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MARKET ANALYTICS AND  
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## PROPERTY BAROMETER

### FNB House Price Index

*Year-on-year house price growth accelerated in June, but in real terms (adjusting for CPI), house prices are still in decline*

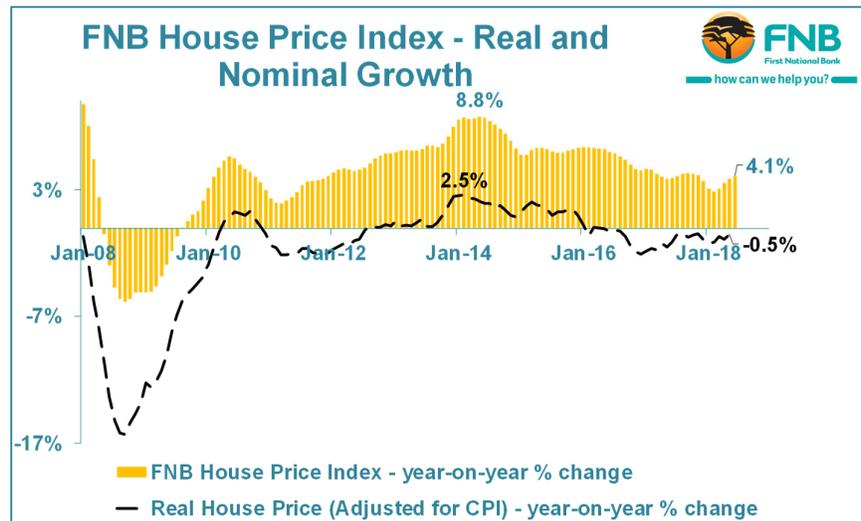
June 2018 saw the FNB House Price Index growing by a faster 4.1%, year-on-year, up from the previous month's 3.9%, and from a February 2018 low of 2.9%. This is the 4<sup>th</sup> consecutive month of house price growth acceleration. However, signals from the FNB Estate Agent Survey suggest that the acceleration in year-on-year house price growth may be short-lived

#### FNB HOUSE PRICE INDEX RESULTS FOR JUNE 2018 – ACCELERATION, BUT FOR HOW LONG?

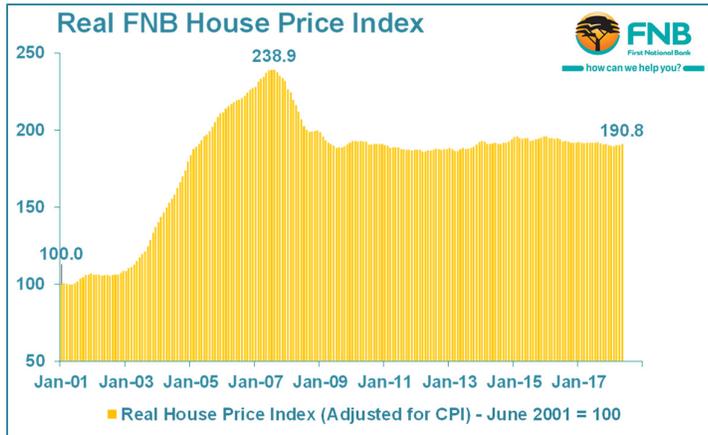
On a year-on-year basis, the FNB House Price Index's growth rate continued to accelerate mildly in June 2018, reaching 4.1%, up from a revised 3.9% in May, and the 4<sup>th</sup> consecutive month of growth acceleration since the 2.9% low point reached in February.

We believe this recent mild acceleration in house price growth to be the lagged impact of that brief sentiment improvement in the country early in 2018 on the back of the major political leadership changes in the country, notably a change in President. That sentiment improvement led to a noticeable 1<sup>st</sup> quarter increase in residential market activity and demand according to the FNB Estate Agent Survey, and this has arguably fed through into price growth of late.

In real terms, however, when adjusting for CPI (Consumer Price Index) inflation, house prices remain in decline. As at May 2018 (June CPI not yet available) real house prices declined year-on-year by -0.5%, with CPI inflation at 4.4% in that month and house price growth at 3.9%.



## LONGER RUN REAL HOUSE PRICE PERFORMANCE

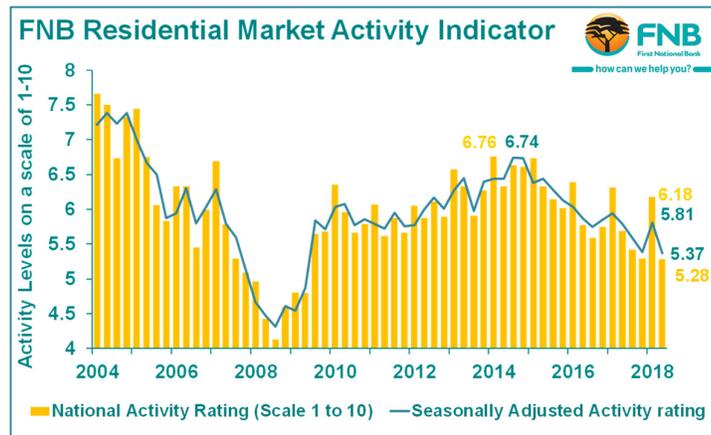


Examining the longer run performance of the FNB Repeat Sales House Price Index in real terms, we still see it at relatively expensive levels, 90.8% up on the January 2001 “pre-boom” index level. This is despite significant cumulative “correction” of -20.1% since the all-time real high reached in August 2007 at the back end of the pre-2008 Housing Bubble.

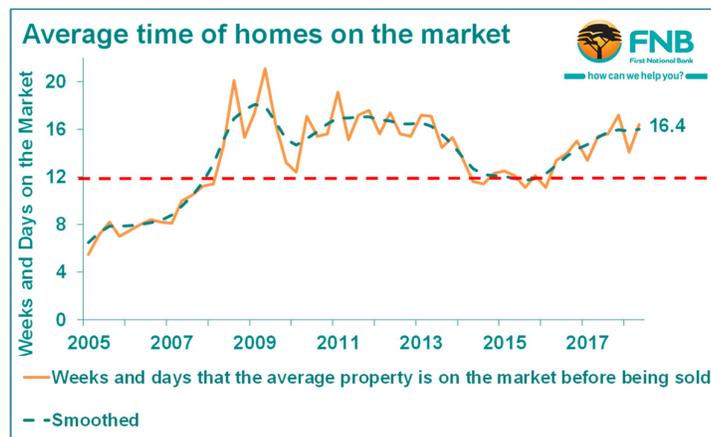
More recently, following the mild post-2008/9 recession recovery, real house prices have declined cumulatively by -2.6% since a 9-year high reached in February 2015.

## OUTLOOK

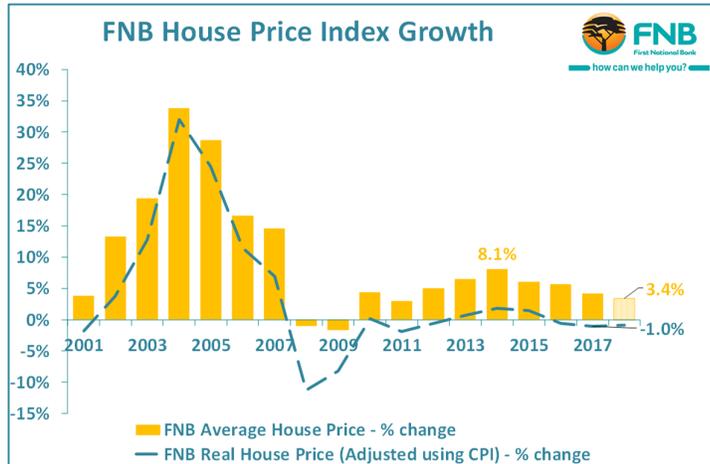
Looking ahead to the near term, it has become apparent that the politically-driven 1<sup>st</sup> quarter 2018 domestic sentiment “spike” was short-lived, and that by the 2<sup>nd</sup> quarter of this year sentiment was largely back in the doldrums. SA Households continued to experience a stagnant economy, and costs of living continue to rise on the back of petrol price increases and tax hikes.



2<sup>nd</sup> quarter 2018 housing market weakening was witnessed in our own FNB Estate Agent Survey, with agents reporting a significant drop in residential market activity in the May 2018 quarterly survey, after the 1<sup>st</sup> quarter “spike”. In the survey, we ask respondents to provide a rating of market activity in their areas, a subjective rating on a scale of 1 to 10. The 1<sup>st</sup> quarter 2018 FNB Activity Rating jumped noticeably from 5.29 in the previous quarter to 6.18. Even on a seasonally adjusted basis, the jump was the most noticeable in over 3 years, from 5.4 in the prior quarter to 5.79. But this was quickly reversed in the 2<sup>nd</sup> quarter, the Activity Rating falling back sharply to 5.28 (5.37 on a seasonally adjusted basis)



Further support for the perception of a weakened Housing Market in the 2<sup>nd</sup> quarter of 2018 was provided by a renewed lengthening in the estimated average time of homes on the market prior to sale, from 14 weeks and 1 day in the prior quarter to 16 weeks and 4 days in the 2<sup>nd</sup> quarter, according to the Estate Agent Survey.



Our main FNB Estate Agent Survey indicators for the 2<sup>nd</sup> quarter are thus pointing to the 1<sup>st</sup> quarter sentiment “spike” being short-lived, with market weakening once more in the 2<sup>nd</sup> quarter. This suggests to us that the recent mild house price growth acceleration will be short-lived. A 1<sup>st</sup> quarter GDP (Gross Domestic Product) contraction suggested little support for the housing market from the economy in 2018 either.

Half way through the year, average house price growth for 2018 sits at a lowly 3.4%, slower than the 4.2% average growth for 2017.

Therefore, the signs are increasingly pointing to an even slower average house price growth year in 2018, than in 2017, and possibly the 4<sup>th</sup> consecutive year of house price growth slow down, despite a recent mild growth acceleration.

Whereas we had expected a little more early in 2018, originally projecting an average 5-6% house price growth rate for the year, the short-lived nature of that early-2018 national sentiment “spike” leads us to adjust our average house price expectation for 2018 lower into the 3-4% range.

# 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		Jul-05	243.9	28.8%	Jan-10	325.7	3.2%	Jul-14	412.47	8.4%
Feb-01	100.8	-1.8%	Aug-05	247.8	27.8%	Feb-10	327.8	4.0%	Aug-14	413.72	8.1%
Mar-01	101.0	-0.7%	Sep-05	251.9	26.9%	Mar-10	329.3	4.7%	Sep-14	414.97	7.8%
Apr-01	101.1	-0.4%	Oct-05	256.1	25.7%	Apr-10	330.3	5.3%	Oct-14	416.26	7.4%
May-01	101.7	-0.5%	Nov-05	259.9	23.9%	May-10	330.9	5.6%	Nov-14	418.04	6.9%
Jun-01	102.7	0.7%	Dec-05	263.0	21.7%	Jun-10	330.7	5.5%	Dec-14	420.24	6.2%
Jul-01	104.0	3.0%	Jan-06	265.8	19.8%	Jul-10	329.9	5.0%	Jan-15	423.02	5.8%
Aug-01	105.5	5.9%	Feb-06	268.8	18.4%	Aug-10	329.9	4.7%	Feb-15	426.32	5.8%
Sep-01	106.8	8.6%	Mar-06	271.9	17.6%	Sep-10	330.6	4.4%	Mar-15	429.80	6.1%
Oct-01	108.1	10.6%	Apr-06	275.2	17.3%	Oct-10	331.3	4.1%	Apr-15	432.66	6.3%
Nov-01	109.2	11.5%	May-06	278.6	17.3%	Nov-10	331.8	3.6%	May-15	434.70	6.3%
Dec-01	110.4	11.8%	Jun-06	282.0	17.3%	Dec-10	332.4	3.0%	Jun-15	436.25	6.2%
Jan-02	111.5	11.5%	Jul-06	285.5	17.0%	Jan-11	333.2	2.3%	Jul-15	437.28	6.0%
Feb-02	112.7	11.9%	Aug-06	288.9	16.6%	Feb-11	334.3	2.0%	Aug-15	438.30	5.9%
Mar-02	113.9	12.8%	Sep-06	292.0	15.9%	Mar-11	335.6	1.9%	Sep-15	439.53	5.9%
Apr-02	115.0	13.7%	Oct-06	294.9	15.1%	Apr-11	337.5	2.2%	Oct-15	441.61	6.1%
May-02	116.1	14.1%	Nov-06	297.3	14.4%	May-11	339.0	2.4%	Nov-15	444.07	6.2%
Jun-02	117.1	14.0%	Dec-06	299.9	14.0%	Jun-11	340.1	2.8%	Dec-15	446.69	6.3%
Jul-02	118.1	13.5%	Jan-07	303.2	14.1%	Jul-11	341.0	3.4%	Jan-16	449.93	6.4%
Aug-02	119.3	13.1%	Feb-07	307.4	14.4%	Aug-11	341.8	3.6%	Feb-16	453.53	6.4%
Sep-02	121.0	13.2%	Mar-07	312.7	15.0%	Sep-11	342.9	3.7%	Mar-16	457.01	6.3%
Oct-02	122.7	13.5%	Apr-07	318.6	15.8%	Oct-11	343.8	3.8%	Apr-16	459.72	6.3%
Nov-02	124.4	13.9%	May-07	324.1	16.3%	Nov-11	344.7	3.9%	May-16	461.57	6.2%
Dec-02	125.8	14.0%	Jun-07	328.9	16.6%	Dec-11	346.0	4.1%	Jun-16	462.36	6.0%
Jan-03	127.3	14.1%	Jul-07	332.2	16.4%	Jan-12	347.7	4.4%	Jul-16	462.91	5.9%
Feb-03	129.2	14.6%	Aug-07	333.9	15.6%	Feb-12	349.6	4.6%	Aug-16	463.05	5.6%
Mar-03	131.5	15.4%	Sep-07	334.5	14.5%	Mar-12	351.4	4.7%	Sep-16	463.25	5.4%
Apr-03	133.7	16.2%	Oct-07	334.0	13.3%	Apr-12	353.0	4.6%	Oct-16	463.56	5.0%
May-03	135.9	17.1%	Nov-07	333.3	12.1%	May-12	354.2	4.5%	Nov-16	464.62	4.6%
Jun-03	138.4	18.3%	Dec-07	333.1	11.1%	Jun-12	355.7	4.6%	Dec-16	467.05	4.6%
Jul-03	140.8	19.3%	Jan-08	332.8	9.7%	Jul-12	357.2	4.8%	Jan-17	470.79	4.6%
Aug-03	143.5	20.3%	Feb-08	332.1	8.0%	Aug-12	359.3	5.1%	Feb-17	474.29	4.6%
Sep-03	146.8	21.4%	Mar-08	329.7	5.5%	Sep-12	361.8	5.5%	Mar-17	476.60	4.3%
Oct-03	150.8	22.9%	Apr-08	326.3	2.4%	Oct-12	363.5	5.7%	Apr-17	478.34	4.1%
Nov-03	155.0	24.7%	May-08	322.5	-0.5%	Nov-12	364.9	5.9%	May-17	479.37	3.9%
Dec-03	159.6	26.9%	Jun-08	319.3	-2.9%	Dec-12	366.3	5.9%	Jun-17	480.52	3.9%
Jan-04	164.5	29.2%	Jul-08	316.4	-4.8%	Jan-13	368.5	6.0%	Jul-17	481.86	4.1%
Feb-04	169.5	31.2%	Aug-08	315.0	-5.7%	Feb-13	370.8	6.1%	Aug-17	482.86	4.3%
Mar-04	173.9	32.3%	Sep-08	314.8	-5.9%	Mar-13	373.0	6.1%	Sep-17	483.23	4.3%
Apr-04	178.0	33.2%	Oct-08	315.1	-5.7%	Apr-13	374.4	6.1%	Oct-17	483.38	4.3%
May-04	181.7	33.7%	Nov-08	316.0	-5.2%	May-13	375.8	6.1%	Nov-17	483.89	4.1%
Jun-04	185.3	33.9%	Dec-08	315.9	-5.2%	Jun-13	377.9	6.2%	Dec-17	484.33	3.7%
Jul-04	189.4	34.5%	Jan-09	315.7	-5.1%	Jul-13	380.4	6.5%	Jan-18	485.43	3.1%
Aug-04	193.9	35.1%	Feb-09	315.1	-5.1%	Aug-13	382.6	6.5%	Feb-18	488.01	2.9%
Sep-04	198.6	35.2%	Mar-09	314.4	-4.7%	Sep-13	384.9	6.4%	Mar-18	491.42	3.1%
Oct-04	203.8	35.2%	Apr-09	313.7	-3.9%	Oct-13	387.6	6.6%	Apr-18	495.31	3.5%
Nov-04	209.8	35.3%	May-09	313.2	-2.9%	Nov-13	391.1	7.2%	May-18	497.93	3.9%
Dec-04	216.1	35.4%	Jun-09	313.5	-1.8%	Dec-13	395.5	8.0%	Jun-18	500.33	4.1%
Jan-05	221.9	34.9%	Jul-09	314.3	-0.7%	Jan-14	399.9	8.5%			
Feb-05	227.0	33.9%	Aug-09	315.2	0.1%	Feb-14	403.1	8.7%			
Mar-05	231.2	32.9%	Sep-09	316.6	0.6%	Mar-14	405.0	8.6%			
Apr-05	234.6	31.8%	Oct-09	318.4	1.0%	Apr-14	406.9	8.7%			
May-05	237.4	30.7%	Nov-09	320.3	1.3%	May-14	408.8	8.8%			
Jun-05	240.4	29.7%	Dec-09	322.7	2.1%	Jun-14	410.8	8.7%			

## **ADDENDUM - NOTES:**

### **Note on The FNB House Price Index:**

The FNB Repeat Sales House Price Index has been one of our repertoire of national house price indices for some years, and is based on the well-known Case-Shiller methodology which is used to compile the Standard & Poor's Case-Shiller Home Price Indices in the United States.

This "repeat sales approach" is based on measuring the rate of change in the prices of individual houses between 2 points in time, based on when the individual homes are transacted. This means that each house price in any month's sample is compared with its own previous transaction value. The various price inflation rates of individual homes are then utilized to compile the average price inflation rate of the index over time.

The index is compiled from FNB's own valuations database, thus based on the residential properties financed by FNB over the past 18 years.

We apply certain "filters" and cut-offs to eliminate "outliers" in the data. They main ones are as follows:

- The maximum price cut-off is R15m, and the lower price cut-off is R20,000.
- The top 5% of repeat sales price growth rates, and the bottom 5% of growth rates are excluded from the data set.
- Repeat transactions that took place longer than 10 years after the previous transaction on the same home are excluded, as are repeat transactions that took place less than 6 months after the previous transaction on the same home.
- The index is very lightly smoothed using a Hodrick-Prescott smoothing function with a Lambda of 5.