

**2 December 2013**

# PROPERTY BAROMETER

## NOVEMBER FNB HOUSE PRICE INDEX

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### HIGHLIGHTS

- *House price growth accelerates further in November to 7.2% year-on-year, from 7.1% revised rate in October. In real terms, too, positive growth acceleration was experienced, from 0.7% year-on-year in September to 1.5% in October.*
- *Taking a look at the longer term picture, since the real house price peak at the end of 2007, house prices have declined cumulatively to the tune of -20.1% to date, while growing by a moderate +14.7% in nominal terms since then. However, looking back longer term over the past 10 years exactly, price levels are still +29.3% higher than November 2003 in real terms, and 129.3% in nominal terms.*
- *The average house price, according to transactions financed by FNB, was R907,182*
- *While the November year-on-year house price growth rate was higher than the previous month, the difference has become small, which may be a sign that the recent house price growth acceleration has started to lose momentum. This view is supported by a minor decline in month-on-month seasonally-adjusted house price growth, from a mini-peak of 0.77% in September to 0.55% in November.*
- *Signs coming out of the FNB Valuers Market Strength Index may also point to mild loss in growth momentum starting, although growth is still significant.*
- *Residential stock constraints and weak building numbers in recent months have made us ponder the possibility that price growth in 2014 could be considerably higher than 2013. However, weak economic growth numbers in the 3rd quarter, ongoing poor consumer confidence levels, and some residential property-related stats suggesting a growth peak forming (notable peaking growth in the Valuers Market Strength Index, our 3rd quarter FNB Estate Agent Survey Activity Rating growth rate, and transfer duty revenue growth), have made us decide against expecting too much.*
- *We go for an expectation now of average house price growth of 6.5% for 2014, a very similar growth rate to what looks likely to be the outcome for 2013.*
- *Thinking longer ahead to 2015, we expect a mildly slowing price growth rate, which is driven by the FNB forecast of interest rates starting to rise mildly early in that year.*

## NOVEMBER FNB HOUSE PRICE INDEX, MARKET STRENGTH AND OUTLOOK

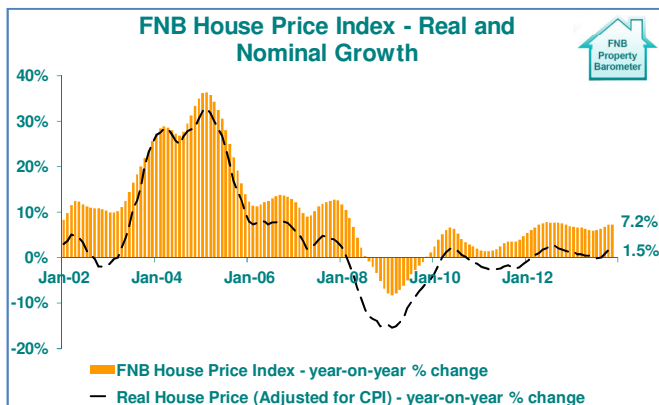
House price growth accelerates further in November to 7.2% year-on-year, from 7.1% revised rate in October. In real terms, too, positive growth acceleration was experienced, from 0.7% year-on-year in September to 1.5% in October. However, the market may be approaching its growth peak.

### Year-on-year house price growth accelerates further

The FNB House Price Index showed a slight year-on-year growth acceleration, from October's revised 7.1% to 7.2% in November 2013.

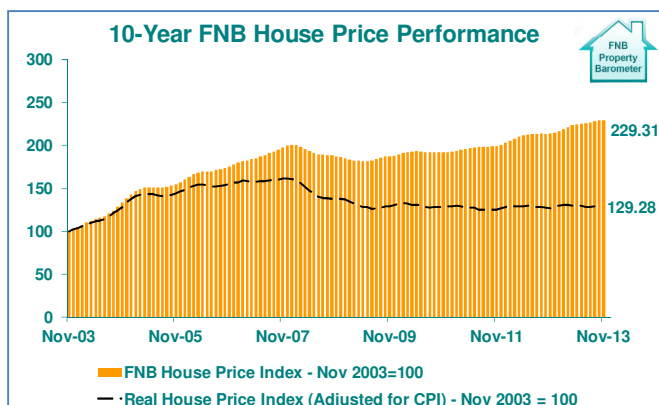
This is the 5<sup>th</sup> consecutive month of year-on-year acceleration since May 2013, continuing the relatively solid period of house price growth which has prevailed since early-2012.

In real terms (adjusting house prices for consumer price inflation), October's year-on-year house price growth was mildly positive to the tune of 1.5%, up from the previous month's 0.7%. This rise in real house price growth was partly due to accelerating house price growth, but also due to a decline in consumer price inflation, which came back down into the 3-6% target range to measure 5.6% in October (November consumer price data not yet available)



Taking a look at the longer term picture, since the real house price peak at the end of 2007, house prices have declined cumulatively to the tune of -20.1% to date, while growing by a moderate +14.7% in nominal terms since then.

However, looking back longer term over the past 10 years exactly, real price levels are still +29.3% higher than November 2003, and 129.3% in nominal terms.

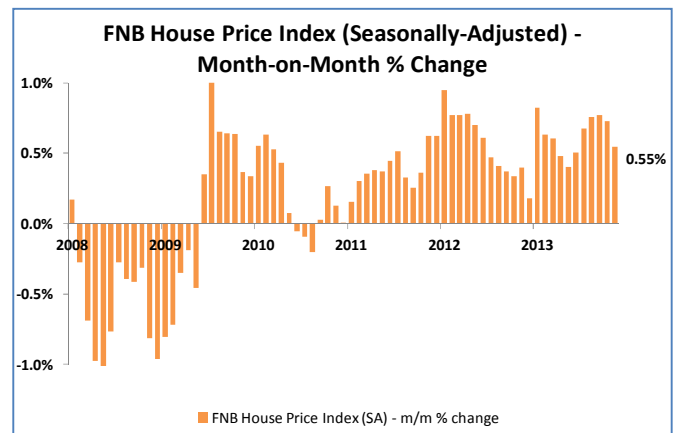


The average house price, according to transactions financed by FNB, was R907,182.

**But house price growth acceleration may be losing some momentum,....**

While the November year-on-year house price growth rate was higher than the previous month, the difference has become small, which may be a sign that the recent house price growth acceleration has started to lose momentum.

This view is supported by a minor decline in month-on-month seasonally-adjusted house price growth, from a mini-peak of 0.77% in September to 0.55% in November.



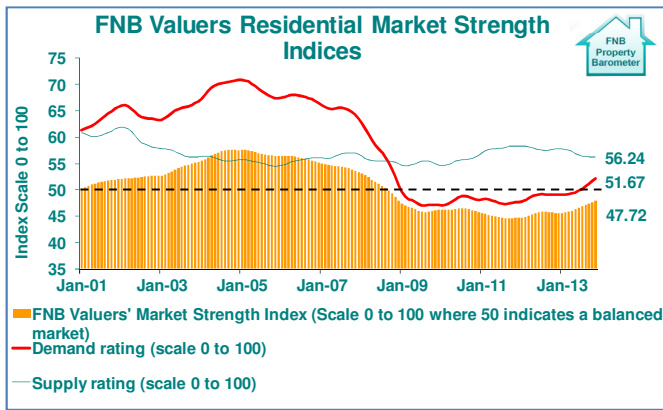
Signs coming out of the FNB Valuers Market Strength Index may also point to mild loss in growth momentum starting.

### FNB Valuers Market Strength Index still rising,....

The FNB Valuers have been reporting gradually growing residential demand, accompanied by gradually weakening residential supply over most of the 2012/13 period.

The Valuers' Demand Rating is above the crucial 50 level, at 51.67 in November, indicating that more valuers perceive demand as "strong" than those perceiving it to be "weak".

However, the Valuers give a Residential Supply Rating that is slightly stronger than the Residential Demand Rating (although the gap has been steadily closing), translating into a Market Strength Index still below 50 at 47.72, which arguably explains why we haven't seen huge price growth in real terms in post-2008/9 recession times to date.

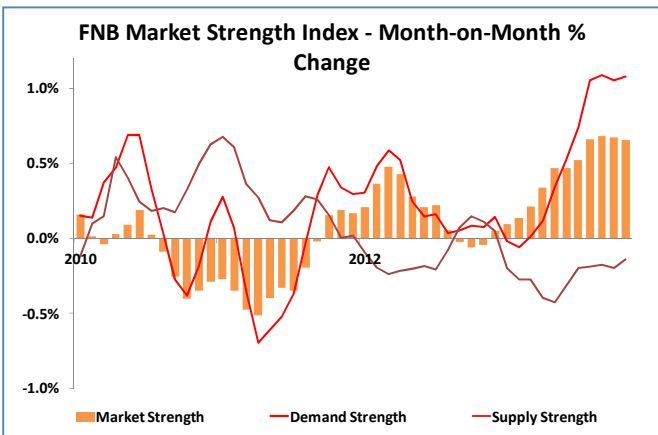


**...But growth momentum in the Market Strength Index is also slowing**

While the Market Strength Index continues to rise, examining its month-on-month seasonally adjusted growth rate we see a recent pattern of slowing growth, which ties in with slowing month-on-month house price growth. This slowing rate of increase in the Market Strength Index has been caused by an apparent peak forming in the rate of growth in the Demand Rating, along with diminishing rate of decline in the Supply Rating.

So improvement continues, but at a slightly slower rate in recent times.

This slight slowing is only 2 months old, so it is too early to draw hard and fast conclusions as to any possible trend change yet.



**Outlook – Market growth peak approaching?**

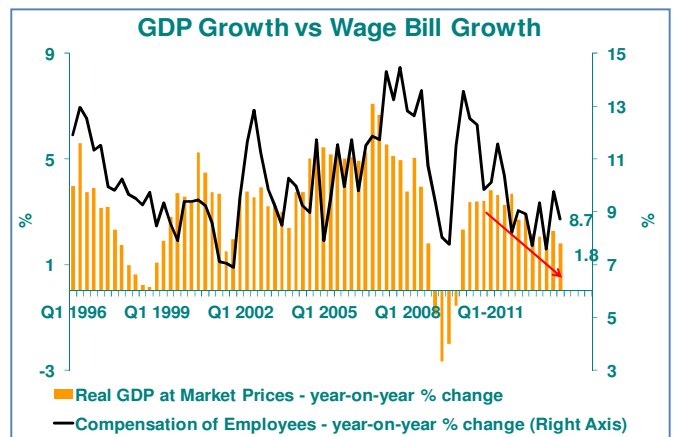
The residential market is in something of an interesting space at the moment. It has had a relatively good run since early-2012, with demand growing over most of the period. Simultaneously, supply shortages have been mounting gradually.

We have recently considered raising our house price growth forecasts in 2014 to above those rates experienced through 2013 to date, based on mounting supply side constraints. Our Estate Agent Survey respondents have reported noticeably higher residential stock constraints in 2013 to date, while residential construction growth fell in the 3<sup>rd</sup> quarter of 2013, an event that can help to sustain the supply constraints.

However, after the release of the Building Statistics came some disappointing economic data releases which made us reconsider, because it now appears conceivable that growth on the demand side could also slow significantly as 2014 approaches.

Following on the release of September building construction data came the release in November of the September SARB Leading Business Cycle Indicator. This indicator's growth rate has been pedestrian for a while, and its year-on-year growth rate slowed ever so slightly from 1.7% previous to 0.97% in September.

Then came the 3<sup>rd</sup> Quarter GDP numbers (Gross Domestic Product). Quarterly GDP growth came in below consensus expectation, measuring 1.8% year-on-year. This growth rate is a continuation of a broad slowing growth trend that started back in 2011, as the effect of big global and domestic fiscal and monetary stimulus packages gradually wore off.



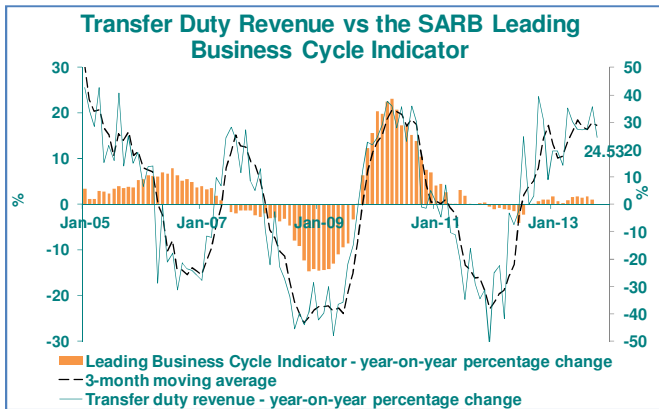
As multi-year growth continues to slow, so economists revise their economic forecasts lower. Slower growth since the economic boom years pre-2008 appears to have been the catalyst for heightened social tensions, reflected in heightened strike action and service delivery protest. These in turn have a negative impact on the economy.

On the interest rate front, the Governor of the Reserve Bank surprised some people by saying that the Monetary Policy Committee had been discussing the timing of interest rate hiking, not cutting. While we are

of the opinion that interest rates will remain at current levels until 2015, sideways movement provides no extra stimulus for residential property demand from current levels. And talk of interest rates hikes alone can promote a more cautious approach to home buying by some people too.

And then right at the end of the month came the release of SARS property transfer duty revenue data for the month of October. The year-on-year growth rate remained strong at 24.5%, reflecting the good times that the residential property-related industry has been feeling of late.

However, this growth rate is the lowest since the 14.3% recorded back in March 2013, and the smoothed 3-month moving average trendline gives the distinct impression of a growth peak having formed.

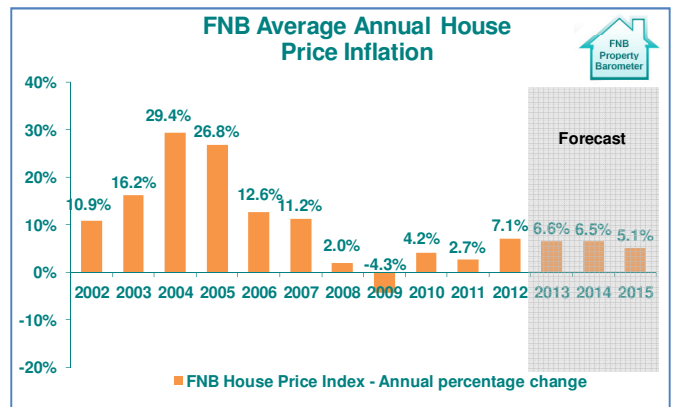


So, in short, residential stock constraints and weak building numbers in recent months have made us ponder the possibility that price growth in 2014 could be considerably higher.

However, weak economic growth numbers in the 3<sup>rd</sup> quarter, ongoing poor consumer confidence levels, and some residential property-related stats suggesting a growth peak forming (notable peaking growth in the Valuers Market Strength Index, our 3<sup>rd</sup> quarter FNB Estate Agent Survey Activity Rating growth rate, and transfer duty revenue growth), have made us decide against expecting too much.

Rather, we go for an expectation now of average house price growth of 6.5% for 2014, a very similar growth rate to what looks likely to be the outcome for 2013.

Thinking longer ahead to 2015, we expect a mildly slowing price growth rate, which is driven by the FNB forecast of interest rates starting to rise mildly early in that year.



# Monthly FNB House Price Index (January 2001 = 100)



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	205.8	36.1%	Jan-09	266.4	-7.9%	Jan-13	312.0	6.7%
Feb-01	100.4		Feb-05	211.5	36.3%	Feb-09	264.6	-8.3%	Feb-13	315.5	6.6%
Mar-01	100.4		Mar-05	215.5	35.6%	Mar-09	263.5	-7.9%	Mar-13	319.1	6.5%
Apr-01	101.0		Apr-05	217.6	34.3%	Apr-09	262.5	-7.1%	Apr-13	321.8	6.3%
May-01	101.9		May-05	217.9	32.5%	May-09	261.4	-6.2%	May-13	323.5	5.9%
Jun-01	102.8		Jun-05	217.6	30.4%	Jun-09	261.7	-5.0%	Jun-13	324.7	5.8%
Jul-01	103.3		Jul-05	217.0	27.9%	Jul-09	263.2	-3.7%	Jul-13	326.0	6.0%
Aug-01	103.6	10.2%	Aug-05	217.2	25.0%	Aug-09	265.3	-2.8%	Aug-13	327.4	6.4%
Sep-01	104.1	9.2%	Sep-05	218.2	21.9%	Sep-09	267.7	-1.8%	Sep-13	328.8	6.7%
Oct-01	104.5	8.4%	Oct-05	220.4	19.1%	Oct-09	269.3	-1.0%	Oct-13	329.9	7.1%
Nov-01	105.4	7.9%	Nov-05	223.1	16.2%	Nov-09	270.4	0.0%	Nov-13	330.4	7.2%
Dec-01	106.6	7.9%	Dec-05	226.8	13.9%	Dec-09	271.4	1.1%			
Jan-02	108.2	8.2%	Jan-06	231.0	12.2%	Jan-10	273.0	2.5%			
Feb-02	110.1	9.7%	Feb-06	235.6	11.4%	Feb-10	275.1	4.0%			
Mar-02	112.0	11.6%	Mar-06	239.7	11.2%	Mar-10	276.9	5.1%			
Apr-02	113.5	12.4%	Apr-06	242.9	11.6%	Apr-10	278.2	6.0%			
May-02	114.4	12.3%	May-06	244.4	12.1%	May-10	278.7	6.6%			
Jun-02	114.7	11.6%	Jun-06	244.7	12.5%	Jun-10	278.1	6.3%			
Jul-02	114.9	11.2%	Jul-06	245.3	13.0%	Jul-10	276.9	5.2%			
Aug-02	115.0	11.0%	Aug-06	246.5	13.5%	Aug-10	276.3	4.1%			
Sep-02	115.2	10.7%	Sep-06	248.3	13.8%	Sep-10	276.5	3.3%			
Oct-02	115.8	10.7%	Oct-06	250.4	13.6%	Oct-10	276.8	2.8%			
Nov-02	116.5	10.6%	Nov-06	253.0	13.4%	Nov-10	276.8	2.4%			
Dec-02	117.6	10.3%	Dec-06	256.0	12.9%	Dec-10	276.8	2.0%			
Jan-03	118.9	9.9%	Jan-07	259.0	12.1%	Jan-11	277.3	1.6%			
Feb-03	120.9	9.8%	Feb-07	261.4	11.0%	Feb-11	278.9	1.4%			
Mar-03	123.4	10.2%	Mar-07	263.2	9.8%	Mar-11	280.8	1.4%			
Apr-03	126.1	11.1%	Apr-07	264.8	9.0%	Apr-11	282.5	1.6%			
May-03	128.6	12.5%	May-07	266.9	9.2%	May-11	283.9	1.9%			
Jun-03	131.2	14.4%	Jun-07	269.7	10.2%	Jun-11	284.9	2.4%			
Jul-03	133.8	16.5%	Jul-07	272.7	11.2%	Jul-11	285.5	3.1%			
Aug-03	136.1	18.3%	Aug-07	275.5	11.8%	Aug-11	285.9	3.5%			
Sep-03	138.3	20.0%	Sep-07	278.3	12.1%	Sep-11	286.1	3.5%			
Oct-03	141.0	21.8%	Oct-07	281.5	12.4%	Oct-11	286.4	3.5%			
Nov-03	144.1	23.6%	Nov-07	285.2	12.7%	Nov-11	287.5	3.9%			
Dec-03	147.6	25.5%	Dec-07	288.0	12.5%	Dec-11	289.5	4.6%			
Jan-04	151.3	27.2%	Jan-08	289.2	11.6%	Jan-12	292.4	5.4%			
Feb-04	155.2	28.3%	Feb-08	288.7	10.4%	Feb-12	295.8	6.1%			
Mar-04	158.9	28.8%	Mar-08	286.2	8.7%	Mar-12	299.5	6.6%			
Apr-04	162.1	28.5%	Apr-08	282.5	6.7%	Apr-12	302.8	7.2%			
May-04	164.5	27.9%	May-08	278.6	4.4%	May-12	305.3	7.5%			
Jun-04	166.8	27.2%	Jun-08	275.5	2.1%	Jun-12	306.9	7.7%			
Jul-04	169.6	26.8%	Jul-08	273.4	0.3%	Jul-12	307.4	7.7%			
Aug-04	173.8	27.7%	Aug-08	272.9	-0.9%	Aug-12	307.776	0.0765			
Sep-04	178.9	29.4%	Sep-08	272.6	-2.1%	Sep-12	308.028	0.0765			
Oct-04	185.1	31.3%	Oct-08	271.9	-3.4%	Oct-12	307.976	0.07517			
Nov-04	192.0	33.3%	Nov-08	270.3	-5.2%	Nov-12	308.132	0.07193			
Dec-04	199.2	34.9%	Dec-08	268.4	-6.8%	Dec-12	309.323	0.06864			