

# FNB SEPTEMBER HOUSE PRICE INDEX

*- The decline in year-on-year inflation continues, with little in the way of economic stimulus at present*



## FNB PROPERTY MARKET ANALYTICS

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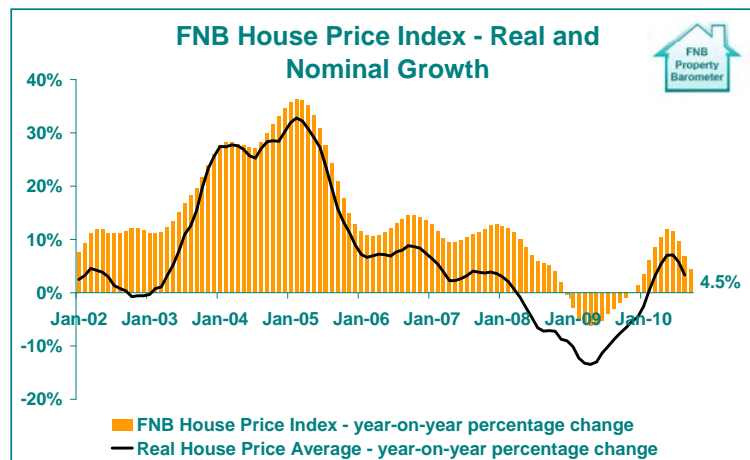
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### SUMMARY –HOUSE PRICE INFLATION SLOWS ALONG WITH RESIDENTIAL DEMAND, WITH LITTLE IN THE WAY OF ECONOMIC EXCITEMENT

*The average house price growth slowdown continues, with the September FNB House Price Index recording a year-on-year inflation rate of 4.5%, significantly lower than the previous month's revised 6.9%, and the 4th successive month of decline since the May 'mini-peak. The average house price for August was R772,306.*



*Year-on-year growth is now coming off an increasingly higher base, with the weakest of the 2009 price levels (around May 2009) now steadily working their way out of the numbers. However, base effects cannot shoulder all the blame. As previously mentioned, the slow pace of interest rate cuts since August 2009 (only 2 half a percentage point cuts in the past 13 months), a slowing economic growth rate in recent times, and still-high levels of household indebtedness constraining credit-driven home buying, are key to this slowdown, as the positive impact of the 5 percentage points' worth of interest rate cuts from December 2008 to August 2009 wears thin.*

*In addition, it would appear from the 3<sup>rd</sup> quarter FNB Estate Agent survey released in September, that on average the residential market remains unrealistically priced. This is admittedly a subjective statement, but agents surveyed estimated a lengthy average time on the market, still, of 15 weeks and 4 days. FNB's valuers effectively support the estate agent's views, continuing to perceive demand to be very weak relative to supply.*

*We retain the expectation of average price decline for 2011 as a whole, after an expected 6.4% increase in the 2010 average price over 2009's average price.*

*The reasoning behind this expectation is a currently unbalanced (weak demand relative to supply) residential market, and with no obvious major stimulus in the pipeline. The August consumer price inflation number of 3.5% must make a further interest rate cut a real possibility. However, the household sector is not in a position to respond with aggressive borrowing to low interest rates because, as the SARB reported in its latest Quarterly Bulletin, the household debt-to-disposable income ratio remains very high. Therefore, as time goes by, we are witnessing the positive impact of rapid interest rate cuts between December 2008 and August 2009 wear thin, and there is very little to replace that stimulus and to support demand in a very unbalanced market. In the absence of strong demand, we feel that prices will have to adjust downward to ultimately create a better balance between demand and supply.*



How can we help you?

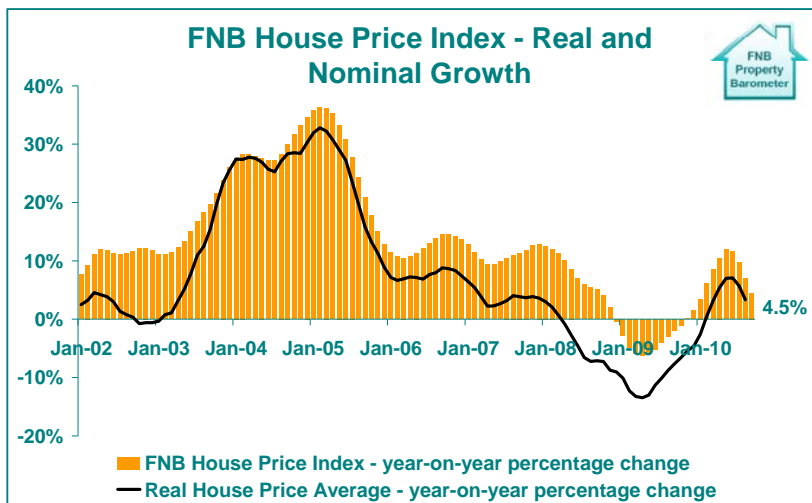
**THE SEPTEMBER FNB HOUSE PRICE INDEX, FNB VALUER PERCEPTIONS, AND SARB NEW MORTGAGE LOAN DATA, NOW ALL POINT TO RECENT RESIDENTIAL SLOWING**

- **The FNB House Price Index shows further steady slowing in year-on-year growth**

The average house price growth slowdown continues, with the September FNB House Price Index recording a year-on-year inflation rate of 4.5%, significantly lower than the previous month's revised 6.9%, and the 4th successive month of decline since the May "mini-peak".

On a month-on-month basis the index declined by -0.5%, following a -0.8% revised decline in August. One does get seasonal factors playing a role in the month-on-month rate, though, so one should be careful about drawing conclusions regarding month-on-month decline. The average house price for August was R772,306.

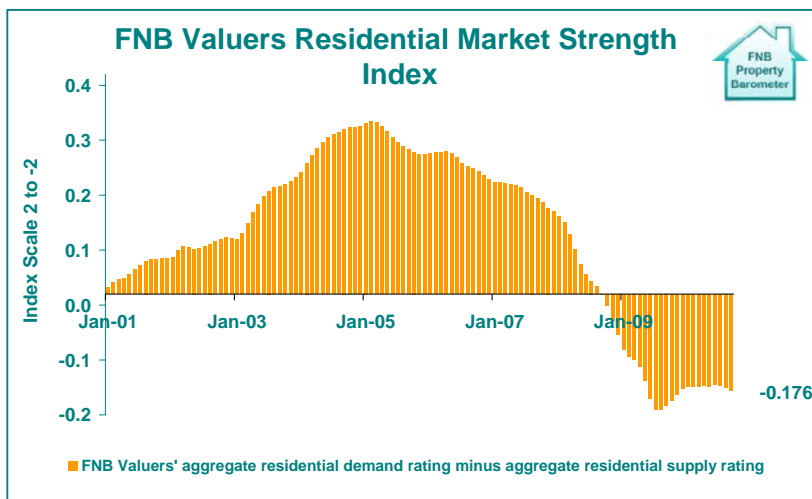
In real terms (adjusted using consumer price inflation), the latest house price estimate translates into further decline in the rate of year-on-year increase to 3.3% for August. The fact that the real house price rate of increase is still positive is due to a very low consumer price inflation rate of only 3.5% year-on-year as at August.



Year-on-year growth is now coming off an increasingly higher base, with the weakest of the 2009 price levels (around May 2009) now steadily working their way out of the year-on-year numbers. However, base effects cannot shoulder all the blame. As previously mentioned, the slow pace of interest rate cuts since August 2009 (only 2 half a percentage point cuts in the past 13 months), a slowing economic growth rate in recent times, and still-high levels of household indebtedness constraining credit-driven home buying, are key to this slowdown, as the positive impact of the 5 percentage points' worth of interest rate cuts from December 2008 to August 2009 wears thin.

In addition, it would appear from the 3rd quarter FNB Estate Agent survey released in September, that on average the residential market remains unrealistically priced. This is admittedly a subjective statement, but agents surveyed estimated a lengthy average time on the market, still, of 15 weeks and 4 days. This average, back in 2005/6 when the market was healthier, was generally below 2 months.

- **FNB Valuers have started to perceive a deteriorating market balance in recent months**



The FNB Valuers' Market Strength Index, which remained very weak throughout the 2009/early-2010 mini-recovery, has begun to support the evidence that the residential market is weakening.

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 (+1)", "average (0)", and "weak (-1)".

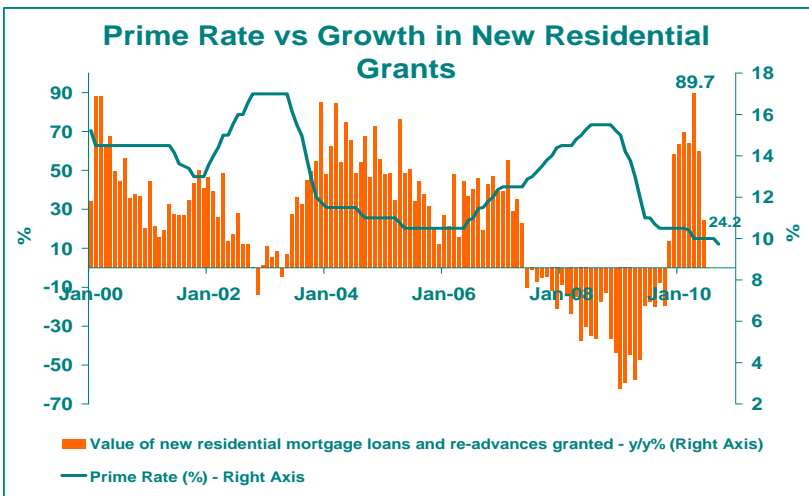
We aggregate all of these individual demand and supply ratings, and subtract the aggregate supply rating from the demand rating.

The collective opinion of the valuers is that demand relative to supply has remained weak throughout the 2009/early-2010 mini-recovery, never having got back to anywhere near the incredibly strong levels of 2004/5 at the peak of the boom.

After a revised August reading of the Market Strength Index (scale of +2 to -2) of -0.171, the September reading was slightly weaker at -0.176, which represents the 3<sup>rd</sup> consecutive month of deterioration in the index.

FNB's valuers as a group therefore see ongoing weakness in demand relative to supply, which they believe has never recovered materially since the great slump in demand from 2008, apart from a very small strengthening in the index in the 2<sup>nd</sup> half of 2009. Their perception of a sustained demand-supply imbalance suggests that any economic weakness or lack of interest rate stimulus could quickly lead to renewed house price decline.

- SARB mortgage data also suggested slowing new residential mortgage demand towards mid-2010

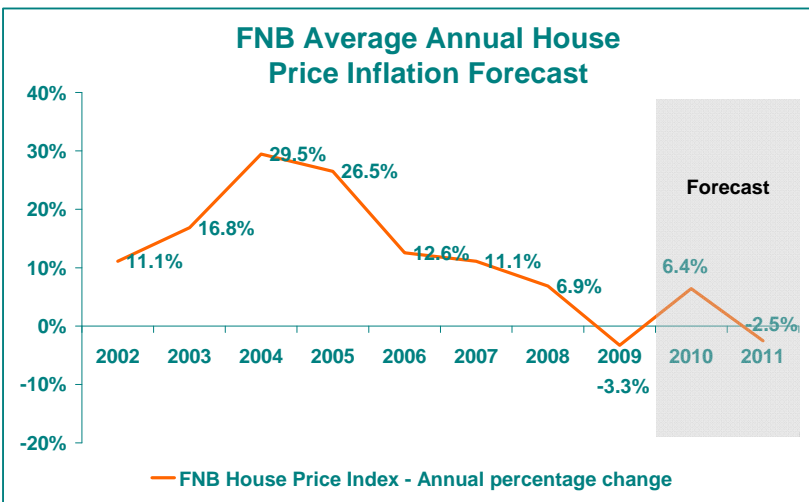


In a highly credit-driven market such as residential property, SARB mortgage advances data can be helpful in identifying trends, and the latest release of new loans granted data pointed to signs of weakening in the 2<sup>nd</sup> quarter of 2010. After a peak year-on-year growth in the value of new residential mortgage loans and re-advances granted, at 89.7% in April 2010, the rate fell back sharply to +24.2% by June. Over the 2<sup>nd</sup> quarter, the value of new loans granted declined from a peak of R25.981bn in March, to R18.972bn as at June.

**OUTLOOK – LITTLE SUPPORT FROM THE ECONOMY IS LIKELY IN THE NEAR TERM, BUT GREAT INFLATION NUMBERS MAKE FURTHER INTEREST RATE CUTTING POSSIBLE.**

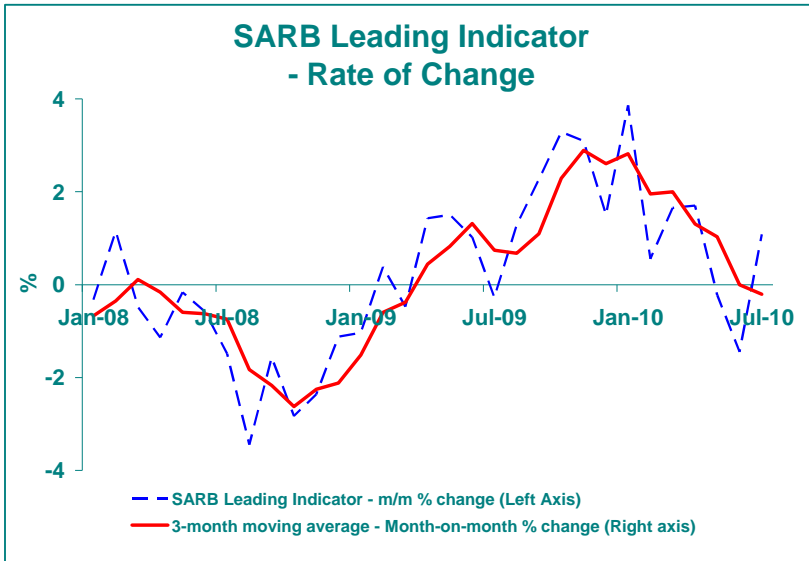
We retain the expectation of average price decline for 2011 as a whole, after an expected 6.4% increase in the 2010 average price over 2009's average price.

The reasoning behind this expectation is a currently unbalanced (weak demand relative to supply) residential market, and with no major apparent stimulus in the pipeline. The August consumer price inflation number of 3.5% must make a further interest rate cut a real possibility. However, the household sector is not in a position to respond, with aggressive borrowing, to low interest rates because, as the SARB reported in its latest Quarterly Bulletin, the household debt-to-disposable income ratio remains very high.



The reduction in the household sector debt-to-disposable income ratio continues to proceed at a snails pace, having reached 78.2% by the 2<sup>nd</sup> quarter of 2010, down still only marginally from an all-time high of 82% as at the 1<sup>st</sup> quarter of 2008. The pressure of a weak economy on household disposable income continues to keep any improvements (declines) slow.

On the economic growth front, there is no strong sign of any fireworks to turn things around in the near term. The SARB Leading Business Cycle Indicator did show a +1.08% month-on-month rise for July (released in September), after 2 months of negative month-on-month growth. However, while month-on-month calculations are theoretically the best way to determine momentum in the Leading



Indicator, the numbers are highly volatile when viewed in this way. On a smoothed 3-month moving average basis, the trend is still slightly weaker to a -0.2% decline in July, from zero percent in June. It will thus take a few months of further data in order to ascertain whether the month-on-month jump in the July unsmoothed index was meaningful or not. Another important data release, the September Kagiso Purchasing Managers' Index returned to a level below 50, on a seasonally-adjusted basis, which could once again point to a manufacturing sector weakening. Manufacturing trends are also a good direction indicator of overall economic growth.

The economy thus looks set to be fairly flat in the near term.

Therefore, as time goes by, we are witnessing the positive impact of rapid interest rate cuts between December 2008 and August 2009 wear thin, and there is very little to replace that stimulus and to support demand in a very unbalanced market. In the absence of strong demand, we feel that prices will have to adjust downward to ultimately create a better balance between demand and supply.

## Monthly FNB House Price Index (July 2000 = 100)



Date	Index	y/y % change	Date	Index	y/y % change	Date	Index	y/y % change	Date	Index	y/y % change
Jul-00	100.0		Feb-03	121.0	11.1%	Sep-05	215.1	20.8%	Apr-08	290.1	10.1%
Aug-00	99.2		Mar-03	123.4	11.4%	Oct-05	217.5	17.8%	May-08	287.3	8.6%
Sep-00	98.6		Apr-03	125.8	12.3%	Nov-05	220.7	15.0%	Jun-08	284.9	7.0%
Oct-00	98.4		May-03	127.7	13.4%	Dec-05	224.9	12.8%	Jul-08	284.2	6.0%
Nov-00	98.6		Jun-03	129.8	15.0%	Jan-06	229.6	11.5%	Aug-08	285.8	5.5%
Dec-00	98.9		Jul-03	132.2	16.8%	Feb-06	234.4	10.8%	Sep-08	288.1	5.1%
Jan-01	99.3		Aug-03	134.4	18.3%	Mar-06	238.3	10.5%	Oct-08	289.8	4.0%
Feb-01	99.6		Sep-03	136.9	19.7%	Apr-06	240.9	10.8%	Nov-08	289.4	2.0%
Mar-01	99.7		Oct-03	140.3	21.6%	May-06	241.9	11.3%	Dec-08	287.3	-0.4%
Apr-01	100.0		Nov-03	144.1	23.9%	Jun-06	242.2	12.1%	Jan-09	283.3	-2.8%
May-01	100.7		Dec-03	148.0	26.1%	Jul-06	242.8	13.0%	Feb-09	278.6	-4.8%
Jun-01	101.4		Jan-04	151.7	27.7%	Aug-06	244.1	13.8%	Mar-09	275.1	-5.9%
Jul-01	101.8	1.8%	Feb-04	155.3	28.3%	Sep-06	246.4	14.5%	Apr-09	272.1	-6.2%
Aug-01	102.2	3.0%	Mar-04	158.3	28.3%	Oct-06	249.0	14.5%	May-09	269.8	-6.1%
Sep-01	102.5	4.0%	Apr-04	160.8	27.9%	Nov-06	252.1	14.2%	Jun-09	270.1	-5.2%
Oct-01	102.9	4.5%	May-04	163.0	27.6%	Dec-06	255.5	13.6%	Jul-09	272.7	-4.0%
Nov-01	103.7	5.1%	Jun-04	165.2	27.2%	Jan-07	258.9	12.8%	Aug-09	277.3	-3.0%
Dec-01	105.1	6.2%	Jul-04	168.1	27.2%	Feb-07	261.3	11.5%	Sep-09	282.5	-2.0%
Jan-02	106.9	7.6%	Aug-04	172.4	28.3%	Mar-07	262.6	10.2%	Oct-09	286.8	-1.0%
Feb-02	108.9	9.3%	Sep-04	178.0	30.0%	Apr-07	263.5	9.4%	Nov-09	289.7	0.1%
Mar-02	110.7	11.1%	Oct-04	184.6	31.6%	May-07	264.6	9.4%	Dec-09	291.5	1.4%
Apr-02	112.0	11.9%	Nov-04	191.9	33.2%	Jun-07	266.2	9.9%	Jan-10	293.1	3.5%
May-02	112.6	11.9%	Dec-04	199.3	34.6%	Jul-07	268.2	10.5%	Feb-10	295.7	6.2%
Jun-02	112.8	11.2%	Jan-05	206.0	35.8%	Aug-07	270.9	11.0%	Mar-10	298.5	8.5%
Jul-02	113.1	11.1%	Feb-05	211.6	36.3%	Sep-07	274.2	11.3%	Apr-10	300.6	10.5%
Aug-02	113.7	11.2%	Mar-05	215.6	36.2%	Oct-07	278.6	11.9%	May-10	302.0	11.9%
Sep-02	114.4	11.6%	Apr-05	217.4	35.2%	Nov-07	283.8	12.6%	Jun-10	301.4	11.6%
Oct-02	115.4	12.1%	May-05	217.2	33.3%	Dec-07	288.4	12.9%	Jul-10	299.1	9.7%
Nov-02	116.3	12.2%	Jun-05	216.1	30.9%	Jan-08	291.4	12.5%	Aug-10	296.6	6.9%
Dec-02	117.4	11.8%	Jul-05	214.8	27.8%	Feb-08	292.8	12.0%	Sep-10	295.1	4.5%
Jan-03	118.8	11.2%	Aug-05	214.4	24.3%	Mar-08	292.2	11.3%			

## Cumulative Percentage Change in the FNB House Price Index



From Date	Cumulative % change to September 2010	From Date	Cumulative % change to September 2010	From Date	Cumulative % change to September 2010	From Date	Cumulative % change to September 2010
Jul-00	195.1%	Feb-03	144.0%	Sep-05	37.2%	Apr-08	1.7%
Aug-00	197.6%	Mar-03	139.2%	Oct-05	35.7%	May-08	2.7%
Sep-00	199.3%	Apr-03	134.7%	Nov-05	33.7%	Jun-08	3.6%
Oct-00	199.8%	May-03	131.1%	Dec-05	31.2%	Jul-08	3.8%
Nov-00	199.2%	Jun-03	127.4%	Jan-06	28.5%	Aug-08	3.3%
Dec-00	198.3%	Jul-03	123.3%	Feb-06	25.9%	Sep-08	2.4%
Jan-01	197.3%	Aug-03	119.6%	Mar-06	23.9%	Oct-08	1.9%
Feb-01	196.3%	Sep-03	115.6%	Apr-06	22.5%	Nov-08	2.0%
Mar-01	196.1%	Oct-03	110.4%	May-06	22.0%	Dec-08	2.7%
Apr-01	195.1%	Nov-03	104.9%	Jun-06	21.8%	Jan-09	4.2%
May-01	193.2%	Dec-03	99.4%	Jul-06	21.6%	Feb-09	5.9%
Jun-01	191.0%	Jan-04	94.6%	Aug-06	20.9%	Mar-09	7.3%
Jul-01	189.8%	Feb-04	90.1%	Sep-06	19.8%	Apr-09	8.5%
Aug-01	188.9%	Mar-04	86.5%	Oct-06	18.5%	May-09	9.4%
Sep-01	187.8%	Apr-04	83.5%	Nov-06	17.1%	Jun-09	9.3%
Oct-01	186.9%	May-04	81.1%	Dec-06	15.5%	Jul-09	8.2%
Nov-01	184.7%	Jun-04	78.7%	Jan-07	14.0%	Aug-09	6.4%
Dec-01	180.9%	Jul-04	75.6%	Feb-07	12.9%	Sep-09	4.5%
Jan-02	176.2%	Aug-04	71.2%	Mar-07	12.4%	Oct-09	2.9%
Feb-02	171.1%	Sep-04	65.8%	Apr-07	12.0%	Nov-09	1.9%
Mar-02	166.6%	Oct-04	59.9%	May-07	11.6%	Dec-09	1.3%
Apr-02	163.6%	Nov-04	53.8%	Jun-07	10.9%	Jan-10	0.7%
May-02	162.1%	Dec-04	48.1%	Jul-07	10.0%	Feb-10	-0.2%
Jun-02	161.6%	Jan-05	43.3%	Aug-07	8.9%	Mar-10	-1.1%
Jul-02	160.9%	Feb-05	39.5%	Sep-07	7.6%	Apr-10	-1.8%
Aug-02	159.7%	Mar-05	36.9%	Oct-07	5.9%	May-10	-2.3%
Sep-02	158.0%	Apr-05	35.7%	Nov-07	4.0%	Jun-10	-2.1%
Oct-02	155.8%	May-05	35.9%	Dec-07	2.3%	Jul-10	-1.3%
Nov-02	153.8%	Jun-05	36.6%	Jan-08	1.3%	Aug-10	-0.5%
Dec-02	151.3%	Jul-05	37.4%	Feb-08	0.8%		
Jan-03	148.4%	Aug-05	37.7%	Mar-08	1.0%		