



# FNB HOUSE PRICE INDEX

- Price deflation continues in May

HOME LOANS DIVISION

1 June 2009

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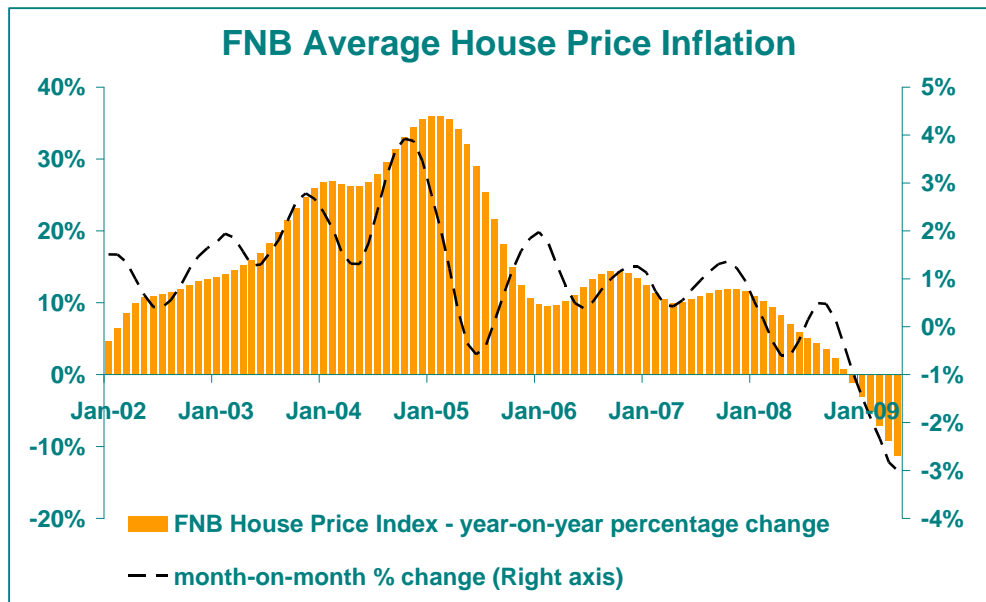
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## MAY HOUSE PRICE DEFLATION CONTINUES, AND WE HAVE TO WAIT A LITTLE LONGER FOR ANY POSITIVE EFFECT FROM INTEREST RATE CUTS TO BECOME VISIBLE

The FNB House Price Index's decline continued in May, declining year-on-year to the tune of -11.3%. This represents a deterioration on the revised -9.2% rate of year-on-year decline recorded for April, and was the 6<sup>th</sup> consecutive month of year-on-year decline in the house price index.

On a month-on-month basis, the rate of deflation was -3% in April.

The price deflation is the result of a sizeable oversupply that has built up in the residential market, with selling due to financial pressure being a key driver of supply. With SA officially now in recession, conditions in the South African economy are hampering the pace of residential demand growth despite a series of interest rate cuts having already taken place.



*Note: The FNB House Price Series is constructed\* using the average value of housing transactions financed by FNB. In order to eliminate outliers from the data sample, transaction values included in the sample must be above 70% of FNB Valuations Division's valuation of the property but below 130%, while purchase prices recorded as above R10m are excluded. In order to reduce the impact on the index of rapid short term changes in weightings of different property segments, due to relative shifts in transaction volumes, the weightings of key market segments split by room number are kept constant at their 5-year average weighting. A statistical smoothing function is applied to the data.*

*\*data compiled by Ewald Kellerman and John Loos, FNB Home Loans.*

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## OUTLOOK

Domestic interest rates have now declined by 450 basis points in total since the start of rate cutting in December 2008. This should bring some stimulus to a very credit-sensitive market such as the residential property market. However, unlike the 2003 aggressive interest rate cutting which took place in good global and local economic times, the current stimulus from interest rates is to a great extent offset by an economic recession which contains growth in household purchasing power.

As such, the expectation of nothing more than a very mild improvement in residential demand during 2009 continues, and with oversupplies still believed to exist on the market, house price deflation is expected to be with us for most of 2009. However, I believe that the worst year-on-year price deflation will show in the figures around mid-year, and that during the second half of the year we'll begin to see the rate of decline subsiding.

At the most recent SARB interest rate meeting, the Governor did begin to prepare the market for a possible pause in interest rate cutting, so although all future interest rate decisions depend on how future economic events unfold, we should not expect too much in the way of interest rate cutting from here forward.

Monthly FNB House Price Average (Rand)											
Date			Date			Date			Date		
Jul-00	267,816		Feb-03	326,313	14.0%	Sep-05	568,297	18.2%	Apr-08	751,297	8.4%
Aug-00	266,127		Mar-03	332,377	14.6%	Oct-05	574,906	15.0%	May-08	746,725	7.1%
Sep-00	265,048		Apr-03	337,582	15.3%	Nov-05	583,983	12.5%	Jun-08	744,598	6.0%
Oct-00	265,316		May-03	341,893	16.0%	Dec-05	594,758	10.7%	Jul-08	745,688	5.1%
Nov-00	266,749		Jun-03	346,341	17.0%	Jan-06	606,499	9.9%	Aug-08	749,377	4.4%
Dec-00	268,479		Jul-03	351,687	18.3%	Feb-06	617,198	9.5%	Sep-08	752,953	3.6%
Jan-01	269,354		Aug-03	358,085	19.8%	Mar-06	625,097	9.6%	Oct-08	754,239	2.4%
Feb-01	268,707		Sep-03	366,063	21.4%	Apr-06	630,325	10.2%	Nov-08	751,329	0.7%
Mar-01	267,178		Oct-03	375,698	23.2%	May-06	633,427	11.1%	Dec-08	744,107	-1.2%
Apr-01	266,215		Nov-03	386,151	24.8%	Jun-06	635,872	12.2%	Jan-09	733,260	-3.1%
May-01	266,186		Dec-03	396,423	26.0%	Jul-06	639,138	13.3%	Feb-09	719,202	-5.1%
Jun-01	266,725		Jan-04	405,884	26.8%	Aug-06	644,111	14.1%	Mar-09	702,377	-7.1%
Jul-01	267,203	-0.2%	Feb-04	414,190	26.9%	Sep-06	650,524	14.5%	Apr-09	682,524	-9.2%
Aug-01	268,045	0.7%	Mar-04	420,587	26.5%	Oct-06	658,044	14.5%	May-09	662,033	-11.3%
Sep-01	269,339	1.6%	Apr-04	426,125	26.2%	Nov-06	666,333	14.1%			
Oct-01	271,094	2.2%	May-04	431,708	26.3%	Dec-06	674,714	13.4%			
Nov-01	273,932	2.7%	Jun-04	439,248	26.8%	Jan-07	682,309	12.5%			
Dec-01	277,716	3.4%	Jul-04	449,911	27.9%	Feb-07	687,341	11.4%			
Jan-02	281,910	4.7%	Aug-04	463,980	29.6%	Mar-07	690,451	10.5%			
Feb-02	286,156	6.5%	Sep-04	480,989	31.4%	Apr-07	693,388	10.0%			
Mar-02	290,001	8.5%	Oct-04	499,853	33.0%	May-07	697,202	10.1%			
Apr-02	292,890	10.0%	Nov-04	519,218	34.5%	Jun-07	702,563	10.5%			
May-02	294,829	10.8%	Dec-04	537,179	35.5%	Jul-07	709,337	11.0%			
Jun-02	296,042	11.0%	Jan-05	552,006	36.0%	Aug-07	717,491	11.4%			
Jul-02	297,233	11.2%	Feb-05	563,398	36.0%	Sep-07	726,871	11.7%			
Aug-02	298,910	11.5%	Mar-05	570,241	35.6%	Oct-07	736,752	12.0%			
Sep-02	301,439	11.9%	Apr-05	571,961	34.2%	Nov-07	745,844	11.9%			
Oct-02	305,044	12.5%	May-05	570,003	32.0%	Dec-07	752,966	11.6%			
Nov-02	309,510	13.0%	Jun-05	566,707	29.0%	Jan-08	756,922	10.9%			
Dec-02	314,582	13.3%	Jul-05	564,239	25.4%	Feb-08	758,116	10.3%			
Jan-03	320,099	13.5%	Aug-05	564,663	21.7%	Mar-08	755,851	9.5%			

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The House Price Indices are of a general nature, and should be seen as attempts to indicate important trends in the broader market, and should not be seen as being accurate indicators of specific properties' values or price inflation rates.