



Personal Finances

ECONOMICS | SOUTH AFRICA

Household finances looked more vulnerable in Q2

- Household **finances** were broadly stable in Q2, as positive real personal disposable income (PDI) growth contained the impact of weaker employment and slower growth in net wealth.
- Real PDI** growth increased marginally from 0.1% qoq in Q1 to 0.2% in Q2. Compensation of employees (COE) contracted by 2.5%, reversing the 2.3% increase recorded in the previous quarter. However, this weakness was partly offset by stronger growth in other forms of income. Other income (including profits, rents, interest, and dividends) rebounded by 6.5% qoq in Q2 following a sharp contraction of 4.8% in Q1. Together with withdrawals from retirement savings and the relatively low-interest rate environment, these continued to support household consumption expenditure (HCE), which increased by 0.4% qoq in Q2 after stagnating in Q1.
- Nevertheless, signs of pressure on household finances were visible during the quarter as the surge in fuel prices and the subsequent rise inflation following the start of the US-Iran conflict increased worries about the likelihood of interest rates hikes, which weighed on consumer confidence. As a result, households were more cautious about taking on additional debt. Growth in household debt moderated, leading to a decline in the **household debt-to-disposable-income ratio** from 62.1% to 61.3%. The SARB revised its debt-service-costs to PDI ratio dramatically. The revised series show that households' debt servicing burden remained onerous, easing from a revised peak of 10.6% (versus 9.4% previously) in Q1 2024 to 9.5% in Q1 2026 (previously 8.4%) and 9.4% in Q2 2026. The revised series follows the same trajectory of the previous numbers but adds almost a full percentage point to debt service costs ratio from mid-2022 onwards and points to much more vulnerable consumer than the previous figures suggested.

Chart 1: Household income trends.

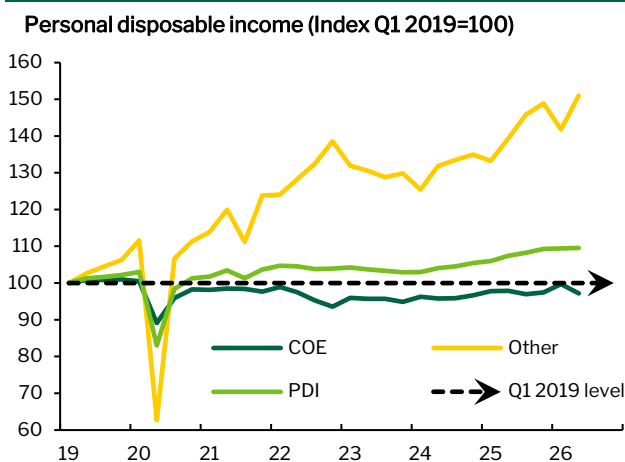
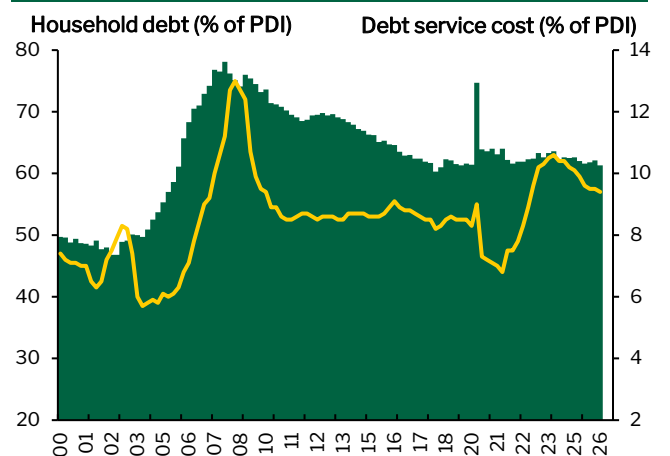
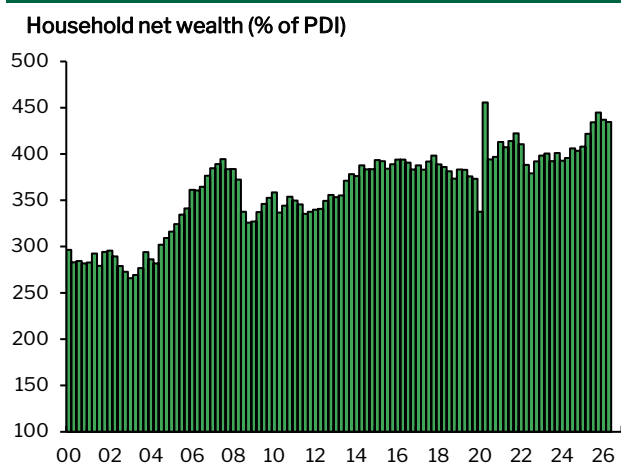


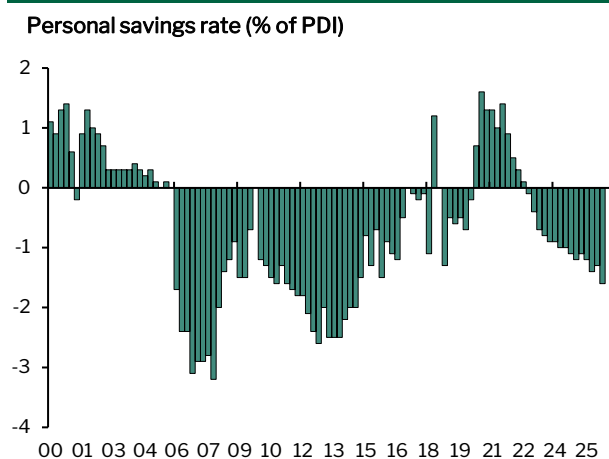
Chart 2: Debt service costs eased slightly



- Household **net wealth** declined further in Q2, despite total assets increasing at a faster pace than liabilities. Most asset categories recorded gains during the quarter. However, these increases were more than offset by declines in the value of shares and accounts receivable, which remained under pressure amid uncertainty surrounding the economic implications of the US-Iran war. Consequently, the ratio of household net wealth to nominal disposable income deteriorated slightly from 437% to 435%.
- Household dissaving also persisted during the quarter. The ratio of **personal savings to PDI** deteriorated further from -1.3% to -1.6%, the worst since Q3 2014, indicating that households continued to finance a portion of their expenditure through reduced savings. This suggests that, despite some support from income growth and retirement fund withdrawals, underlying financial buffers remained under pressure.


Chart 3: Net wealth decreased due to a lower share prices


Source: SARB

Chart 4: The personal savings rate remains negative.


Source: SARB

Outlook and implications

Today's revisions point to a more vulnerable household sector than the previous datasets led us to believe. Higher inflation weighed heavily on salary- and wage-earners in Q2, completely eroding real income growth over the quarter. At the same time, debt burdens crept up marginally, but debt service costs now appear much higher, close to levels normally associated with significant consumer stress. Given that inflation looks set to climb well above 5% in the quarters ahead and that the Reserve Bank increased interest rates by another 25 basis points in September, household finances are likely to deteriorate further in the second half of the year, probably translating into a much more significant slowdown in the consumer spending than we originally anticipated.



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