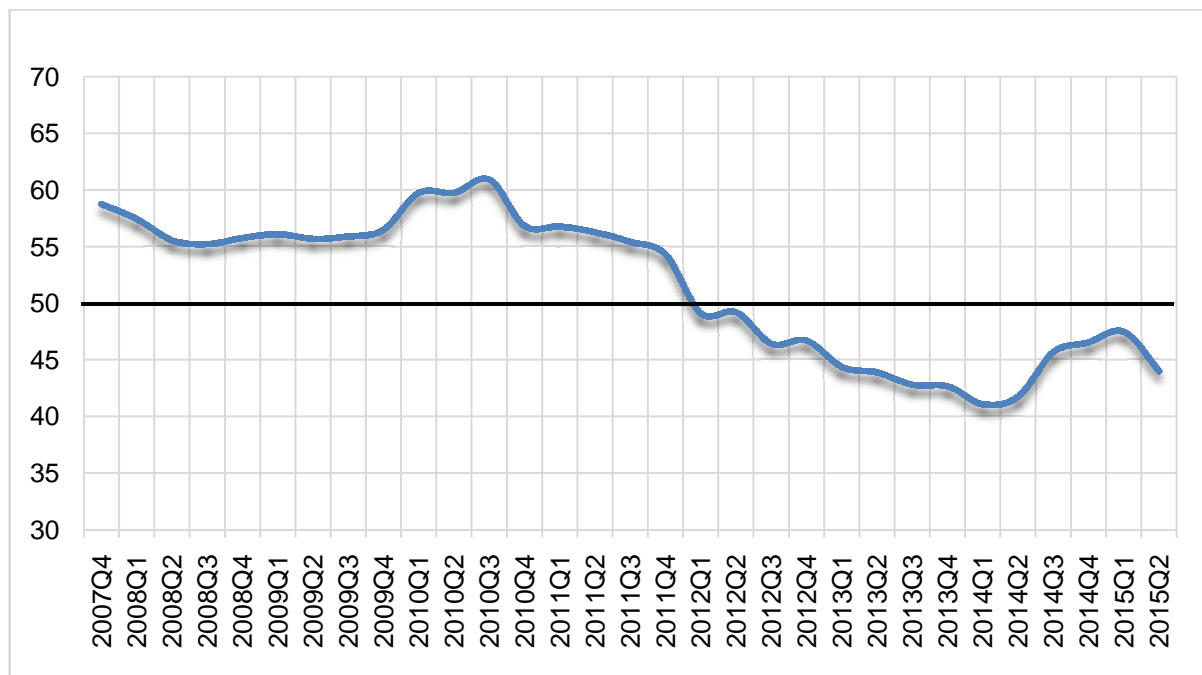


Source: Momentum/UNISA calculations.

When expressed in real terms (2010 prices) the pace and growth in household liabilities contracted in Q2 2015. Compared to Q1 2015 household liabilities contracted at a pace of 6.0%, while it was 0.3% lower than in Q2 2014. This contributed to the ratio of household liabilities to disposable income declining from around 78% over the past year to 76.8% in Q2 2015.

However, this does not necessarily mean that households are under less financial pressure, or that they are deleveraging. On the contrary, as shown by figure 3, statistics from the National Credit Regulator (NCR) suggest that the proportion of approved loans declined to 43.9% in Q2 2015 from 47.4% in Q1 2015. When accounting for the fact that the number of loan applications continued to increase in Q2 2015, it means households are “almost desperately” reverting to loans in an attempt to finance their expenses – however, the majority are unsuccessful.

FIGURE 3: APPROVED LOAN APPLICATIONS DECLINING AGAIN IN Q2 2015



Source: National Credit Regulator; Momentum/UNISA calculations.

A further indication of the financial pressure that households are experiencing is visible from the slowdown in the pace of durable goods (normally financed by loans) acquisitions. The volume of durable goods purchased increased at a slowing pace of 0.2% in Q2 2015 compared to 1.3% in Q1 2015. In relation to a year ago, durable goods purchases were 2.7% higher – down from the 3.5% in Q1 2015 and 4.4% registered in Q4 2014. This was among others, caused by the crowding out effect of interest rate increases that contributed to households allocating a larger portion of their income to the repayment of debt. NCR and Reserve Bank consumer credit statistics show that households' instalments expressed as a percentage of their (amended¹) disposable income increased 6% compared to a year ago to (21.9%).

Households' financial burden is also illustrated by their amount in arrears that increased to 12.4% of their outstanding credit in Q2 2015. This is worrisome as it followed a gradual decline that lasted four consecutive quarters from 12.9% in Q1 2014 to 11.9% in Q1 2015. Putting it differently, arrears per account increased from R8 573 in Q1 2015 to R9 292 in Q2 2015. Although such a jump in arrears is alarming, it might be a technical or data issue and as such, more clarification is needed before definite conclusions can be drawn (while it might also be an increase in debt write-offs).

Everything is not negative, though. It seems that consumers had been improving their account payments. In Q2 2015 some 73.6% of all accounts had been in good standing (accounts up to date and one and two months in arrears) compared to 72.7% in Q1 2015.

¹ Disposable income plus debt service costs.

In sum, although the lower household debt to disposable income ratio paints a picture of deleveraging, many households are experiencing a deterioration in their financial situation. This is highlighted by statistics that show an increase in the proportion of new loan applications that had been rejected. Furthermore, the arrears ratio increased again. This was, among others, brought about by higher interest rates that caused their instalment ratio to increase, leaving fewer funds available to finance other expenses, which, in turn caused them to default and unsuccessfully apply for more loans. With price increases and interest rates expected to increase further, the pressure to default on more loans might increase further. As such, the current slow pace at which liabilities are increasing might continue for a while.

4. SOUTH AFRICAN HOUSEHOLD ASSETS

Household assets are dominated by financial assets that comprise approximately 70% of their total assets. Financial assets mainly consist of investments, which in turn are dominated by contributions to retirement funds. In the non-financial assets category, residential property is the largest asset category and also the second largest category after households' interests in retirement funds.

Momentum/Unisa estimates that the value of household assets increased to R10 169 billion in Q2 2015 from R10 083 billion in Q1 2015. This increase of only R86 billion between the two quarters is equal to an annualised growth rate of 3.5%, while household assets were 4.1% higher than a year before.

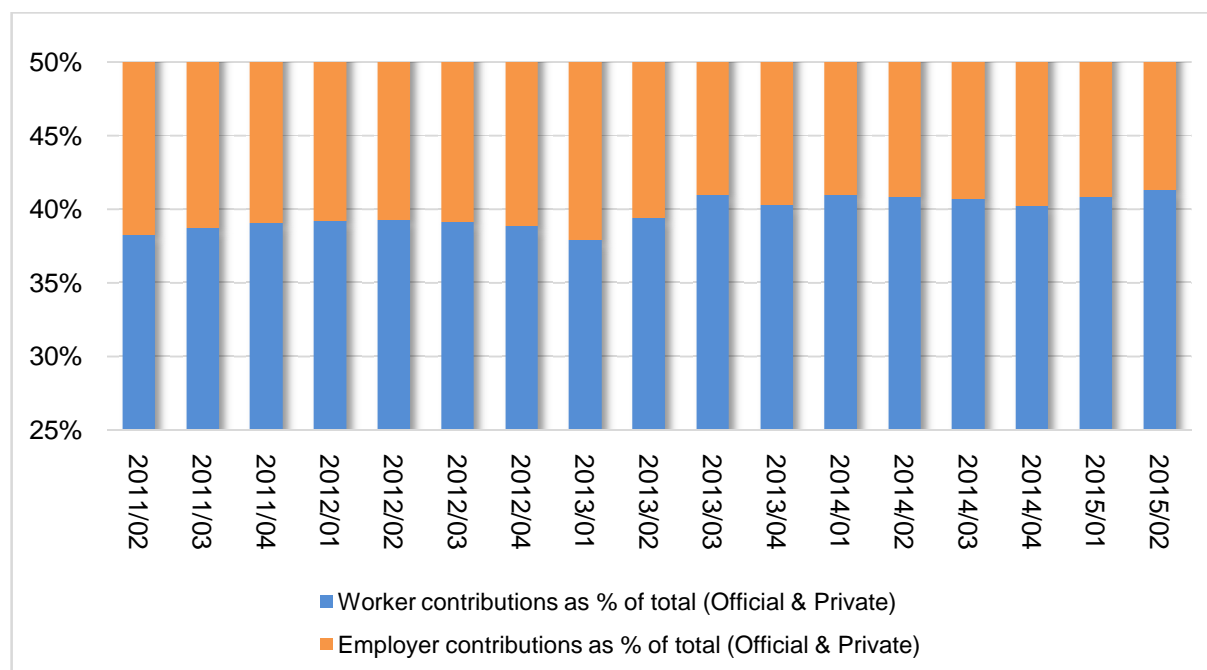
However, when expressed in purchasing power, or real terms (2010 prices), the value of household assets declined by R86.4 billion to R7 822 billion in Q2 2015. This is 4.3% lower compared to Q1 2015 and 0.1% less than in Q1 2014. This spells danger as it means that the value of households' assets could purchase less than a year before.

During Q2 2015 the value of household assets was mainly affected by the return on their investments, their contributions to retirement funds, the pace of new investments in residential property and the growth in house prices.

As for the returns on investments the news is not good. The JSE All Share Index (Alsi) was 0.7% lower at the end of Q2 2015 compared to the end of Q1 2015 and only 1.7% higher than at the end of Q2 2014. This means that the prices of listed company shares in which investments were made declined in real terms, negatively affecting the value of households' financial assets.

Households' financial pressures also affected their contributions to annuities and to official- and private retirement funds. Momentum/Unisa estimates that their total contributions to annuities and official and private retirement funds amounted to 7.6% of (revised²) disposable income in Q2 2015. This is marginally higher than the 7.4% in Q2 2014, but much lower than the 9.1% in Q1 2015. It would appear that total contributions had been negatively affected by lower employer contributions over the past two years (see figure 4). At the end of Q2 2013 workers' contributions comprised an estimated 39.3% of total contributions compared to 41.3% at the end of Q2 2015.

FIGURE 4: WORKERS' SHARE OF CONTRIBUTIONS TO RETIREMENT FUNDS INCREASING



Sources: South African Reserve Bank Quarterly Bulletins; Momentum/Unisa own calculations

Analysis also shows that households' monthly debt repayments are approximately three times more than their contributions to annuities and official- and private retirement funds. This further illustrates why household assets as a percentage of disposable income is only 430% compared to the more than 800% recorded in developed economies such as the United States of America, Europe, Japan and Australia. The ratio of household assets to disposable income declined from 436.8% in Q1 2015 to 429.8% in Q2 2015.

New investments in residential property had also shown a contracting trend and Q2 2015 was no exception. In real terms new investments in residential property was 0.7% lower than in Q2 2014. Furthermore, house prices increased at a slower pace in Q2 2015. According to the Absa House Price Index house prices on average increased by 5.9% compared to a year before, down from 7.8% in Q1 2015.

² Disposable income plus contributions to annuities and to official and private retirement funds.

The above analyses show that the purchasing power value of household assets lost ground in almost every asset class. The bad news is that this situation is set to continue – unless households in the middle and high income classes make some behavioural changes by prioritising asset growth instead of borrowing. This will be necessary if they want to maintain their current living standards.

5. CONCLUSION

The real value of household net wealth declined during Q2 2015. The decline wiped out all net wealth gains since Q2 2014.

This means that households will have to lower their lifestyle expectations and review their financial goals. Moreover, they need to change their financial behaviour as they apportion almost three times more money to the repayment of debt than to contractual savings (contributions to annuities and official- and private retirement funds). In short, households in especially the middle- and high income categories urgently need to prioritise their savings to consumption.

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NOTES

By analysing the changes and levels of South African households' liabilities, assets and net wealth, Momentum/Unisa attempts to develop outcome-based measures that can be useful to policy makers, companies, financial advisors and households in the quest to improve the financial wellness of South African individuals and households.

Such outcome-based measures include, among others, the following:

- identification of the variables that affect and drive the value of household liabilities, assets and net wealth;
- estimating the levels of and changes in household liabilities, assets and net wealth; and
- constantly developing new indicators that can assist in gauging whether households' financial situation is improving or deteriorating.

To estimate the level, change in and drivers of households' liabilities, assets and net wealth, an econometric model was developed using the South African Reserve Bank's (SARB) estimates of these variables as a benchmark. The financial ratios were estimated from the Momentum/Unisa estimates of the household balance sheet, as well as statistics from the National Credit Regulator and Statistics South Africa (Stats SA).

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ANNEXURE

**TABLE A1:
MOMENTUM/UNISA HOUSEHOLD LIABILITIES, ASSETS AND NET WEALTH INDICES:
QUARTERLY NOMINAL SEASONALLY ADJUSTED AND ANNUALISED (SAA): 2010 = 100**

Quarter	HH Liabilities SAA	HH Assets SAA	HH Net Wealth SAA
2010/01	97.66	98.15	98.28
2010/02	102.24	95.86	94.22
2010/03	98.54	101.69	102.49
2010/04	101.57	104.30	105.01
2011/01	103.09	105.72	106.39
2011/02	105.85	107.16	107.50
2011/03	108.51	105.66	104.93
2011/04	111.34	110.62	110.44
2012/01	113.84	113.42	113.32
2012/02	116.42	115.18	114.86
2012/03	119.51	119.74	119.79
2012/04	122.10	126.98	128.24
2013/01	125.31	128.90	129.82
2013/02	126.57	128.96	129.57
2013/03	129.20	136.91	138.88
2013/04	131.44	141.36	143.90
2014/01	133.49	148.13	151.89
2014/02	134.73	153.69	158.55
2014/03	136.76	152.86	156.98
2014/04	138.80	154.67	158.75
2015/01	139.46	158.57	163.48
2015/02	140.01	159.93	165.03

Source: Momentum/Bureau of Market Research at Unisa: Own calculations.

**TABLE A2:
MOMENTUM/UNISA HOUSEHOLD LIABILITIES, ASSETS AND NET WEALTH AS PERCENTAGE
OF DISPOSABLE INCOME: QUARTERLY SEASONALLY ADJUSTED AND ANNUALISED (SAA)**

Quarter	Liabilities (SAA) to Disposable Income	Assets (SAA) to Disposable Income	Net Wealth (SAA) to Disposable Income
2010/01	81.72	402.30	320.58
2010/02	83.72	384.45	300.74
2010/03	78.72	397.87	319.15
2010/04	78.86	396.68	317.82
2011/01	78.36	393.56	315.21
2011/02	78.03	386.91	308.88
2011/03	78.31	373.51	295.19
2011/04	78.36	381.35	302.99
2012/01	79.27	386.85	307.58
2012/02	79.29	384.22	304.92
2012/03	79.51	390.14	310.64
2012/04	78.66	400.70	322.04
2013/01	79.80	402.07	322.27
2013/02	79.29	395.68	316.39
2013/03	79.54	412.79	333.26
2013/04	79.53	418.95	339.42
2014/01	79.07	429.75	350.68
2014/02	78.48	438.49	360.01
2014/03	78.41	429.23	350.82
2014/04	78.46	428.22	349.77
2015/01	78.34	436.28	357.94
2015/02	76.83	429.83	353.00

Source: Momentum/Bureau of Market Research at Unisa: Own calculations.

**TABLE A3:
MOMENTUM/UNISA HOUSEHOLD LIABILITIES, ASSETS AND NET WEALTH:
REAL (2010 prices) QUARTER OVER QUARTER SEASONALLY ADJUSTED AND ANNUALISED
PERCENTAGE CHANGE (QoQSAA % CHANGE)**

Quarter	Liabilities	Assets	Net Wealth
2010/01	3.61	7.38	8.37
2010/02	15.44	-12.57	-18.81
2010/03	-16.76	22.13	35.04
2010/04	8.63	6.56	6.05
2011/01	1.08	0.50	0.36
2011/02	2.55	-2.59	-3.84
2011/03	3.64	-11.30	-14.80
2011/04	1.81	10.36	12.72
2012/01	5.70	6.88	7.18
2012/02	2.88	0.02	-0.71
2012/03	5.39	10.85	12.30
2012/04	-0.61	15.41	19.80
2013/01	8.31	3.66	2.54
2013/02	-0.82	-4.55	-5.46
2013/03	2.52	19.96	24.66
2013/04	0.75	6.91	8.42
2014/01	-0.91	12.31	15.59
2014/02	-1.24	10.27	13.00
2014/03	1.35	-6.59	-8.26
2014/04	2.15	0.95	0.69
2015/01	1.56	10.06	12.04
2015/02	-6.04	-4.30	-3.92

Source: Momentum/Bureau of Market Research at Unisa: Own calculations.

**TABLE A4:
MOMENTUM/UNISA HOUSEHOLD LIABILITIES, ASSETS AND NET WEALTH:
REAL YEAR OVER YEAR PERCENTAGE CHANGE (YoY % CHANGE)**

Quarter	Liabilities	Assets	Net Wealth
2010/01	-5.48	11.30	16.58
2010/02	2.45	6.34	7.47
2010/03	-1.12	7.52	9.89
2010/04	1.98	5.14	5.95
2011/01	1.35	3.41	3.94
2011/02	-1.60	6.24	8.43
2011/03	3.94	-1.92	-3.37
2011/04	2.27	-1.06	-1.88
2012/01	3.42	0.48	-0.26
2012/02	3.50	1.14	0.54
2012/03	3.93	6.94	7.73
2012/04	3.31	8.14	9.39
2013/01	3.94	7.31	8.18
2013/02	3.00	6.07	6.87
2013/03	2.29	8.18	9.69
2013/04	2.63	6.13	6.99
2014/01	0.37	8.28	10.24
2014/02	0.27	12.26	15.27
2014/03	-0.02	5.45	6.76
2014/04	0.32	3.95	4.80
2015/01	0.95	3.43	3.99
2015/02	-0.30	-0.17	-0.14

Source: Momentum/Bureau of Market Research at Unisa: Own calculations.

**TABLE A5:
MOMENTUM/UNISA HOUSEHOLD LIABILITIES, ASSETS AND NET WEALTH:
REAL SEASONALLY ADJUSTED AND ANNUALISED ESTIMATES (R' billion)**

Quarter	Liabilities	Assets	Net Wealth
2010/01	1 267 816	6 241 106	4 973 290
2010/02	1 327 228	6 095 062	4 767 834
2010/03	1 279 268	6 465 632	5 186 364
2010/04	1 318 538	6 632 086	5 313 548
2011/01	1 338 352	6 722 181	5 383 829
2011/02	1 374 165	6 813 853	5 439 688
2011/03	1 408 716	6 718 604	5 309 888
2011/04	1 445 395	7 033 930	5 588 535
2012/01	1 477 891	7 211 969	5 734 078
2012/02	1 511 429	7 323 728	5 812 299
2012/03	1 551 492	7 613 334	6 061 841
2012/04	1 585 073	8 074 158	6 489 085
2013/01	1 626 726	8 195 822	6 569 096
2013/02	1 643 200	8 199 755	6 556 555
2013/03	1 677 281	8 705 132	7 027 851
2013/04	1 706 326	8 988 257	7 281 931
2014/01	1 732 942	9 418 873	7 685 931
2014/02	1 749 051	9 772 132	8 023 081
2014/03	1 775 439	9 719 257	7 943 818
2014/04	1 801 872	9 834 931	8 033 058
2015/01	1 810 543	10 082 825	8 272 282
2015/02	1 817 646	10 168 829	8 351 183

Source: Momentum/Bureau of Market Research at Unisa: Own calculations.

**TABLE A6:
MOMENTUM/UNISA HOUSEHOLD LIABILITIES, ASSETS AND NET WEALTH:
ANNUAL VALUES AT YEAR END EXPRESSED IN CURRENT PRICES**

	Liabilities	Assets	Net Wealth
1993	128 937	911 914	782 977
1994	157 617	1 177 014	1 019 397
1995	231 446	1 254 512	1 023 066
1996	284 335	1 421 560	1 137 225
1997	283 601	1 455 543	1 171 942
1998	273 384	1 475 845	1 202 461
1999	302 152	1 867 089	1 564 937
2000	363 227	2 026 482	1 663 256
2001	395 833	2 342 876	1 947 043
2002	430 621	2 462 632	2 032 011
2003	510 049	2 693 712	2 183 663
2004	603 122	3 234 891	2 631 769
2005	740 920	3 981 111	3 240 191
2006	909 196	4 869 579	3 960 383
2007	1 256 670	5 572 189	4 315 520
2008	1 195 954	5 417 649	4 221 695
2009	1 249 294	6 095 132	4 845 838
2010	1 318 538	6 632 086	5 313 548
2011	1 445 395	7 033 930	5 588 535
2012	1 585 073	8 074 158	6 489 085
2013	1 706 326	8 988 257	7 281 931
2014	1 801 872	9 834 931	8 033 058

Source: Momentum/Bureau of Market Research at Unisa: Own calculations.

**TABLE A7:
VARIOUS INDICATORS**

	Real Net Wealth per person	Solvency ratio ¹⁾	Debt repayment (instalment) ²⁾ as % of income ₃₎	Contributions to retirement funds ⁴⁾ as % of income ³⁾	Bank deposits as % of income ₃₎
2009	97947	4.90	23.96	4.85	2.84
2010	102335	5.06	21.57	4.93	2.74
2011	98964	4.89	21.41	4.77	2.74
2012	106577	5.13	22.35	4.58	2.79
2013	112249	5.33	24.24	4.80	2.83
2014	115722	5.42	23.48	4.55	3.05

Source: Momentum/Bureau of Market Research at Unisa: South African Reserve Bank Quarterly Bulletins; National Credit Regulator.

- 1) The number of times assets exceed liabilities.
- 2) Capital, interest and costs. Developmental loans included from 2013.
- 3) Total income after tax available for spending and saving.
- 4) Employer and employee contributions to official and private retirement funds.