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**MARKET ANALYTICS AND
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PROPERTY BAROMETER FNB House Price Index

The FNB House Price Index points to a recent mild strengthening, but this does little to change our moderate expectations

The FNB House Price Index inflation rate for July accelerated mildly, and its recent month-on-month rise in tandem with a mild rise in the Manufacturing PMI (Purchasing Managers Index) up to June possibly hints at one or two slightly better economic months recently. But we wouldn't hope for too much.

JULY 2015 HOUSE PRICE INDEX FINDINGS

Taking a look at month-on-month fluctuations in the FNB House Price Index, we see a housing market seemingly tracking the small short term fluctuations in the economy.

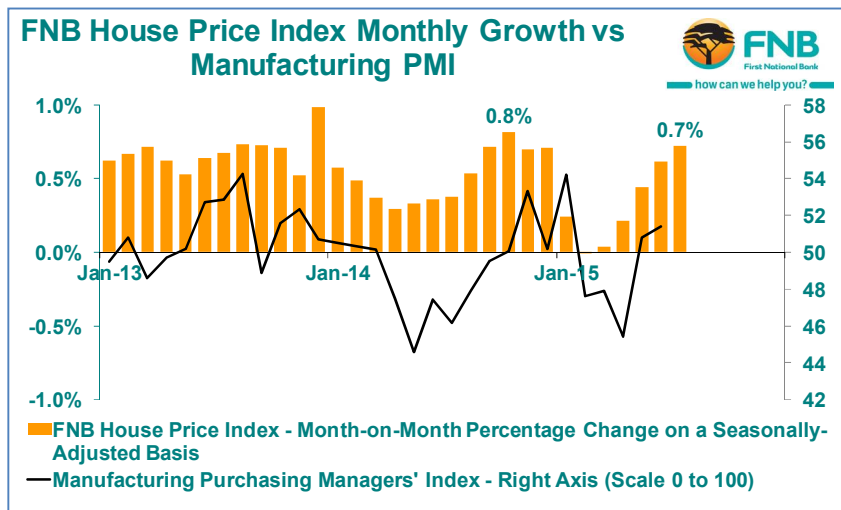
Although more cyclical than the overall economy, the Manufacturing Sector is typically a good indicator of the direction of overall economic growth.

We statistically seasonally adjust our FNB House Price time series to eliminate the impacts of seasonal factors such as the typically slow winter months, and compare it with the month-to-month movements in the Manufacturing Purchasing Managers Index (PMI).

And on this basis we see the fluctuations in month-on-month house price inflation broadly tracking those of the Manufacturing PMI. So, a dip in the PMI starting early in 2014 co-incided with a softer patch with regard to house price inflation, while stronger month-on-month house price growth came late last year as the PMI, and indeed economic growth, recovered somewhat.

Then, early this year, the PMI dipped once again, as did quarter-on-quarter economic growth in what was a disappointing start to 2014. Month-on-month house price growth more-or-less followed suit from a high of 0.8% in October last year to 0% in February 2015.

Moving into the 2nd quarter of this year, however, house price growth accelerated a little once more to reach 0.7% by July 2015, co-inciding with the Manufacturing PMI returning to above 50, the crucial level above which signifies positive growth in this sector, in May and June.



The bottom line is that there is nothing “different” about the residential property market relative to the economy at present. It appears “sane and rational” and broadly tracking economic fluctuations, although it is far from being an exact science. That is healthy in a way, as residential property is just another part of the economy. But given that, despite periodic small fluctuations, the economy appears far from healthy overall, it can be a cause for concern.

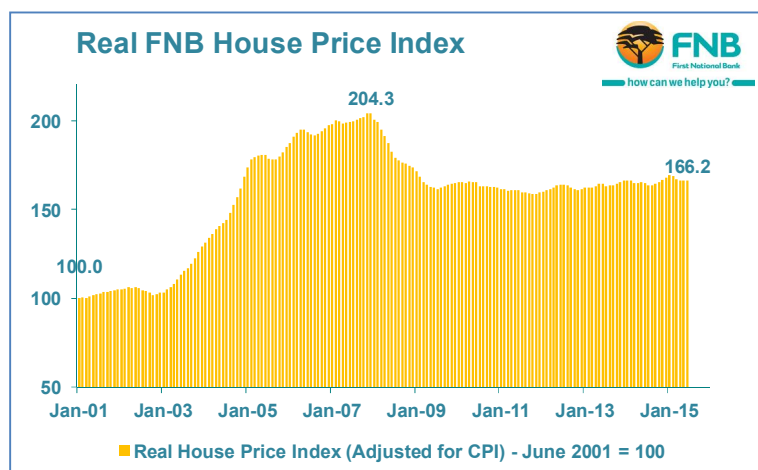
The vague PMI hint at a slightly better one or two manufacturing and economic months around mid-year, after a very weak start to 2015, and the corresponding acceleration in average month-on-month house price inflation, has translated a mild acceleration in year-on-year house price inflation too (July average price compared with July a year ago).

According to the FNB House Price Index, the average house price for July 2015 rose 5.9% year-on-year. This is higher than the previous month’s revised 5.5%.

Given that Consumer Price Index (CPI) inflation recorded only 4.7% in June, real house price growth in that month measured +0.7% year-on-year, and it is likely that July also recorded a positive real house price growth rate.

The average price of homes transacted in March was R1,009,504

REAL HOUSE PRICE LEVELS



Examining the longer term real house price trend (house prices adjusted for CPI inflation), we see that despite some rise in recent years, (+4.7% since the October 2011 low) the average real house price level remains -18.7% below the high reached in December 2007 at the back end of the residential boom period.

Looking back longer though, the average real price remains 66.2% above the January 2001 level, a time back just before boom-time price inflation started to accelerate rapidly.

Real house price levels thus remain at “boom time” levels in our view, despite having lost some ground since the end of 2007.

In nominal terms, when not adjusting for CPI inflation, the average house price in July 2015 was 274.5% above the January 2001 level.

OUTLOOK

Although many high frequency economic indicators have not pointed to any noticeable improvement in the 2nd quarter of 2015, after a dismal 1.3% GDP growth rate for the 1st quarter, the Manufacturing Purchasing Managers Index did point to some mild improvement in May and June. The FNB House Price Index’s growth rate, when measured on a month-on-month basis, appears to have moved broadly in tandem with the PMI to a higher level.

Does this point to a slightly better economic performance in recent months? Possibly, but we would expect it to be short-lived in duration. Global commodity prices continue to be under pressure, with China’s economic situation looking bleak, and the turbulent news from both the mining sector as well as the Steel Manufacturing Sector point to troubled economic times ahead as companies move to cut costs, which include laying off staff or even closures in some cases. It is therefore questionable as to how long the PMI can remain above 50, or for how long month-on-month house price inflation can accelerate.

The year-on-year house price inflation rate for 2015 to date is 5.5%, and our forecast remains 5.5% for the year as a whole, suggesting the we expect to soon see some mild slowing in the pace from July’s 5.9%. The 2015 forecast rate is slower than the 7.1% rate recorded for 2014. In addition to global economic pressures, the Reserve Bank (SARB) resumed its slow pace of interest rate hiking in July, and we expect another 2 x 25 basis point Repo Rate hikes before the year is out. Interest rate hikes are normally a dampener on growth in such a credit driven market.



Monthly FNB House Price Index (Jan 2001 = 100)

how can we help you?

Date	Index	y/y % change	Date	Index	y/y % change	Date	Index	y/y % change	Date	Index	y/y % change
Jan-01	100.0		Jan-05	209.7	36.1%	Jan-09	272.8	-7.6%	Jan-13	317.88	6.7%
Feb-01	100.7		Feb-05	215.4	36.3%	Feb-09	270.7	-8.2%	Feb-13	321.34	6.6%
Mar-01	101.4		Mar-05	219.6	35.6%	Mar-09	269.5	-7.9%	Mar-13	325.00	6.5%
Apr-01	102.4		Apr-05	221.7	34.3%	Apr-09	268.6	-7.1%	Apr-13	327.78	6.3%
May-01	103.6		May-05	222.0	32.5%	May-09	267.5	-6.2%	May-13	329.41	5.9%
Jun-01	104.7		Jun-05	221.7	30.4%	Jun-09	267.8	-5.1%	Jun-13	330.66	5.8%
Jul-01	105.3		Jul-05	221.1	27.9%	Jul-09	269.2	-3.8%	Jul-13	331.90	6.0%
Aug-01	105.6	10.0%	Aug-05	221.3	25.0%	Aug-09	271.4	-2.9%	Aug-13	333.38	6.3%
Sep-01	106.0	9.2%	Sep-05	222.3	21.9%	Sep-09	273.8	-2.0%	Sep-13	335.14	6.8%
Oct-01	106.5	8.9%	Oct-05	224.5	19.1%	Oct-09	275.5	-1.1%	Oct-13	337.06	7.4%
Nov-01	107.3	9.0%	Nov-05	227.3	16.2%	Nov-09	276.6	-0.2%	Nov-13	339.18	8.1%
Dec-01	108.6	9.5%	Dec-05	231.0	13.9%	Dec-09	277.6	0.9%	Dec-13	342.06	8.6%
Jan-02	110.2	10.2%	Jan-06	235.3	12.2%	Jan-10	278.9	2.3%	Jan-14	344.98	8.5%
Feb-02	112.2	11.4%	Feb-06	240.0	11.4%	Feb-10	281.0	3.8%	Feb-14	348.06	8.3%
Mar-02	114.1	12.6%	Mar-06	244.2	11.2%	Mar-10	282.8	4.9%	Mar-14	350.62	7.9%
Apr-02	115.6	12.9%	Apr-06	247.4	11.6%	Apr-10	284.0	5.8%	Apr-14	352.26	7.5%
May-02	116.5	12.4%	May-06	248.9	12.1%	May-10	284.5	6.4%	May-14	353.17	7.2%
Jun-02	116.8	11.6%	Jun-06	249.3	12.5%	Jun-10	284.0	6.1%	Jun-14	353.52	6.9%
Jul-02	117.0	11.2%	Jul-06	249.9	13.0%	Jul-10	282.7	5.0%	Jul-14	353.79	6.6%
Aug-02	117.2	10.9%	Aug-06	251.1	13.5%	Aug-10	282.1	3.9%	Aug-14	354.60	6.4%
Sep-02	117.4	10.7%	Sep-06	252.9	13.8%	Sep-10	282.4	3.2%	Sep-14	356.59	6.4%
Oct-02	117.9	10.7%	Oct-06	255.1	13.6%	Oct-10	282.9	2.7%	Oct-14	359.30	6.6%
Nov-02	118.7	10.6%	Nov-06	257.7	13.4%	Nov-10	282.8	2.2%	Nov-14	362.12	6.8%
Dec-02	119.8	10.3%	Dec-06	260.8	12.9%	Dec-10	282.6	1.8%	Dec-14	364.47	6.5%
Jan-03	121.1	9.9%	Jan-07	263.9	12.1%	Jan-11	282.8	1.4%	Jan-15	366.32	6.2%
Feb-03	123.2	9.8%	Feb-07	266.3	11.0%	Feb-11	284.2	1.2%	Feb-15	367.67	5.6%
Mar-03	125.7	10.2%	Mar-07	268.1	9.8%	Mar-11	286.1	1.2%	Mar-15	368.95	5.2%
Apr-03	128.5	11.1%	Apr-07	269.7	9.0%	Apr-11	287.8	1.3%	Apr-15	370.21	5.1%
May-03	131.1	12.5%	May-07	271.9	9.2%	May-11	289.3	1.7%	May-15	371.51	5.2%
Jun-03	133.6	14.4%	Jun-07	274.8	10.2%	Jun-11	290.3	2.2%	Jun-15	372.91	5.5%
Jul-03	136.3	16.5%	Jul-07	277.7	11.1%	Jul-11	291.0	3.0%	Jul-15	374.52	5.9%
Aug-03	138.6	18.3%	Aug-07	280.6	11.8%	Aug-11	291.5	3.3%			
Sep-03	140.9	20.0%	Sep-07	283.6	12.1%	Sep-11	291.7	3.3%			
Oct-03	143.6	21.8%	Oct-07	287.0	12.5%	Oct-11	291.9	3.2%			
Nov-03	146.8	23.6%	Nov-07	290.8	12.9%	Nov-11	292.9	3.6%			
Dec-03	150.4	25.5%	Dec-07	293.9	12.7%	Dec-11	294.9	4.4%			
Jan-04	154.1	27.2%	Jan-08	295.3	11.9%	Jan-12	297.8	5.3%			
Feb-04	158.1	28.3%	Feb-08	294.9	10.7%	Feb-12	301.3	6.0%			
Mar-04	161.9	28.8%	Mar-08	292.6	9.1%	Mar-12	305.1	6.6%			
Apr-04	165.1	28.5%	Apr-08	289.0	7.1%	Apr-12	308.5	7.2%			
May-04	167.6	27.9%	May-08	285.2	4.9%	May-12	311.0	7.5%			
Jun-04	169.9	27.2%	Jun-08	282.0	2.6%	Jun-12	312.6	7.7%			
Jul-04	172.8	26.8%	Jul-08	279.9	0.8%	Jul-12	313.2	7.6%			
Aug-04	177.0	27.7%	Aug-08	279.4	-0.4%	Aug-12	313.5	7.6%			
Sep-04	182.3	29.4%	Sep-08	279.3	-1.5%	Sep-12	313.8	7.6%			
Oct-04	188.5	31.3%	Oct-08	278.6	-2.9%	Oct-12	313.7	7.5%			
Nov-04	195.6	33.3%	Nov-08	277.1	-4.7%	Nov-12	313.9	7.2%			
Dec-04	202.9	34.9%	Dec-08	275.1	-6.4%	Dec-12	315.1	6.9%			

ADDENDUM - NOTES:

Note on The FNB Average House Price Index: Although also working on the average price principle (as opposed to median or repeat sales), the FNB House Price Index differs from a simple average house price index in that it could probably be termed a “fixed weight” average house price index.

One of the practical problems we have found with house price indices is that relative short term activity shifts up and down the price ladder can lead to an average or median price index rising or declining where there was not necessarily “genuine” capital growth on homes. For example, if “suburban segment volumes remain unchanged from one month to the next, but former Black Township (the cheapest areas on average) transaction volumes hypothetically double, the overall national average price could conceivably decline due to this relative activity shift.

This challenge of activity shifts between segments is faced by all constructors of house price indices. In an attempt to reduce this effect, we decided to fix the weightings of the FNB House Price Index’s sub-segments in the overall national index. This, at best, can only be a partial solution, as activity shifts can still take place between smaller segments within the sub-segments. However, it does improve the situation.

With our 2013 re-weighting exercise, we have begun to segment not only according to room number, but also to segment according to building size within the normal segments by room number, in order to further reduce the impact of activity shifts on average price estimates.

The FNB House Price Index’s main segments are now as follows:

- The weightings of the sub-segments are determined by their relative transaction volumes over the past 5 years, and will now change very slowly over time by applying a 5-year moving average to each new price data point. The sub-segments are:

- Sectional Title:

- Less than 2 bedroom – Large
- Less than 2 bedroom – Medium
- Less than 2 bedroom – Small

- 2 Bedroom – Large
- 2 bedroom – Medium
- 2 bedroom – Small

- 3 Bedroom and More - Large
- 3 Bedroom and More - Medium
- 3 Bedroom and More - Small

- Full Title:

- 2 Bedrooms and Less - Large
- 2 Bedrooms and Less - Medium
- 2 Bedrooms and Less - Small

- 3 Bedroom - Large
- 3 Bedroom - Medium
- 3 Bedroom - Small

- 4 Bedrooms and More - Large
- 4 Bedrooms and More - Medium
- 4 Bedrooms and More – Small

The size cut-offs for “small”, “medium” and “large” differ per room number sub-segment. “Large” would refer to the largest one-third of homes within a particular room number segment over the past 5 year period, “Medium” to the middle one-third, and “Small” to the smallest one-third of homes within that segment.

- *The Index is constructed using transaction price data from homes financed by FNB.*
- *The minimum size cut-off for full title stands is 200 square metres, and the maximum size is 4000 square metres*
- *The maximum price cut-off is R10m, and the lower price cut-off is R20,000 (largely to eliminate major outliers and glaring inputting errors).*
- *The index is very lightly smoothed using a Hodrick-Prescott smoothing function with a Lambda of 5.*

Note on the FNB Valuers' Market Strength Index: **When an FNB valuer values a property, he/she is required to provide a rating of demand as well as supply for property in the specific area. The demand and supply rating categories are a simple "good (100)", "average (50)", and "weak (0)". From all of these ratings we compile an aggregate demand and an aggregate supply rating, which are expressed on a scale of 0 to 100. After aggregating the individual demand and supply ratings, we subtract the aggregate supply rating from the demand rating, add 100 to the difference, and divide by 2, so that the FNB Valuers' Residential Market Strength Index is also depicted on a scale of 0 to 100 with 50 being the point where supply and demand are equal.*