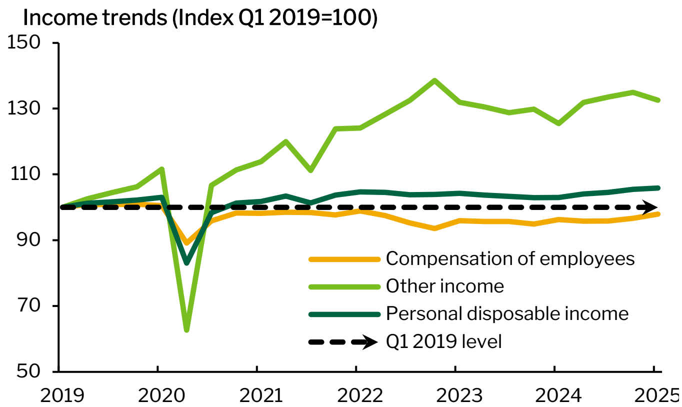
Personal Finances

ECONOMICS | SOUTH AFRICA

Household finances weakened slightly in the first quarter of 2025.

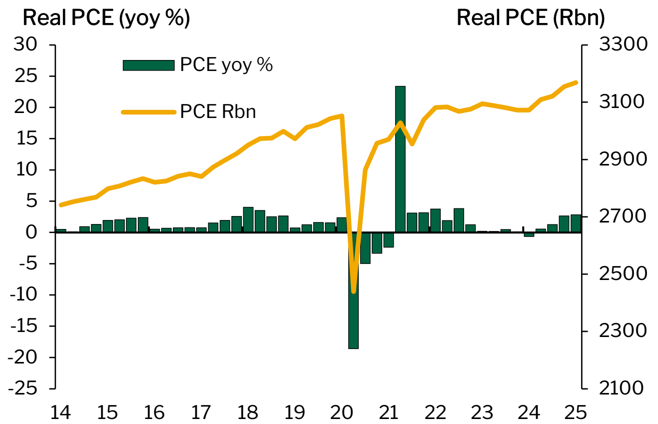
- Household finances weakened in Q1, hurt by slower income growth and a decline in employment, which outweighed the impact of lower interest rates and the boost from the Two-pot withdrawals. Real personal disposable income (PDI) moderated from 0.9% in Q4 to 0.4% due to a slump in other income (profits, rents, interest, dividends). After three consecutive quarters of growth, other income fell unexpectedly by 1.8%. This outweighed an acceleration in compensation of employees, which increased from 0.8% in Q4 to 1.3%.
- The rise in compensation of employees was despite slower employment growth. The Quarterly Labour Force Survey reported that formal employment fell by 1.7% qoq in Q1 after two quarters of growth. The Quarterly Employment Statistics, which surveys companies directly, also showed a similar trend, with employment declining by 0.7% in Q1 following 0.2% growth in Q4. The deterioration in household finances, increased global uncertainty amid the dramatic changes in US trade policy, the return of load-shedding, and disagreements within the GNU weighed on consumer sentiment. The RMB/BER consumer confidence index fell sharply to a seven-quarter low of -20. As a result, consumers were cautious about spending, with growth in household consumption expenditure softening from 1.1% in Q4 to 0.4% in Q1.
- The household debt-to-income ratio increased from 62.2% in Q4 to 62.7% in Q1, reflecting slower income growth rather than the accumulation of new debt. The rate of debt accumulation was contained by slower spending.
- Debt affordability improved somewhat due to slower debt accumulation and lower interest rates. The household debt service cost to disposable income ratio eased to 8.9% in Q1 from 9% in Q4.

Chart 1: Household income trends.



Source: SARB

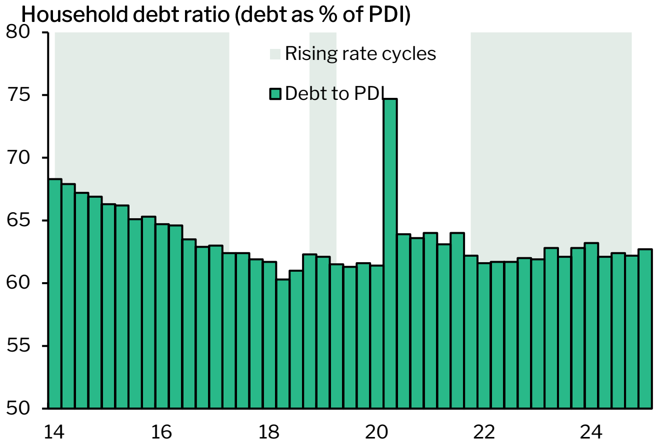
Chart 2: Slower PDI growth contained PCE growth.



Source: SARB

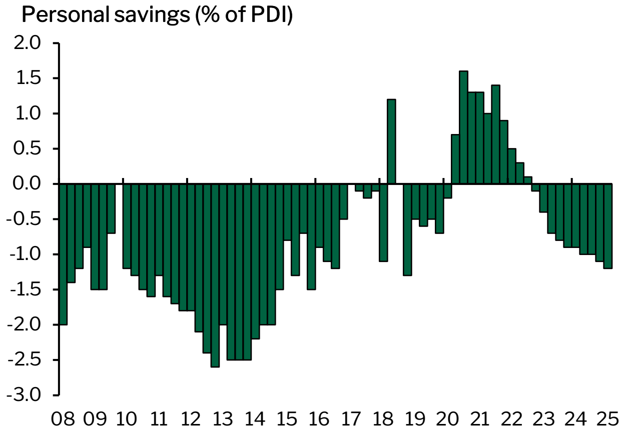
- Household balance sheets improved further, with net wealth increasing given relatively faster growth in the market value of assets than in liabilities. The rise in the value of assets was boosted by an increase in share prices and the value of housing stocks, with the latter reflecting an improvement in house prices. The ratio of net wealth to disposable income increased to 413% from 409% as growth in wealth exceeded that of PDI.
- The savings drawdown continued in Q4, with the ratio of personal savings to PDI down to -1.2%, the lowest since Q4 2018.

Chart 3: Debt service costs increased slightly.



Source: SARB

Chart 4: The personal savings rate remains negative.



Source: SARB

- Household finances are expected to remain relatively healthy in 2025. Despite the expected uptick in inflation off a low base, inflation will still be subdued, averaging 3.5% for 2025. This, along with higher wage settlements in the public sector, will continue to support real personal disposable income. Lower interest rates and withdrawal from the Two-pot retirement system will help reduce debt service costs. However, the recovery in household finances will be partly contained by uncertain employment prospects. Given excess capacity and a volatile global environment, companies will hesitate to expand operations. The US tariffs, weak global demand, and subdued commodity prices will impact job creation in export-oriented industries. At the same time, growth in government employment will be contained by fiscal consolidation.

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