



FNB HOUSE PRICE INDEX

PROPERTY MARKET ANALYTICS

HOME LOANS
DIVISION

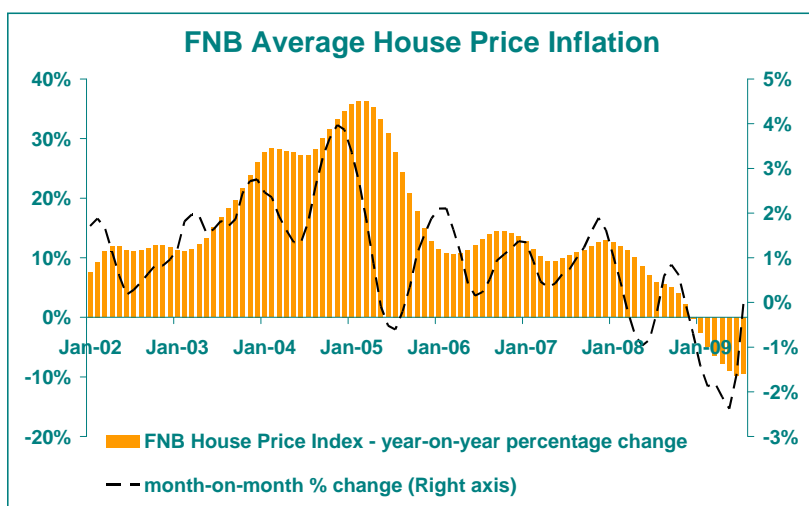
– Price deflation continues, but July figure suggests that the rate of decline may be starting to slow

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YEAR-ON-YEAR HOUSE PRICE DEFLATION CONTINUES, BUT THE RATE MAY BE STARTING TO BOTTOM OUT

The FNB House Price Index's decline continued in July, but there is some hint that the rate of decline may be starting to diminish. This, however, does not mean a sustainable national price increase just yet, but for the time being a possible slowing in the rate of price decline. On a year-on-year basis, the index declined by -9.5%, slightly less extreme than the revised -9.7% rate of decline in the previous month. This comes after a period of continuously declining price inflation, and more recently accelerating price decline, which spans back to the beginning of 2008.



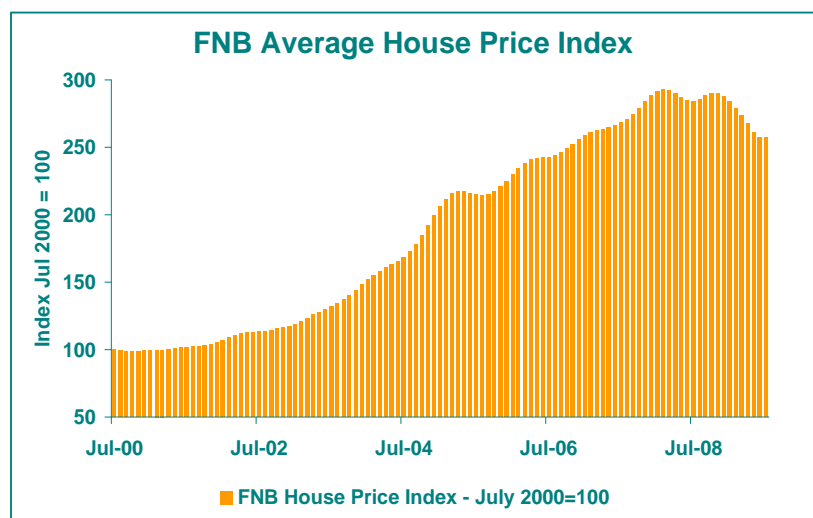
It would be premature, based on one data point, to conclude that this is the start of a sustainable improving trend back out of house price deflation, but certain economic events do lead to the possibility that this could be the case.

Admittedly, with the economy being in recession, any improvement in the residential property market will probably be mild and slow going at best. However, despite the pressure on incomes, a massive 450 basis points' worth of interest rate cuts has led to the household debt-service ratio declining during the first half of 2009, improving the household sector's ability to service debt.

Therefore, we are starting to see some improvement in the home loan arrears situation, while also experiencing a mild increase in transaction volumes in recent months. In addition, estate agents surveyed in FNB's Property Barometer survey are telling us that they have experienced some limited improvement in residential demand activity since late last year.

The FNB Price Index has July 2000 as its base month, i.e. July 2000 = 100. The latest index value (July 2009) was 257.3, implying an average value still 157.3% higher than the price average measured in June 2000 when the time series started. However, from the peak in the index reached in February 2008, a total price decline of 12.1% has been recorded to date.

Note: Whereas previously we had expressed the time series in terms of the average house



price, we have moved to expressing it in index form for 2 reasons. Firstly, the average house price merely reflects the average price of houses financed by FNB, and not the average value of all houses that exist. The actual average value of all homes that exist in SA is probably far lower than the R673,374 average price for July as measured by the smoothed FNB time series. This is because volumes of transactions relative to stock are far lower at the low priced end of the market compared to further up the price ladder, implying that an average price calculated on transaction volumes is almost always biased towards the higher end of the market. Therefore, an average The information in this publication is derived from sources which are regarded as accurate and reliable, is of a general nature only, does not constitute advice and may not be applicable to all circumstances. Detailed advice should be obtained in individual cases. No responsibility for any error, omission or loss sustained by any person acting or refraining from acting as a result of this publication is accepted by FirstRand Group Limited and / or the authors of the material.

price is of limited use, and often creates confusion, often being interpreted as an accurate indicator of the national average value for all existing residential stock. The use of the price index should thus be limited to trend analysis. Secondly, an index value makes it easier to appreciate the extent of price movement since the base date, i.e. the date where the index was 100, with the naked eye. In the FNB Index case the base date was July 2000.

Note: Data compiled by Ewald Kellerman and John Loos: FNB Home Loans Property Analytics

CONCLUSION

A turning point in house price deflation around mid-year has been expected, and it is possible that the slightly lesser rate of year-on-year decline in the FNB House Price Index may be an indication of the start of some "levelling out" in this regard. Admittedly, though, we shall have to wait another few months to get a better idea of whether or not this really is the start of a trend of diminishing price decline which would ultimately lead to a return to price inflation. There have indeed been signs of a mild increase in residential demand in recent times, arguably driven by a series of interest rate cuts. However, this strengthening in demand has been slow and moderate, because against interest rate cuts the country has had the spectre of declining real household income, caused by the combination of job loss, deteriorating discretionary remuneration, and weaker investment income flows to households in tough economic times. Therefore, as yet it would not appear that oversupplies of property on the market have been eliminated, and as such it is probably realistic to expect more price decline albeit possibly at a slowing rate in the second half of the year.

With regard to the economy, there have been some early signs of levelling out, with the SARB Leading Business Cycle Indicator starting a sideways-to-higher movement during recent months after a major decline in 2008. It is conceivable that economy-wide production could show some signs of stabilising in the second half of 2009 as inventory run-downs are by-and-large completed, and given that talk of recovery in the global economy becoming more common. However, the platform off which the USA hopes to launch its economic recovery doesn't appear very stable, with that country's various debt and debt-service ratios still at or near the highest levels in history. In SA, too, the household debt to disposable income has made little downward progress, due to incomes being under huge pressure and making debt reduction slow going.

Realistically, therefore, while we expect to see some improvement in terms of less year-on-year house price deflation in the second half of 2009, national price inflation is probably still some way off, and only anticipated in 2010.

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	285.9	5.5%
Dec-00	98.9		Jul-03	132.2	16.8%	Feb-06	234.4	10.8%	Sep-08	288.3	5.1%
Jan-01	99.3		Aug-03	134.4	18.3%	Mar-06	238.3	10.5%	Oct-08	290.0	4.1%
Feb-01	99.6		Sep-03	136.9	19.7%	Apr-06	240.9	10.8%	Nov-08	289.9	2.1%
Mar-01	99.7		Oct-03	140.3	21.6%	May-06	241.9	11.3%	Dec-08	287.9	-0.2%
Apr-01	100.0		Nov-03	144.1	23.9%	Jun-06	242.2	12.1%	Jan-09	283.8	-2.6%
May-01	100.7		Dec-03	148.0	26.1%	Jul-06	242.8	13.0%	Feb-09	278.5	-4.9%
Jun-01	101.4		Jan-04	151.7	27.7%	Aug-06	244.1	13.8%	Mar-09	273.4	-6.4%
Jul-01	101.8	1.8%	Feb-04	155.3	28.3%	Sep-06	246.4	14.5%	Apr-09	267.7	-7.7%
Aug-01	102.2	3.0%	Mar-04	158.3	28.3%	Oct-06	249.0	14.5%	May-09	261.3	-9.0%
Sep-01	102.5	4.0%	Apr-04	160.8	27.9%	Nov-06	252.1	14.2%	Jun-09	257.1	-9.7%
Oct-01	102.9	4.5%	May-04	163.0	27.6%	Dec-06	255.5	13.6%	Jul-09	257.3	-9.5%
Nov-01	103.7	5.1%	Jun-04	165.2	27.2%	Jan-07	258.9	12.8%			
Dec-01	105.1	6.2%	Jul-04	168.1	27.2%	Feb-07	261.3	11.5%			
Jan-02	106.9	7.6%	Aug-04	172.4	28.3%	Mar-07	262.6	10.2%			
Feb-02	108.9	9.3%	Sep-04	178.0	30.0%	Apr-07	263.5	9.4%			
Mar-02	110.7	11.1%	Oct-04	184.6	31.6%	May-07	264.6	9.4%			
Apr-02	112.0	11.9%	Nov-04	191.9	33.2%	Jun-07	266.2	9.9%			
May-02	112.6	11.9%	Dec-04	199.3	34.6%	Jul-07	268.2	10.5%			
Jun-02	112.8	11.2%	Jan-05	206.0	35.8%	Aug-07	270.9	11.0%			
Jul-02	113.1	11.1%	Feb-05	211.6	36.3%	Sep-07	274.2	11.3%			
Aug-02	113.7	11.2%	Mar-05	215.6	36.2%	Oct-07	278.6	11.9%			
Sep-02	114.4	11.6%	Apr-05	217.4	35.2%	Nov-07	283.8	12.6%			
Oct-02	115.4	12.1%	May-05	217.2	33.3%	Dec-07	288.4	12.9%			
Nov-02	116.3	12.2%	Jun-05	216.1	30.9%	Jan-08	291.4	12.5%			
Dec-02	117.4	11.8%	Jul-05	214.8	27.8%	Feb-08	292.8	12.0%			
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 July 2009	From Date	Cumulative % change to July 2009	From Date	Cumulative % change to July 2009	From Date	Cumulative % change to July 2009
Jul-00	157.3%	Feb-03	112.7%	Sep-05	19.6%	Apr-08	-11.3%
Aug-00	159.5%	Mar-03	108.6%	Oct-05	18.3%	May-08	-10.4%
Sep-00	161.0%	Apr-03	104.6%	Nov-05	16.6%	Jun-08	-9.7%
Oct-00	161.4%	May-03	101.5%	Dec-05	14.4%	Jul-08	-9.5%
Nov-00	160.9%	Jun-03	98.3%	Jan-06	12.1%	Aug-08	-10.0%
Dec-00	160.1%	Jul-03	94.7%	Feb-06	9.8%	Sep-08	-10.7%
Jan-01	159.2%	Aug-03	91.5%	Mar-06	8.0%	Oct-08	-11.3%
Feb-01	158.3%	Sep-03	88.0%	Apr-06	6.8%	Nov-08	-11.2%
Mar-01	158.2%	Oct-03	83.5%	May-06	6.4%	Dec-08	-10.6%
Apr-01	157.3%	Nov-03	78.6%	Jun-06	6.2%	Jan-09	-9.3%
May-01	155.7%	Dec-03	73.8%	Jul-06	6.0%	Feb-09	-7.6%
Jun-01	153.7%	Jan-04	69.6%	Aug-06	5.4%	Mar-09	-5.9%
Jul-01	152.7%	Feb-04	65.8%	Sep-06	4.5%	Apr-09	-3.9%
Aug-01	151.9%	Mar-04	62.6%	Oct-06	3.3%	May-09	-1.5%
Sep-01	151.0%	Apr-04	60.0%	Nov-06	2.1%	Jun-09	0.1%
Oct-01	150.1%	May-04	57.9%	Dec-06	0.7%		
Nov-01	148.2%	Jun-04	55.8%	Jan-07	-0.6%		
Dec-01	144.9%	Jul-04	53.1%	Feb-07	-1.5%		
Jan-02	140.8%	Aug-04	49.2%	Mar-07	-2.0%		
Feb-02	136.3%	Sep-04	44.6%	Apr-07	-2.3%		
Mar-02	132.5%	Oct-04	39.4%	May-07	-2.7%		
Apr-02	129.8%	Nov-04	34.1%	Jun-07	-3.3%		
May-02	128.5%	Dec-04	29.1%	Jul-07	-4.1%		
Jun-02	128.1%	Jan-05	24.9%	Aug-07	-5.0%		
Jul-02	127.4%	Feb-05	21.6%	Sep-07	-6.2%		
Aug-02	126.4%	Mar-05	19.4%	Oct-07	-7.6%		
Sep-02	124.9%	Apr-05	18.3%	Nov-07	-9.3%		
Oct-02	123.1%	May-05	18.5%	Dec-07	-10.8%		
Nov-02	121.2%	Jun-05	19.1%	Jan-08	-11.7%		
Dec-02	119.1%	Jul-05	19.8%	Feb-08	-12.1%		
Jan-03	116.6%	Aug-05	20.0%	Mar-08	-11.9%		

Note: The above table titled "Cumulative Percentage Change in the FNB House Price Index" shows the total (cumulative) change for the period starting from the month shown in the "From Date" column and ending July 2009. For example, from February 2003 to July 2009, the total rise in the House Price Index was 112.7%. Taking the period starting February 2008 and ending July 2009 the total drop in the House Price Index was -12.1%.