Home Loans

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Housing review

Third quarter 2014

- The first quarter of 2014 saw the South African economy contracting at a seasonally adjusted annual rate of 0,6% from a growth rate of 3,8% in the fourth quarter of last year. The dismal first-quarter growth performance came on the back of contractions in output in mining, affected by strikes, and manufacturing. Real GDP growth of 1,5% is forecast for 2014, rising to 2,8% in 2015.

- Headline consumer price inflation trended upwards in the first half of 2014, and is forecast to remain above the 6% level into the second quarter of 2015. The main risks to the inflation outlook are the rand exchange rate, food prices, wage hikes, transport costs and property running costs. Domestic interest rates are forecast to be hiked further in the remainder of 2014 and through 2015, based on global and local economic trends and prospects, as well as the outlook for inflation.

- The consumer sector continued to experience financial pressure in 2014. Both real household disposable income and consumption expenditure growth continued to taper off up to the first quarter of the year as employment growth remained low and inflation increased to above 6%, negatively affecting consumers' purchasing power. The net household savings ratio is still hovering around the zero-level and a fair percentage of credit-active consumers are struggling with impaired credit records. Consumer confidence remained low in the first half of 2014, impacting the demand for goods and services and credit.

- Nominal year-on-year house price growth in the middle segment of the market (homes of 80m² — 400m² and priced up to R4 million in 2014) was relatively stable in the second quarter of 2014 compared with the first quarter. In the category of affordable housing nominal price growth accelerated in the second quarter, whereas price growth in the luxury segment tapered off further after a recent peak in the fourth quarter of 2013. Real house price growth was influenced by persistent upward pressure on consumer price inflation in the second quarter of the year.

- Taking account of trends in and prospects for the economy and household finances, as well as house price growth in the first half of the year, single-digit nominal price growth is set to continue in the rest of 2014 and in 2015. Real house price growth will be the result of the combined effect of nominal price trends and inflation, with marginal real price inflation projected for this year and next year.

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Economic overview

The global economy

Global real economic growth moderated from 3,8% in the second half of 2013 to 2,8% in the first quarter of 2014, based on the International Monetary Fund's (IMF) *World Economic Outlook Update* of July 2014. The slower growth in world economic activity in the early stages of the year was the result of factors such as severe winter conditions and a high level of inventories in the United States (US), slowing domestic demand in China and sharply lower activity in Russia, due to geopolitical tensions. However, US growth rebounded strongly to 4% in the second quarter after a contraction of 2,1% in the world largest economy in the first quarter. The second-quarter growth was above expectations of 3,2% and was largely driven by strong growth in personal goods consumption, domestic private sector investment and exports. Economic growth in the euro area remained low, with the European Central Bank recently easing monetary policy further in an attempt to revive activity and prevent a situation of deflation. On balance, these developments contributed to lower levels of activity in emerging economies, with a slowdown in domestic demand and lower growth in investment also evident in these countries.

The South African economy

The first quarter of 2014 saw the South African economy contracting at a seasonally adjusted annual rate of 0,6% from a growth rate of 3,8% in the fourth quarter of last year. The dismal first-quarter growth performance came on the back of contractions in output in mining, affected by strikes, and manufacturing. The mining sector was mainly plagued by protracted industrial action in the platinum sector, which contributed to real output dropping by a massive 24,7% in the first quarter compared with the preceding quarter. Output in the manufacturing sector was down by a real 4,4% compared with the final quarter of 2013, resulting from contractions in output in the manufacturing sub-sectors of petroleum, chemical, rubber and plastic products; motor vehicles, parts and accessories; basic iron and steel; glass and non-metallic mineral products; and furniture.

After bottoming at 5,3% year-on-year (y/y) in November last year, headline consumer price inflation trended upwards in the first six months of 2014, averaging 6,2% y/y over this period. The major factors causing upward pressure on inflation are food prices, transport costs, property-running costs, a relatively weak rand exchange rate and wage hikes of above inflation. While growth in wages remained above inflation, growth in labour productivity was, however, only about 1,3% per annum in 2011-2013, contributing to nominal unit labour costs rising by an average of 6% per annum, whereas consumer price inflation averaged around 5,5% per annum over this period . Underlying core inflation, i.e. headline inflation excluding the more volatile components of food, non-alcoholic beverages, petrol and energy, averaged 5,5% y/y in the six-month period of January to June this year.

After being raised by 50 basis points in late January this year, lending rates remained unchanged up to July when a hike of 25 basis points were announced in the key monetary policy interest rate – the repo rate – by the Reserve Bank's Monetary Policy Committee. The repo rate (the interest rate at which commercial banks borrow money from the Reserve Bank) is currently at 5,75% per annum, with commercial banks' prime lending and variable mortgage interest base rates for extending credit to the public at a level of 9,25% per annum.

Household sector overview

The consumer sector continued to experience financial pressure in 2014. Both real household disposable income and consumption expenditure growth continued to taper off up to the first quarter of the year as employment growth remained low and inflation increased to above 6%, negatively affecting consumers' purchasing power. The net household savings ratio is still hovering around the zero-level and a fair percentage of credit-active consumers are struggling with impaired credit records. Consumer confidence remained low in the first half of 2014, impacting the demand for goods and services and credit.

Growth in real household disposable income, i.e. after-tax, inflation-adjusted income, continued to slow down, reaching a level of 1,7% at an annualised rate in the first quarter of 2014. This was the lowest growth in real disposable income in the past 4½ years and was the result of the combined effect of continued low employment growth and upward pressure on inflation. According to Andrew Levy Employment Publications, the nominal wage settlement rate increased from 7,9% in the first quarter of 2014 to 8,1% in the second quarter, which was above the average headline consumer price inflation rate of 5,9% y/y and 6,5% y/y in the first and second quarters respectively.

Growth in real household consumption expenditure was lower at an annualised rate of 1,8% in the first quarter of 2014, which was also its lowest level since the third quarter of 2009. This was the result of continued inflationary pressures eroding consumers' spending power, lower real disposable income growth, consumer indebtedness and a low level of consumer confidence. The close correlation between growth in real household disposable income and consumption expenditure continued uninterruptedly up to the first quarter of 2014 and remains related to the severe lack of household savings (see relevant graphs at the back of the publication), as well as many consumers' financial inability to access credit for the purpose of consumption expenditure.

The ratio of gross household savings to GDP was stable, but still low at 1,6% in the first quarter from the fourth quarter of last year. The ratio of net household savings to disposable income was at a level of -0,1% in the first quarter. Net household savings is calculated from gross savings, adjusted for depreciation write-offs on the value of physical assets held by households, such as residential buildings and vehicles.

Growth in the value of outstanding household credit balances, comprising instalment sales credit, leasing finance, mortgage loans, credit card debt, overdrafts and general loans and advances (mainly personal and micro loans), slowed down to below 5% y/y in recent months. Growth in the value of outstanding household secured credit balances (instalment sales credit, leasing finance and mortgage loans) was below 4% y/y at the end of the second quarter this year, mainly impacted by continued low growth in mortgage balances, which are more than 77% of total household secured credit balances. Growth in the value of outstanding household unsecured credit balances (credit card debt, overdrafts and general loans and advances) slowed down to below 6% y/y at the end of the first six months of the year compared with a peak of 31,6% y/y at end-November 2012. The sharp downward trend in growth in unsecured credit balances was largely driven by significantly lower growth in the component of general loans and advances (61% of household unsecured credit balances and mainly consisting of personal loans and microfinance) to below 2% y/y by the end of June 2014 from a high of 35,4% y/y at the end of September 2012. Factors such as the National Credit Act (NCA), banks' risk appetite and lending criteria, consumers' credit-risk profiles and consumer confidence affected the availability and accessibility of and demand for credit, resulting in these low levels of growth in the various components of household credit balances.

The ratio of household debt to disposable income ratio was virtually stable at 74,5% in the first quarter of 2014 from 74,6% in the fourth quarter of last year. This was the net result of nominal household disposable income growing by 1,6% quarter-on-quarter (q/q), while household debt increased at a rate of 1,4% q/q in the first quarter of the year. The debt ratio is calculated as the total amount of outstanding household debt expressed as a percentage of the total annual disposable income of households, i.e. after deductions for tax, social contributions and transfers.

Taking account of a debt-to-income ratio of 74,5% in the first quarter of 2014 and the average prime lending rate during this period, the cost of servicing household debt as a percentage of disposable income came to 7,9% in the quarter compared with 7,7% in the final quarter of 2013, with this increase in the debt servicing ratio mainly a result of the 50 basis points hike in the prime rate at the end of January. The household debt-servicing ratio is calculated as the interest component of debt repayments expressed as a percentage of disposable income. Based on the abovementioned debt-to-income and debt-servicing-cost ratios, the average interest rate charged in the first quarter of 2014 to service household debt was around 10,6% per annum, which was 1,8 percentage points above the ruling average prime interest rate of 8,8% per annum in the quarter, reflecting banks' risk appetite and lending criteria in view of economic trends and consumer credit-risk profiles.

Statistics on consumer credit-risk profiles in the first quarter of the year reflect changes to credit regulations announced late last year to make provision for a credit amnesty process, which came into effect on 1 April 2014. The shift in data occurred as a result of credit bureaus implementing the changed regulations in the first quarter (see graph on consumer credit-risk profiles at the back of the report). The credit amnesty involves the continuous removal of adverse consumer credit information kept by credit bureaus, specifically with regard to consumers who have repaid their debt. The amnesty, however, does not relieve consumers from the obligation to repay outstanding debt. In the first quarter of 2014, a total of 9,6 million credit-active consumers, or 44,2% of a total of 21,71 million, had impaired credit records. The number of consumers in good standing came to 12,11 million (55,8%) in the first quarter. A total number of 77,18 million consumer credit accounts were active in the first quarter of the year, of which 57,91 million (75%) were in good standing and 19,27 million (25%) were impaired. Consumers' credit-risk profiles impact their access to credit and affect household consumption expenditure against the background of a continued very low level of savings.

According to the latest *Quarterly Labour Force Survey* published by Statistics South Africa, a total of 15,094 million people were employed in the formal and informal sectors of the economy in the second quarter of 2014. Against the background of protracted labour market instability, only 0,3% more people were employed in the second quarter of the year compared with the first quarter. The unemployment rate increased to 25,5% in the second quarter from 25,2% in the first quarter of the year, which implies that a total of 5,154 million people were unemployed in the second quarter, up from 5,067 million having been unemployed in the preceding quarter. According to Andrew Levy Employment Publications, a total number of 7,5 million man-days were lost due to industrial action in the first half of 2014 compared with 1,8 million lost in the same period last year and 5,2 million lost in the whole of 2013. These labour market trends are not conducive to higher levels of confidence, investment and employment in the medium to longer term.

The Bureau for Economic Research's (BER) consumer confidence index improved in the second quarter of 2014, but the level of confidence remained relatively low at +4 index points in the quarter (-6 index points in the first quarter) compared with the most recent high of 14,5 index points in 2010. Consumer confidence is measured by expectations regarding the outlook for the economy, household finances and durable consumption expenditure.

Property market overview

According to Absa's calculations, nominal year-on-year house price growth in the middle segment of the market remained resilient in the first two quarters of 2014, despite ongoing challenging economic, consumer sector and property market conditions. All categories of housing analysed showed a further uptick in nominal price growth in the second quarter of the year compared with a year ago (see section below on house prices).

Residential building activity with regard to the planning phase of new housing, as reflected by the number of building plans approved by local government institutions for houses, flats and townhouses, showed relatively strong growth of 16,6% y/y to a level of 25 266 units in the first five months of 2014 from 21 671 units in the corresponding period last year. However, the construction phase of new housing, i.e. the number of housing units reported as completed, contracted by 14,1% to a total of 15 329 units in the period from January to May this year compared with 17 854 new housing units built in the same period last year. In both the planning and construction phases more than 73% of the level of building activity this year occurred in the segments of smaller-sized houses and higher-density flats and townhouses. This has become a structural feature of the supply of new housing in the country over the past twenty years, driven by factors such as urbanisation, land scarcity, building costs, housing affordability, property-running costs (property rates and taxes; levies; electricity; etc) and changing lifestyles. Of the total number of 41 485 new houses, flats and townhouses reported to have been completed in 2013, as much as 74% were in the major metropolitan municipalities of Cape Town, Buffalo City, Nelson Mandela Bay, Ethekwini, Johannesburg, Tshwane and Ekurhuleni. These residential building statistics refer to private-sector financed housing, excluding government-subsidised low-cost housing.

Building confidence, based on the BER's building confidence index, dropped by 11 index points to a level of 41 in the second quarter of 2014 after a sustained upward trend since bottoming in the third quarter of 2012. This decline in building confidence was largely the result of a significantly lower level of confidence among building material manufacturers against the background of subdued building activity in especially the non-residential sector. The building confidence index measures prevailing business conditions in the building industry sub-sectors of architects, quantity surveyors, main building contractors, sub-contractors, manufacturers of building materials and retailers of building materials and hardware.

The largely subdued performance of the mortgage market continued in 2014 in view of trends in the economy, household finances, consumer credit-risk profiles, banks' risk appetite and lending criteria, consumer confidence and general conditions in the residential property market. As a result, the year-on-year growth in the value of outstanding household mortgage balances has remained below the 3% level since early 2013. Outstanding mortgage balances are the net result of property transactions, mortgage finance paid out, capital repayments on mortgage loans as well as loans fully paid up.

The variable mortgage interest rate is currently at a level of 9,25% per annum, after interest rates were hiked by 50 basis points in January and a further 25 basis points in July this year. The impact of changes in the mortgage interest rate is reflected in the relevant tables at the back of the report, presenting monthly mortgage repayments for various loan amounts at various interest rates, as well as mortgage loan amounts based on various fixed monthly repayments at various interest rates. These calculations are based on a 20-year repayment term.

House prices

Nominal year-on-year house price growth in the middle segment of the market (homes of 80m² — 400m² and priced up to R4 million in 2014) was relatively stable in the second quarter of 2014 compared with the first quarter. In the category of affordable housing nominal price growth accelerated in the second quarter, whereas price growth in the luxury segment tapered off further after a recent peak in the fourth quarter of 2013. Real house price growth was influenced by persistent upward pressure on consumer price inflation in the second quarter of the year. House prices continue to be driven by property market conditions, which were affected by a combination of macroeconomic developments, the state of household finances and the level of consumer confidence.

The nominal price of a property refers to the price at which it was valued or transacted on the open market, i.e. market price, selling or purchase price and is reflected in a valuation, an offer to purchase, an application for mortgage finance and the transfer documentation at registration.

The real price of a property is the nominal price adjusted for the effect of inflation, and is calculated to determine if the value of a property has increased at a rate above or below the inflation rate. In addition to the nominal price, real property price trends and growth are important from a property investment point of view.

The residential property price trends presented in this report are based on the value of properties for which Absa received and approved applications for mortgage finance. As a result, price movements may reflect changed market strategies and lending criteria implemented by the bank, impacting differently on the various segments of housing analysed. Real price calculations are based on nominal prices deflated by the headline consumer price index. All price data series are seasonally adjusted and smoothed in an attempt to exclude the distorting effect of seasonal factors and outliers, which may have the effect of recent price data and growth rates differing from previously published figures.

Affordable housing

Nominal year-on-year growth in the average price of affordable housing (homes of 40m² — 79m² and priced up to R545 000 in 2014) accelerated to 6,6%, with an average price of about R368 300 in the second quarter of 2014, after rising by 3,6% in the first quarter. Negligible real price inflation of 0,1% y/y was recorded in the second quarter after real price deflation for five consecutive quarters up to the first quarter of this year.

Middle-segment housing

The average nominal price of a home in the middle segment of the market (homes of 80m² — 400m² and priced at R4 million or less in 2014) increased by 8,8% y/y to around R1 257 900 in the second quarter of 2014 (8,7% y/y in the first quarter). Real price inflation in this category of housing came to 2,1% y/y in the second quarter of the year, down from 2,7% y/y in the first quarter.

The following price changes occurred in the three middle-segment categories in the second quarter of 2014:

- Small houses (80m² — 140m²): 11,4% y/y nominal and 4,6% y/y real
- Medium-sized houses (141m² — 220m²): 6,9% y/y nominal and 0,4% y/y real
- Large houses (221m² — 400m²): 6,8% y/y nominal and 0,3% y/y real

Luxury housing

The second quarter of 2014 saw the average price of luxury housing (homes priced at between R4 million and R14,6 million in 2014) rising by a nominal 2,6% y/y to a level of about R5,2 million, after prices had risen by 7% y/y in the first quarter. In real terms, the average price in this category of housing was down by 3,7% y/y in the second quarter of the year after rising by 1,1% y/y in the first quarter.

Regional house prices

At a provincial and metropolitan level, house prices continued to perform relatively well in most regions in nominal terms, with some real deflation evident in certain areas in the second quarter of 2014. However, house prices along the country's coast suffered in the second quarter of the year compared with a year ago, with low growth and even deflation recorded in nominal terms in some regions (see tables at the back of the report presenting house price trends at a geographical level).

The performance of the residential property market at geographical level is affected by national economic trends in general, but these regional markets may react differently to these developments as a result of various area-specific factors, such as location, physical infrastructure and the level and extent of economic development and growth. These factors may affect property demand and supply conditions, market activity, buying patterns, transaction volumes and price levels and growth.

New and existing housing

Growth in the average price of a new house slowed down further to a nominal 1,2% y/y in the second quarter of 2014 from 6,5% y/y in the first quarter, which brought the average price to about R1 789 400. In real terms the average price of a new house was down by 4,9% y/y in the second quarter. The average price of an existing house was up by a nominal 8,9% y/y to a level of around R1 228 300 in the second quarter of 2014, which resulted in real year-on-year price growth of 2,2% in the quarter. As a result, it was R561 100, or 31,4%, cheaper to have bought an existing house than to have had a new one built in the second quarter of last year.

Building costs

The cost of having a new house built increased by 7,6% y/y in the second quarter of 2014 (6,6% y/y in the first quarter), which was above the average consumer price inflation rate of 6,5% y/y for the quarter.

Factors impacting building costs, and eventually the price of new housing, include building material costs; equipment costs; transport costs; labour costs; developer and contractor profit margins; and the cost of developing land for residential purposes, which is impacted by aspects such as finance costs, land values, the cost of rezoning, the cost of preparing land for construction and holding costs in general.

Land values

The value of land for new housing in the middle and luxury segments of the market for which Absa received applications and approved mortgage finance, increased by a nominal 3,1% y/y to an average of about R587 400 in the second quarter of 2014, after having risen by 2,8% y/y in the preceding quarter. In real terms residential land values were down by 3,2% y/y in the second quarter of the year, after declining by a real 2,9% y/y in the first quarter.

The average price of land for new middle-segment and luxury housing, which amounted to 26,4% of the total value of a new residential property in these categories in the second quarter of 2014, will continue to reflect the all-important factor of location, as well as the availability of suitable land for development, the availability of municipal services such as electricity, water, sewerage and refuse removal, the availability and condition of transport infrastructure and the proximity to places of work, schools, shopping centres, medical facilities, etc.

Affordability of housing

The affordability of housing deteriorated somewhat further up to the first quarter of 2014, as reflected by the ratios of house prices and mortgage repayments to household disposable income (see graph on the affordability of housing). This was the net result of relatively stable growth of almost 9% y/y in nominal house prices and nominal disposable income growth of 7,1% y/y in the quarter, while the mortgage interest rate was hiked by 50 basis points to 9% per annum in late January.

Although the mortgage interest rate has increased, but is still low compared to historical trends, households' ability to take advantage of the relative affordability of housing are also affected by additional factors such as employment, income, savings, living costs, debt levels, as well as credit-risk profiles (as reflected by the state of consumer credit records), the NCA and banks' lending criteria in the case of mortgage loan applications for buying property.

A downward/upward trend in the abovementioned two housing affordability ratios implies that house prices and mortgage repayments are rising at a slower/faster pace than household disposable income. The result is that housing is in effect becoming more/less affordable.

Outlook

The global economy

The IMF expects world output to grow by a real 3,4% in 2014, rising to 4% in 2015, which will be the result of a continued gradual recovery in advanced economies, while steady to somewhat higher growth is projected for emerging market and developing countries in 2014-15. However, the IMF warns of some downside risks to the growth forecasts, such as increasing geopolitical tensions in various regions, a risk of stagnation in some advanced economies and especially a possibility of deflation in the euro area, whereas vulnerable emerging market economies may experience significant financial pressures if financial market sentiments are to change.

Economic growth in advanced economies is forecast at 1,8% in 2014, rising to 2,4% in 2015. Growth in the US is projected by the IMF to be marginally lower at 1,7% in 2014 from 1,9% in 2013, but is expected to accelerate to 3% in 2015. The strong showing by the US economy in the second quarter of this year, with will support economic growth for the full year. The tapering of quantitative easing in the US is set to continue unabatedly up to late this year, with expectations of higher interest rates during 2015 on the back of a growing economy and rising inflation, which are to affect international capital flows, especially with regard to emerging market and developing economies. As a result, the currencies of these countries may see some further depreciation, which will lead to upward pressure on inflation and interest rates.

After experiencing recessionary conditions in 2012 and 2013, economic activity in the euro area remains low and is forecast to post modest growth of only 1,1% in 2014, rising gradually to 1,5% in 2015. Monetary policy in the euro area is expected to remain accommodative for a prolonged period to support economic activity and prevent a situation of deflation. The economic recovery in the United Kingdom appears to be well on its way, with economic growth to rise to 3,2% this year from 1,7% in 2013, before slowing down somewhat to 2,7% in 2015. Monetary policy in the UK is expected to be tightened before the end of the year. The Japanese eeconomy is forecast to grow by a real 1,6% in 2014, before slowing down to 1,1% in 2015 as a result of fiscal tightening.

The IMF forecasts growth in real output in emerging market and developing economies to remain relatively stable at 4,6% in 2014 compared with 4,7% in 2013, rising to 5,2% in 2015. In China, which is the world's second biggest economy, output growth is forecast to slow to 7,4% in 2014 and 7,1% in 2015, while Chinese authorities have put some measures in place to support economic activity.

Sub-Saharan Africa is expected to record real growth of 5,4% in 2014, unchanged from 2013, with growth to rise to 5,8% in 2015. The main risks to growth in this part of the world remains the performance of the global economy, including China, and trends in commodity prices, which will be reflected in the performance of exports. The region also remains vulnerable to severe weather conditions, which may have a major impact on food production and food price inflation.

Inflation in advanced economies is forecast by the IMF to remain largely under control at 1,6% and 1,7% in 2014 and 2015 respectively, with inflation in emerging market and developing economies projected to subside to 5,4% in 2014 and 5,3% in 2015, from 5,9% in 2013. Lower commodity prices in US dollar terms should contribute to soften price pressures, but any significant depreciation in emerging market exchange rates may cause upward pressure on inflation and interest rates in these countries.

The South African economy

Although the global economy is showing signs of an uptick in growth, the forecast by Barclays Research is for South Africa's economic growth to slow down to a real 1,5% in 2014 from 1,9% in 2013, before rising to 2,8% in 2015. The forecasts by the IMF and the Reserve Bank is for growth of 1,7% this year and 2,7% to 2,9% next year. Expected higher export growth will support the country's economic performance on the back of some further improvement in global growth and a weaker rand exchange rate compared with last year. Growth in domestic demand is projected to be up by less than 1% in 2014, which will be a reflection of relatively low levels of confidence and financial strain experienced by consumers and the business sector on the back of upward pressure on inflation and interest rates. With continued electricity supply constraints and labour market tensions, the outlook for economic growth remains on the downside. As a result, employment and household income growth is set to stay under downward pressure, adversely affecting consumers' financial position and credit-risk profiles. The household sector is still a major driver of economic activity, with private consumption expenditure having a share of 60,3% in the country's total gross domestic product in the first quarter of the year.

Headline consumer price inflation remains under upward pressure and recently moved above the upper limit of the inflation target range of 3%-6%. The forecast is that inflation will remain above the 6% level into the second quarter of 2015, with the main risks to the outlook being movements in and developments regarding the exchange rate, food prices, wage demands and administered prices such as fuel prices, electricity prices and property assessment rates.

The abovementioned expectations regarding economic growth and inflation pose an increasing risk of the economy falling into a state of stagflation, where growth and demand stagnate, while inflation and unemployment remain high.

Domestic interest rates are forecast to rise somewhat further during the remainder of 2014 and through 2015 on the back of current trends in and prospects for the global and local economy, financial conditions and sentiment, as well as the outlook for consumer price inflation. Prime lending and variable mortgage interest rates, currently at 9,25%, are forecast to end the year at a level of 9,5% per annum, rising to 10,5% by the end of 2015.

The household sector

The factors of economic growth, employment, income, debt, inflation and interest rates will remain important to the state of and trends in household finances, with the following prospects for the major household sector-related variables in 2014-15:

- Growth in employment is forecast to remain largely subdued.
- Growth in real household disposable income is projected at 1,2% in 2014, rising to just below 2% in 2015, driven by economic growth, employment and inflation.
- Household consumption expenditure is projected to grow at a real 1,3% in 2014 and 2% in 2015, and to remain closely correlated with disposable income growth on the back of low savings and inflationary pressures.
- The ratio of household consumption expenditure to GDP is forecast at around 60% for both 2014 and 2015, emphasising the continued importance of the consumer sector in overall economic activity.

- Expected further hikes in lending rates will dampen the affordability and accessibility of and demand for credit, with the household debt-to-income ratio to subside to 74,3% in 2014 and 73,6% in 2015 from a level of 75,2% in 2013.
- The cost of servicing household debt as a percentage of disposable income will rise in conjunction with rising lending rates.
- Consumers' credit-risk profiles will remain a key factor in the accessibility of credit and growth in household consumption expenditure.

The property market

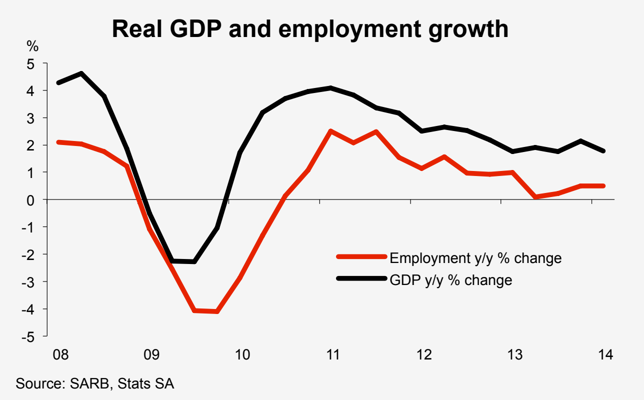
The residential property market will continue to be driven by economic growth, employment and household income growth, property running costs and living costs in general, interest rates, consumers' credit-risk profiles, banks' risk appetite and lending criteria and consumer confidence. These factors will affect the affordability of housing and mortgage finance, which will be evident in trends in property demand and supply, property prices, market activity, buying patterns, transaction volumes and the demand for mortgage finance.

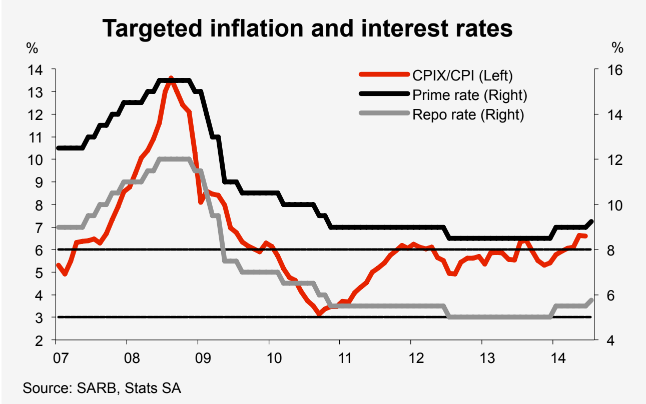
Taking account of trends in and prospects for the economy and household finances, as well as house price growth in the first half of the year, single-digit nominal price growth is set to continue during the remainder of 2014 and in 2015. Real house price growth will be the result of the combined effect of nominal price trends and inflation, with only marginal real price inflation projected for this year and next year.

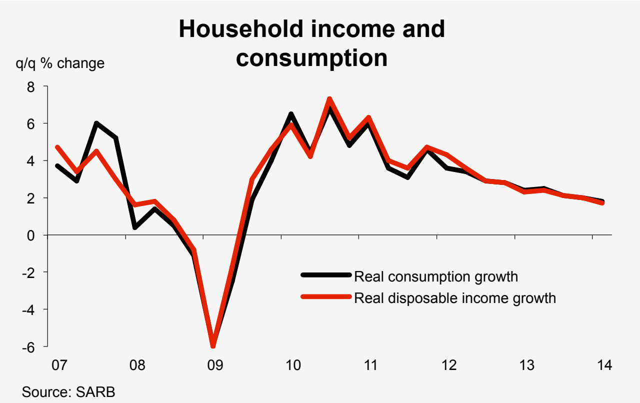
Outstanding household mortgage balances, which remained subdued at just above 2% y/y up to the middle of the year, is expected to continue to record low single-digit growth up to year-end and in 2015.

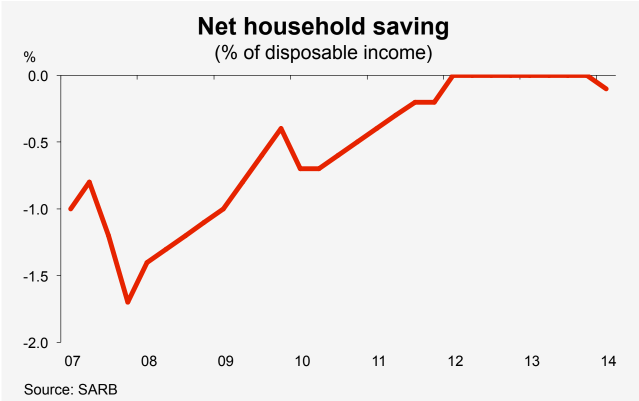
Residential building activity will continue to be driven by economic, consumer and housing demand and supply factors. The demand for new housing, trends in the secondary market for homes, changing lifestyles, the availability of serviced development land and building costs will also be important factors affecting residential building activity. In view of these factors, the demand for and supply of new housing is expected to remain focused on the smaller-sized houses and higher-density flats and townhouses segments, which accounted for more than 73% of new private sector-financed housing units built from 1994 up to the middle of 2014.

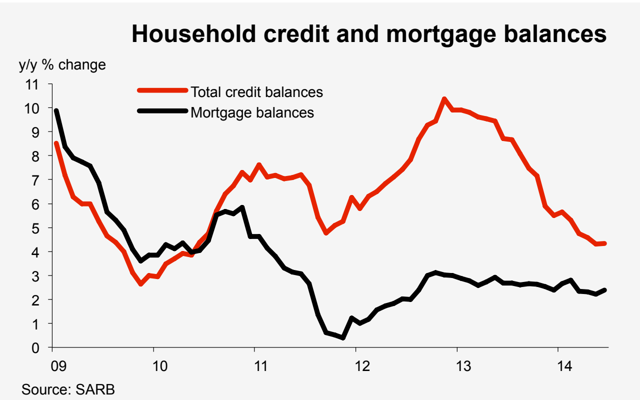
Graphs

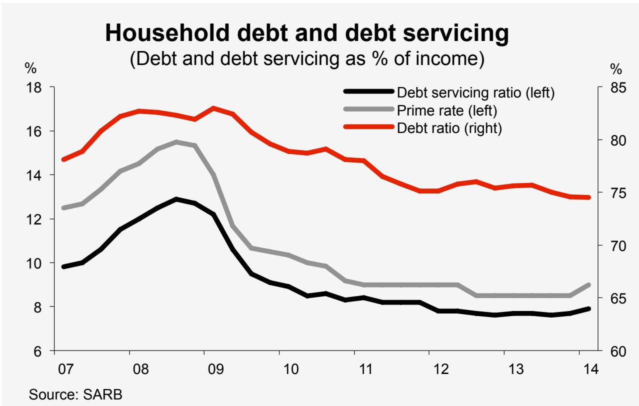

Real GDP and employment growth
%
5
4
3
2
1
0
-1
-2
-3
-4
-5
08
09
10
11
12
13
14
Employment y/y % change
GDP y/y % change
Source: SARB, Stats SA

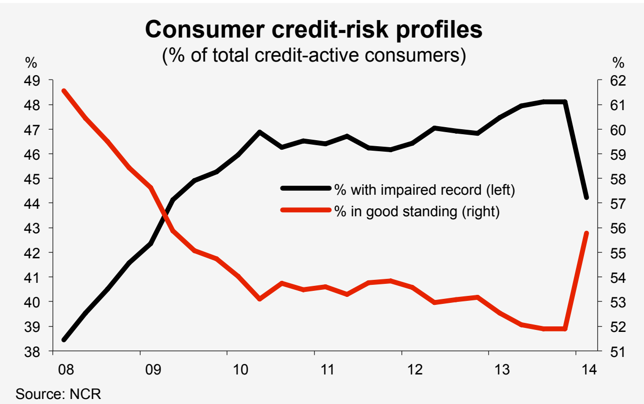

Targeted inflation and interest rates
%
14
13
12
11
10
9
8
7
6
5
4
3
2
%
16
14
12
10
8
6
4
07
08
09
10
11
12
13
14
CPIX/CPI (Left)
Prime rate (Right)
Repo rate (Right)
Source: SARB, Stats SA

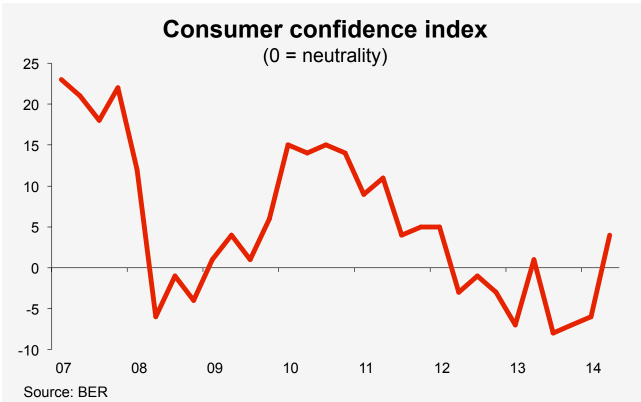

Household income and consumption
q/q % change
8
6
4
2
0
-2
-4
-6
07
08
09
10
11
12
13
14
Real consumption growth
Real disposable income growth
Source: SARB

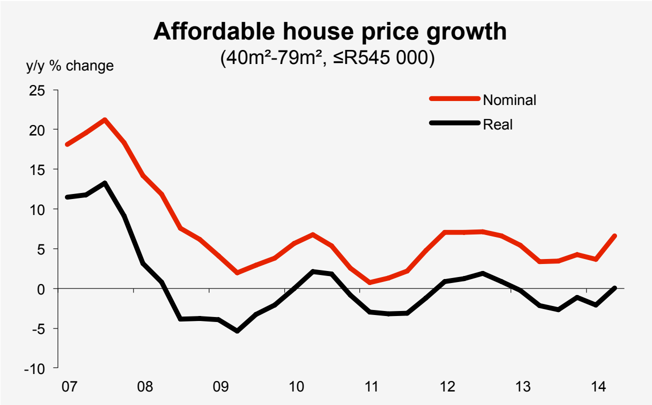

Net household saving
(% of disposable income)
%
0.0
-0.5
-1.0
-1.5
-2.0
07
08
09
10
11
12
13
14
Source: SARB

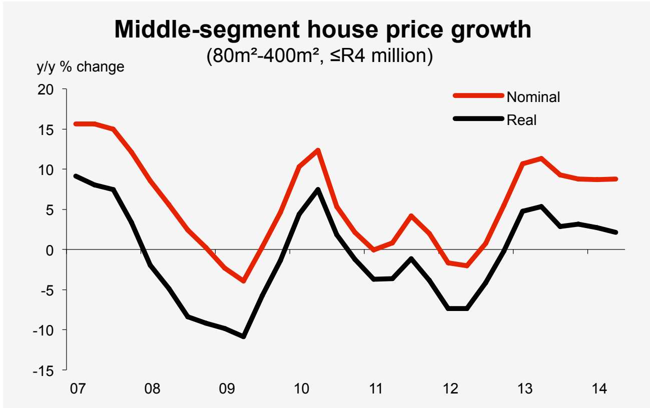

Household credit and mortgage balances
y/y % change
11
10
9
8
7
6
5
4
3
2
1
0
09
10
11
12
13
14
Total credit balances
Mortgage balances
Source: SARB

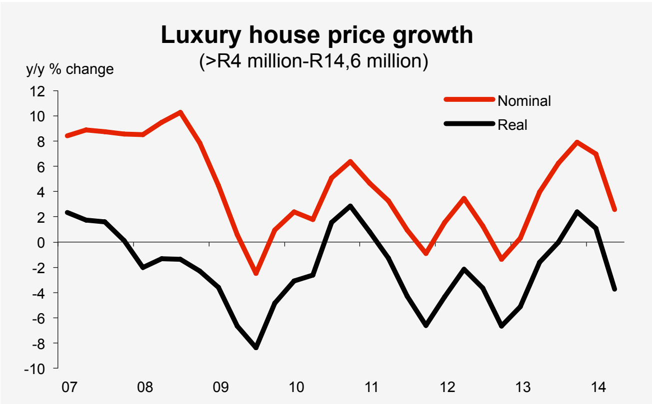

Household debt and debt servicing
(Debt and debt servicing as % of income)
%
18
16
14
12
10
8
6
%
85
80
75
70
65
60
07
08
09
10
11
12
13
14
Debt servicing ratio (left)
Prime rate (left)
Debt ratio (right)
Source: SARB

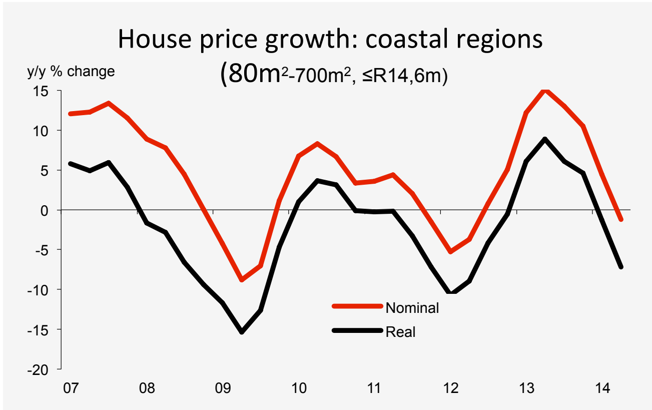

Consumer credit-risk profiles
(% of total credit-active consumers)
%
49
48
47
46
45
44
43
42
41
40
39
38
%
62
61
60
59
58
57
56
55
54
53
52
51
08
09
10
11
12
13
14
% with impaired record (left)
% in good standing (right)
Source: NCR

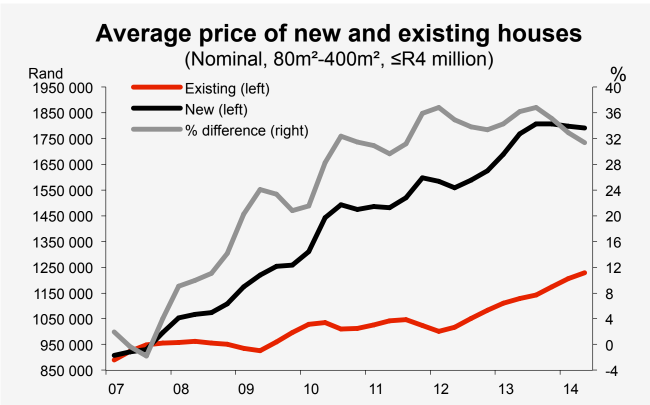

Consumer confidence index
(0 = neutrality)
25
20
15
10
5
0
-5
-10
07
08
09
10
11
12
13
14
Source: BER

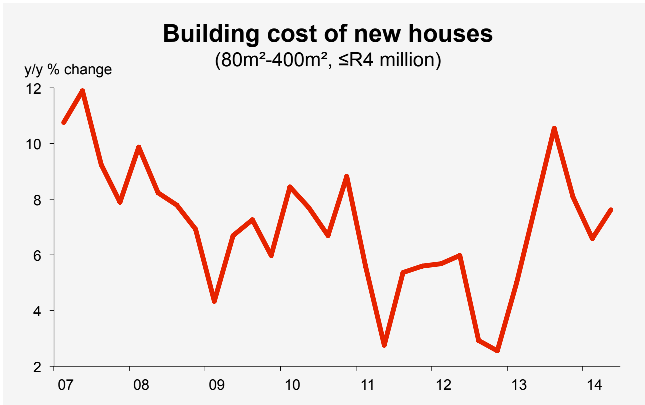

Affordable house price growth
(40m²-79m², ≤R545 000)
y/y % change
Nominal
Real
25
20
15
10
5
0
-5
-10
07
08
09
10
11
12
13
14

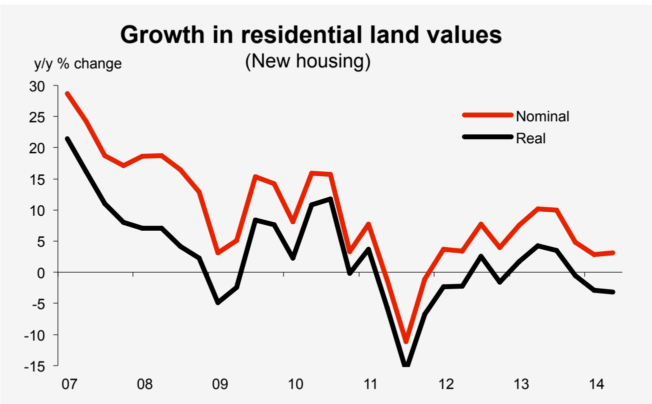

Middle-segment house price growth
(80m²-400m², ≤R4 million)
y/y % change
Nominal
Real
20
15
10
5
0
-5
-10
-15
07
08
09
10
11
12
13
14

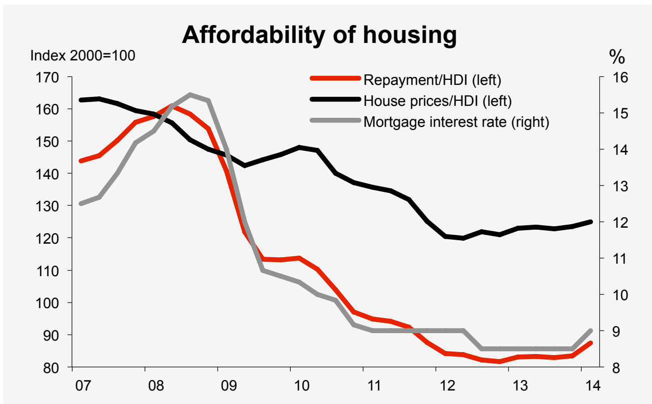

Luxury house price growth
(>R4 million-R14,6 million)
y/y % change
Nominal
Real
12
10
8
6
4
2
0
-2
-4
-6
-8
-10
07
08
09
10
11
12
13
14


House price growth: coastal regions
(80m²-700m², ≤R14,6m)
y/y % change
Nominal
Real
15
10
5
0
-5
-10
-15
-20
07
08
09
10
11
12
13
14


Average price of new and existing houses
(Nominal, 80m²-400m², ≤R4 million)
Rand
%
Existing (left)
New (left)
% difference (right)
1950 000
1850 000
1750 000
1650 000
1550 000
1450 000
1350 000
1250 000
1150 000
1050 000
950 000
850 000
40
36
32
28
24
20
16
12
8
4
0
-4
07
08
09
10
11
12
13
14


Building cost of new houses
(80m²-400m², ≤R4 million)
y/y % change
12
10
8
6
4
2
07
08
09
10
11
12
13
14


Growth in residential land values
(New housing)
y/y % change
Nominal
Real
30
25
20
15
10
5
0
-5
-10
-15
07
08
09
10
11
12
13
14


Affordability of housing
Index 2000=100
%
Repayment/HDI (left)
House prices/HDI (left)
Mortgage interest rate (right)
170
160
150
140
130
120
110
100
90
80
16
15
14
13
12
11
10
9
8
07
08
09
10
11
12
13
14

Average nominal house prices

	2010	2011	2012	2013	2013			2014			
	Rand	Rand	Rand	Rand	Q2	Q3	Q4	Q1	Q2		
					Rand	Rand	Rand	Rand	Rand	q/q %Δ	y/y %Δ
National											
Middle segment (80m²-400m², ≤R4m)	1 036 406	1 054 357	1 060 768	1 166 635	1 156 215	1 173 839	1 201 791	1 233 753	1 257 883	2.0	8.8
Small (80m²-140m², ≤R4m)	775 599	739 157	702 477	753 238	739 630	759 151	767 111	787 947	823 800	4.6	11.4
Medium (141m²-220m², ≤R4m)	970 115	986 381	1 017 994	1 078 197	1 069 439	1 076 064	1 097 645	1 132 591	1 143 377	1.0	6.9
Large (221m²-400m², ≤R4m)	1 446 373	1 480 620	1 517 920	1 659 723	1 653 463	1 674 744	1 700 057	1 735 453	1 766 073	1.8	6.8
New (80m²-400m², ≤R4m)	1 430 013	1 520 913	1 588 804	1 767 390	1 767 396	1 806 203	1 807 370	1 797 928	1 789 442	-0.5	1.2
Existing (80m²-400m², ≤R4m)	1 021 323	1 034 612	1 037 671	1 138 235	1 128 089	1 141 187	1 172 840	1 206 493	1 228 337	1.8	8.9
Affordable (40m²-79m², ≤R545 000)	307 507	315 058	336 216	350 347	345 524	350 343	357 759	359 440	368 330	2.5	6.6
Luxury (R4m-R14,6m)	4 675 510	4 762 758	4 822 063	5 055 070	5 069 178	5 099 544	5 132 419	5 243 479	5 199 370	-0.8	2.6
Provinces											
Eastern Cape	908 930	891 073	906 166	963 694	933 590	970 979	1 016 231	1 033 685	1 055 691	2.1	13.1
Free State	840 440	892 529	870 137	943 374	945 779	930 766	959 637	1 038 006	1 106 867	6.6	17.0
Gauteng	1 082 248	1 116 568	1 102 960	1 204 382	1 195 693	1 218 443	1 241 971	1 272 003	1 296 941	2.0	8.5
KwaZulu-Natal	922 735	965 265	936 844	1 084 946	1 073 514	1 080 011	1 116 180	1 168 933	1 134 812	-2.9	5.7
Limpopo	890 062	879 431	926 581	1 017 882	1 017 192	1 011 874	1 019 329	1 037 718	1 057 333	1.9	3.9
Mpumalanga	854 525	903 131	928 239	1 025 521	1 018 104	1 023 618	1 042 516	1 081 513	1 108 702	2.5	8.9
North West	838 113	844 287	872 505	918 537	908 256	934 905	962 246	945 253	933 474	-1.2	2.8
Northern Cape	784 661	776 046	867 561	997 454	1 033 228	977 163	999 339	1 095 641	1 100 881	0.5	6.5
Western Cape	1 175 368	1 157 188	1 194 838	1 294 894	1 294 076	1 303 452	1 331 783	1 377 294	1 405 048	2.0	8.6
Metropolitan regions											
PE/Uitenhage (Eastern Cape)	900 070	862 413	861 136	907 349	899 294	922 310	930 053	927 558	926 254	-0.1	3.0
East London (Eastern Cape)	1 047 023	991 712	1 064 028	1 157 603	1 117 469	1 209 972	1 258 761	1 267 090	1 267 691	0.0	13.4
Bloemfontein (Free State)	1 093 334	1 107 557	1 104 695	1 210 150	1 222 739	1 180 695	1 231 160	1 348 308	1 445 416	7.2	18.2
Greater Johannesburg (Gauteng)	1 107 261	1 161 097	1 132 987	1 213 355	1 210 485	1 223 016	1 243 052	1 286 838	1 313 376	2.1	8.5
Johannesburg Central & South	906 554	901 702	868 126	866 576	863 660	862 277	879 614	960 635	1 012 060	5.4	17.2
Johannesburg North & West	1 390 810	1 408 810	1 424 784	1 499 300	1 474 253	1 496 874	1 554 187	1 625 171	1 679 498	3.3	13.9
East Rand	955 048	1 022 073	1 016 575	1 109 727	1 116 103	1 133 861	1 115 426	1 115 378	1 141 420	2.3	2.3
Pretoria (Gauteng)	1 165 078	1 183 019	1 181 499	1 312 806	1 299 056	1 337 666	1 368 062	1 392 598	1 444 331	3.7	11.2
Durban/Pinetown (KwaZulu-Natal)	1 000 068	1 019 462	1 001 950	1 093 755	1 059 274	1 094 193	1 119 954	1 135 897	1 159 071	2.0	9.4
Cape Town (Western Cape)	1 198 714	1 181 782	1 237 724	1 341 609	1 343 189	1 346 888	1 383 350	1 442 279	1 486 233	3.0	10.6
Coastal regions											
South Africa	1 206 840	1 232 281	1 221 837	1 376 758	1 383 799	1 394 511	1 399 015	1 389 210	1 367 465	-1.6	-1.2
Western Cape	1 274 984	1 318 755	1 315 629	1 467 736	1 457 647	1 487 785	1 531 257	1 512 579	1 465 479	-3.1	0.5
West Coast	1 245 798	1 336 726	1 234 735	1 400 797	1 309 046	1 473 276	1 543 227	1 372 332	1 382 111	0.7	5.6
Cape Peninsula and False Bay	1 243 656	1 273 667	1 312 848	1 493 682	1 486 914	1 484 871	1 564 741	1 586 665	1 476 321	-7.0	-0.7
Southern Cape	1 375 110	1 429 303	1 357 611	1 446 603	1 435 278	1 497 597	1 464 469	1 429 391	1 473 200	3.1	2.6
Eastern Cape	1 083 109	1 078 981	1 112 900	1 102 934	1 083 063	1 120 008	1 139 674	1 092 481	1 088 916	-0.3	0.5
KwaZulu-Natal	1 195 624	1 276 855	1 194 439	1 483 037	1 519 107	1 505 243	1 440 036	1 544 972	1 414 474	-8.4	-6.9
South Coast	1 072 438	1 021 606	1 004 461	1 082 895	1 062 722	1 137 621	1 141 442	1 118 446	1 098 051	-1.8	3.3
North Coast	1 277 294	1 405 325	1 321 823	1 678 727	1 716 462	1 634 407	1 639 098	1 679 023	1 651 791	-1.6	-3.8

House prices are based on the total smoothed purchase price of houses (including all improvements) in respect of which loan applications were approved by Absa Bank.

House prices for the provinces and metropolitan regions are smoothed for all houses between 80m² and 400m², up to R4 million in 2014.

House prices for the coastal regions are smoothed for all houses between 80m² and 700m², up to R14,6 million in 2014.

Key variables and projections

Annual averages

		2008	2009	2010	2011	2012	2013	2014	2015
World									
Gross domestic product	Real % Δ	2.7	-0.4	5.2	3.9	3.5	3.2	3.4	4.0
Advanced economies	Real % Δ	0.1	-3.4	3.0	1.7	1.4	1.3	1.8	2.4
Emerging market and developing economies	Real % Δ	5.9	3.1	7.5	6.3	5.1	4.7	4.6	5.2
South Africa									
Gross domestic product	Real % Δ	3.6	-1.5	3.1	3.6	2.5	1.9	1.5	2.8
$/R exchange rate	Rand per US$	8.25	8.44	7.32	7.25	8.21	9.65	10.93	11.35
Headline consumer price inflation rate	%	11.0	-15.4	4.3	5.0	5.7	5.7	6.5	5.9
Mortgage interest rate (end of period)	%	15.0	10.5	9.0	9.0	8.5	8.5	9.5	10.5
Household disposable income	Real % Δ	2.2	-1.1	4.5	5.2	3.8	2.5	1.2	1.9
Household final consumption expenditure	Real % Δ	2.2	-1.6	4.4	4.9	3.5	2.6	1.3	2.0
Household final consumption expenditure	% of GDP	61.7	60.7	59.3	59.4	60.8	60.8	60.4	59.9
Household saving to disposable income	%	-1.2	-0.7	-0.6	-0.3	0.0	0.0	-0.1	-0.1
Household debt to disposable income	%	82.4	81.4	78.7	76.4	75.6	75.2	74.3	73.6
House prices (80m²-400m², ≤R4m)	Nominal % Δ	4.1	-0.4	7.4	1.7	0.6	10.0	7.8	6.3
House prices (80m²-400m², ≤R4m)	Real % Δ	-6.2	-7.0	3.0	-3.1	-4.8	4.0	1.3	0.3

Source: IMF, SARB, Stats SA, Absa

Average nominal house prices by middle-segment category in the second quarter 2014

	Small: 80m² - 140m²			Medium: 141m² - 220m²			Large: 221m² - 400m²		
	Price Rand	q/q %Δ	y/y %Δ	Price Rand	q/q %Δ	y/y %Δ	Price Rand	q/q %Δ	y/y %Δ
National and Provinces									
South Africa	823 800	4.6	11.4	1 143 377	1.0	6.9	1 766 073	1.8	6.8
Eastern Cape	687 647	2.7	12.8	927 246	-0.4	-1.0	1 555 746	-2.2	0.5
Free State	712 218	-3.9	-10.5	896 428	-2.1	14.1	1 464 896	16.3	24.1
Gauteng	842 062	2.0	9.8	1 144 484	0.4	8.0	1 884 943	4.2	13.5
KwaZulu-Natal	684 192	-1.2	6.5	1 055 147	0.2	2.8	1 566 981	-2.6	0.4
Mpumalanga	802 128	5.4	15.5	1 053 898	2.2	7.2	1 438 435	2.2	3.0
North West	658 740	-2.1	12.9	886 309	-1.5	1.9	1 244 426	-5.4	0.8
Northern Cape	616 967	0.3	6.7	1 101 103	-0.5	5.8	1 533 081	-1.4	-5.5
Limpopo	738 834	4.4	22.6	1 010 024	6.3	2.5	1 391 012	3.4	3.9
Western Cape	941 424	6.2	13.5	1 336 548	0.0	5.6	2 014 762	1.5	4.9
Metropolitan regions									
PE/Uitenhage (Eastern Cape)	641 378	-3.0	9.0	759 921	-11.2	-14.9	1 448 403	-5.5	-4.4
East London (Eastern Cape)	817 074	1.9	11.9	1 026 291	-3.0	-6.1	1 823 938	-3.7	9.6
Bloemfontein (Free State)	796 521	-9.1	-15.7	1 151 580	-2.5	5.7	1 872 642	10.6	23.6
Greater Johannesburg (Gauteng)	914 164	0.8	13.0	1 198 832	6.3	13.5	1 882 557	3.9	13.9
Johannesburg Central & South	592 523	-1.4	13.4	906 018	3.0	9.1	1 548 385	9.1	10.8
Johannesburg North & West	817 190	-1.6	-2.6	1 450 371	13.4	14.1	2 177 729	5.4	18.4
East Rand	1 039 190	4.6	16.2	1 103 488	4.5	17.0	1 552 220	-0.9	3.1
Pretoria (Gauteng)	777 279	1.6	9.7	1 230 553	0.1	7.1	2 012 291	4.3	10.5
Durban/Pinetown (KwaZulu-Natal)	729 939	4.3	9.3	979 859	0.8	-6.6	1 656 440	-3.4	-1.9
Cape Town (Western Cape)	1 003 125	7.0	14.9	1 479 212	1.3	9.4	2 178 007	2.6	10.2

Monthly mortgage repayment

(rand, calculated over a period of 20 years)

Mortgage	Repayment at a mortgage rate of													
amount	9.00%	9.25%	9.50%	9.75%	10.0%	10.25%	10.50%	10.75%	11.00%	11.25%	11.50%	11.75%	12.00%	12.25%
100 000	900	916	932	949	965	982	998	1 015	1 032	1 049	1 066	1 084	1 101	1 119
200 000	1 799	1 832	1 864	1 897	1 930	1 963	1 997	2 030	2 064	2 099	2 133	2 167	2 202	2 237
300 000	2 699	2 748	2 796	2 846	2 895	2 945	2 995	3 046	3 097	3 148	3 199	3 251	3 303	3 356
400 000	3 599	3 663	3 729	3 794	3 860	3 927	3 994	4 061	4 129	4 197	4 266	4 335	4 404	4 474
500 000	4 499	4 579	4 661	4 743	4 825	4 908	4 992	5 076	5 161	5 246	5 332	5 419	5 505	5 593
600 000	5 398	5 495	5 593	5 691	5 790	5 890	5 990	6 091	6 193	6 296	6 399	6 502	6 607	6 711
700 000	6 298	6 411	6 525	6 640	6 755	6 872	6 989	7 107	7 225	7 345	7 465	7 586	7 708	7 830
800 000	7 198	7 327	7 457	7 588	7 720	7 853	7 987	8 122	8 258	8 394	8 531	8 670	8 809	8 949
900 000	8 098	8 243	8 389	8 537	8 685	8 835	8 985	9 137	9 290	9 443	9 598	9 753	9 910	10 067
1 000 000	8 997	9 159	9 321	9 485	9 650	9 816	9 984	10 152	10 322	10 493	10 664	10 837	11 011	11 186
1 500 000	13 496	13 738	13 982	14 228	14 475	14 725	14 976	15 228	15 483	15 739	15 996	16 256	16 516	16 778
2 000 000	17 995	18 317	18 643	18 970	19 300	19 633	19 968	20 305	20 644	20 985	21 329	21 674	22 022	22 371
2 500 000	22 493	22 897	23 303	23 713	24 126	24 541	24 959	25 381	25 805	26 231	26 661	27 093	27 527	27 964

Mortgage amount at fixed monthly repayment

(rand, calculated over a period of 20 years)

Mortgage	Mortgage amount at a mortgage rate of													
repayment	9.00%	9.25%	9.50%	9.75%	10.0%	10.25%	10.50%	10.75%	11.00%	11.25%	11.50%	11.75%	12.00%	12.25%
1 000	111 145	109 186	107 281	105 428	103 625	101 870	100 162	98 500	96 882	95 306	93 771	92 276	90 819	89 400
2 000	222 290	218 372	214 562	210 856	207 249	203 740	200 325	197 000	193 763	190 611	187 542	184 552	181 639	178 801
3 000	333 435	327 559	321 843	316 283	310 874	305 610	300 487	295 500	290 645	285 917	281 313	276 828	272 458	268 201
4 000	444 580	436 745	429 124	421 711	414 498	407 480	400 649	394 000	387 526	381 222	375 083	369 103	363 278	357 601
5 000	555 725	545 931	536 405	527 139	518 123	509 350	500 811	492 500	484 408	476 528	468 854	461 379	454 097	447 001
6 000	666 870	655 117	643 686	632 567	621 748	611 220	600 974	591 000	581 289	571 834	562 625	553 655	544 916	536 402
7 000	778 015	764 303	750 967	737 994	725 372	713 090	701 136	689 500	678 171	667 139	656 396	645 931	635 736	625 802
8 000	889 160	873 489	858 248	843 422	828 997	814 960	801 298	788 000	775 052	762 445	750 167	738 207	726 555	715 202
9 000	1 000 305	982 676	965 529	948 850	932 622	916 830	901 460	886 500	871 934	857 751	843 938	830 483	817 375	804 603
10 000	1 111 450	1 091 862	1 072 810	1 054 278	1 036 246	1 018 700	1 001 623	984 999	968 815	953 056	937 708	922 759	908 194	894 003
15 000	1 667 174	1 637 793	1 609 216	1 581 416	1 554 369	1 528 050	1 502 434	1 477 499	1 453 223	1 429 584	1 406 563	1 384 138	1 362 291	1 341 004
20 000	2 222 899	2 183 724	2 145 621	2 108 555	2 072 492	2 037 400	2 003 245	1 969 999	1 937 631	1 906 112	1 875 417	1 845 517	1 816 388	1 788 006
25 000	2 778 624	2 729 654	2 682 026	2 635 694	2 590 615	2 546 750	2 504 057	2 462 499	2 422 038	2 382 641	2 344 271	2 306 896	2 270 485	2 235 007