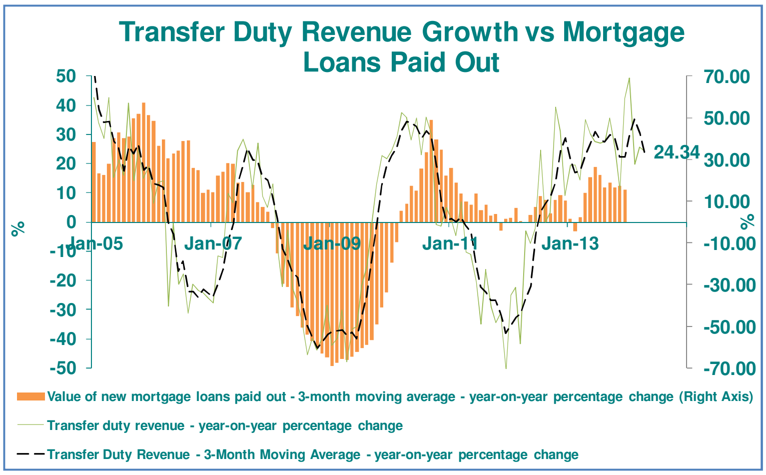
HOUSEHOLD SECTOR – APRIL TRANSFER DUTY REVENUE

April transfer duty revenue growth still strong, but slightly slower than the previous month as a growth "peak" appears to be gradually forming. Slowing growth is anticipated later in 2014

30 May 2014



April SARS (South African Revenue Services) revenue data still showed robust growth in transfer duty revenue. However, the monthly year-on-year growth rate was slightly slower than March's 25.7%, at 24.3%.

This continues to reflect a solid growth situation in the property market, with the residential component believed to be playing a key role. However, the recent growth rates also appear to be reflecting the gradually formation of a "growth peak", as the transaction volume base gets higher.

Recent growth rates remain lower than the prior high of 49.4% year-on-year growth in January.

With monthly data movements often being volatile, we like to smooth out the number with a 3-month moving average, and for the 3-months to April we still saw strong growth of 23.3%, but down on the 30.4% year-on-year for the 3 months to March.

The transfer duty data continues to point to a strong growth environment in property, reflecting the combination of significantly improved transaction volumes growth as well as average price growth, after a weak period in 2011, with the improved average price growth causing some transfer duty bracket creep as well. However, the broadly changing shape of the transfer duty growth graph also hints at a move towards a peaking in the growth trend in recent times, after a sharp acceleration in growth back in 2012 and even early-2013.

We expect this broad sideways movement in growth soon to turn to a slowing growth rate. The most obvious reason for this expectation has been a higher base effect starting to take hold on year-on-year growth rates, and of course the fact that interest rates started to rise in January. However, we can begin to add a troubled economy, which contracted in the 1st quarter of 2014 and may do so again in the 2nd quarter, to the list of negatives for property. The weak economy has led to a multi-year slowing trend in household disposable income growth (important given that residential property transactions are a big part of the market), and 2014 is expected to see real Household Sector Disposable Income growth slow further from 2.5% in 2013 to below 2%, suggesting that we should see some slowing growth in residential volumes and values soon.

The March SARB Leading Business Cycle Indicator once again declined, supporting the expectation of a weak economy continuing in the near term, and the Leading Indicator's year-on-year growth direction normally correlates reasonably well with transfer duty growth as well as with certain of our key residential market indicators.

Therefore, April transfer duty growth continues to show a strong property picture, but at the same time suggests a growth peak forming, moving almost sideways on the previous month. Looking forward, a broad deterioration in recent economic data suggest that this growth should begin to form a slowing trend soon.

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