Economic Insights | 26 September 2024

Personal Finances

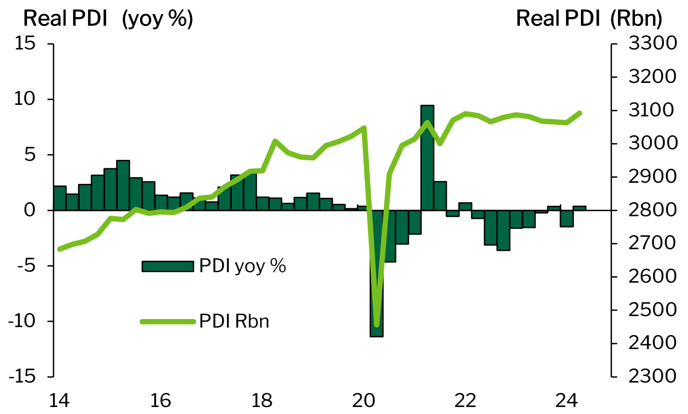
ECONOMICS | SOUTH AFRICA

NEDBANK

Household finances improved.

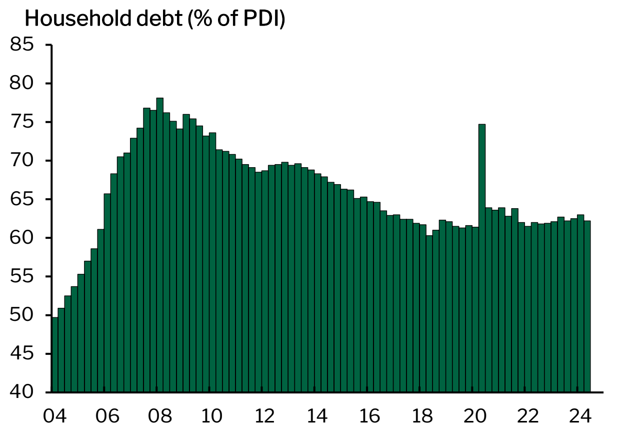
- Household finances improved in Q2 2024. Real personal disposable income (PDI) grew by 0.9% qoq, up from -0.1% in Q1. Real compensation of employees rose by 0.1% qoq, after rebounding by 1.5% in Q1 following three straight quarters of contraction. Other income also bounced back, growing by around 3% after declining sharply in Q1. Undoubtedly, the recovery in real PDI drove the rebound in consumer spending over the quarter.
- Household indebtedness declined marginally as the increase in nominal income outpaced household debt. Consequently, household debt to PDI declined to 62.2% in Q2 from 63% in Q1, while debt service costs to PDI also eased slightly to 9.1% from 9.2%.

Chart 1: PDI trends



Source: SARB

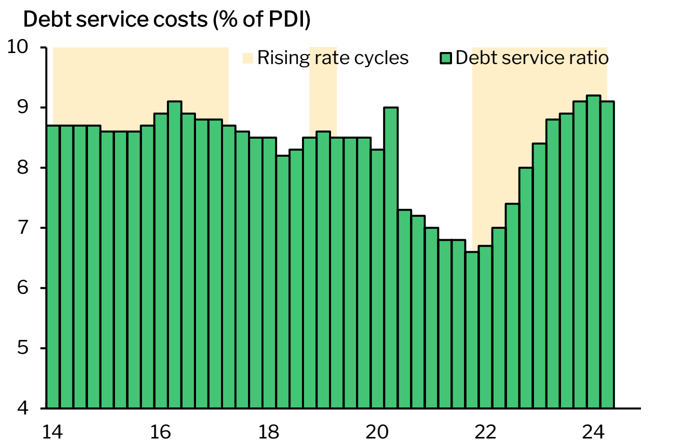
Chart 2: Household debt to income



Source: SARB

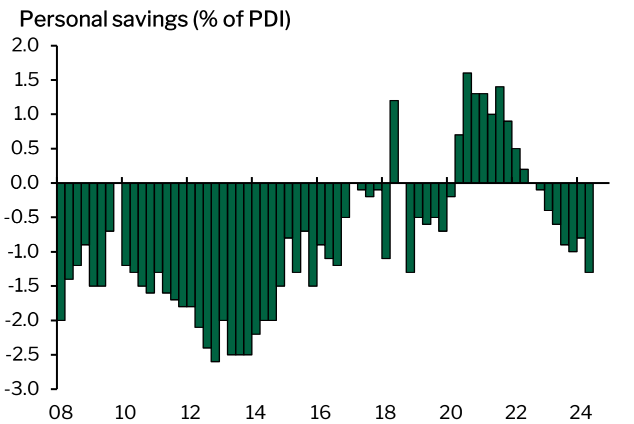
- Household balance sheets also improved, with net wealth rising to 393% of PDI in Q2, up from 389% in Q1. The market value of assets rose by more than liabilities. The boost to household assets mainly came from the rebound in share prices, while growth in house prices remained subdued.
- The drawdown of savings continued and deepened. The personal savings rate (savings to PDI) deteriorated to -1.3% in Q2 from -0.8% in Q1.

Chart 3: Debt service costs eased but remain high.



Source: SARB

Chart 4: The personal savings rate remains negative.



Source: SARB

- Today's numbers show that consumers are not entirely out of the woods yet, but renewed income growth and contained borrowing have placed households on a slightly firmer financial footing.
- Household finances will likely strengthen further in the year's second half and throughout 2025. With inflation forecast to remain subdued around the SARB's 4.5% target, real personal disposable income should recover further. At the same time, falling interest rates will systematically reduce debt service costs, gradually freeing more funds for discretionary spending.

Household balance sheets should also improve. On the liability side, a significant portion of the withdrawals of contractional savings through the two-pot retirement system will likely be directed at debt repayment. On the asset side, the anticipated cyclical recovery in response to easing monetary policy should also lift house and equity prices, contributing to stronger balance sheets and helping to restore financial health.

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