how can we help you?

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PROPERTY BAROMETER – APRIL FNB HOUSE PRICE INDEX

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April FNB House Price Index shows further year-on-year acceleration, but a moderation in coming months is expected.

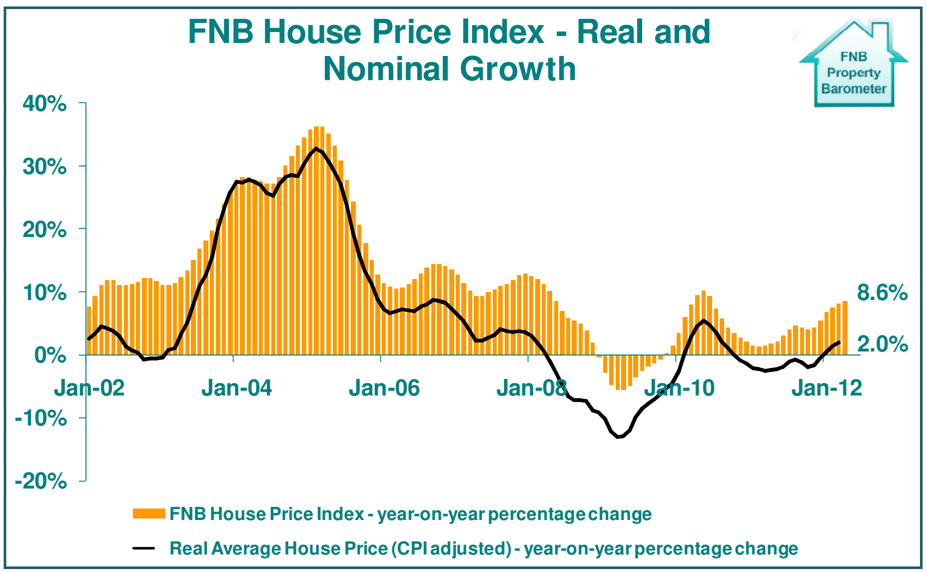
HOUSE PRICE GROWTH ACCELERATED FURTHER IN APRIL

The FNB House Price Index showed a further acceleration in April, up from a *revised March growth rate of 8.1% to 8.6% year-on-year. This is the highest year-on-year growth since June 2010.*

In real terms, too, as at March the index showed a mild increase to the tune of +2% year-on-year, with consumer price inflation in that month having come in at 6%.

This still means that since the real house price peak reached in February 2008, real house prices (house prices adjusted for CPI inflation over the period) were -12.6% lower at March 2012, although in nominal terms they were +13.3% higher than February 2008.

However, compared to price levels at the inception of the FNB House Price Index back in July 2000, real prices were 70.3% higher as at March 2012, while nominal price +231.7% higher as at April 2012.



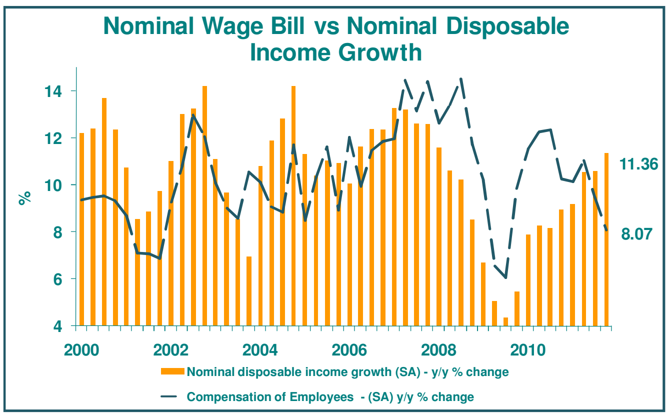
The recent support for a moderately improved residential market comes in part from a possible greater willingness of banks as a group to provide home loans. However, we believe that it is also very much to do with a recent improvement in real economic growth, which in turn supports employment and household disposable income growth.

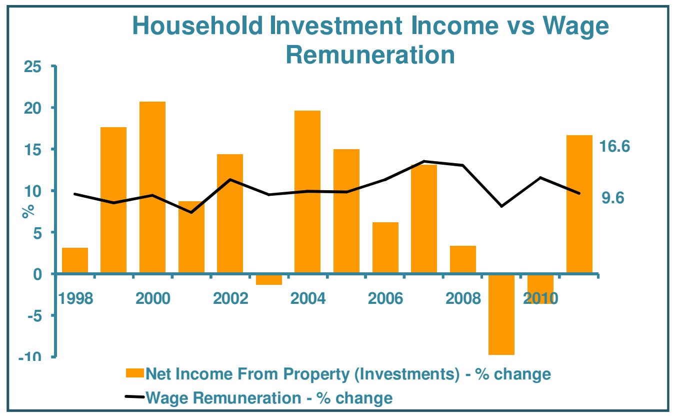
In addition, the support may have also come from the lagged impacts of positive developments further back in the post-recession recovery cycle.

We say this because, despite ongoing improvement in employment late last year, the Reserve Bank (SARB) estimated that the total wage bill for the economy had seen declining growth, and much of this would be explained by a significant moderation in average wage inflation to levels more in line with general inflation. But, whereas wage bill growth slowed from 2010's double-digit rates to a year-on-year rate of 8.07%, according to SARB data, nominal household disposable income growth continued its trend of year-on-year growth acceleration to a very strong 11.36% by the final quarter of 2011. Against this growth, high single-digit house price growth perhaps doesn't look that "out of place".

As the drivers of disposable income are only published annually, quarterly insights are not always easy to obtain. However, one of the key drivers of strengthening year-on-year nominal disposable income growth through 2011 was a very strong recovery, admittedly off a very low base, in "net income from property" ("property" being the SARB's term for investments by households). After 2 years of negative growth, this source of income rebounded sharply to register 16.6% nominal growth in 2011, the lagged impact on investment incomes arguably emanating from a return to positive economic growth as far back as 2009.

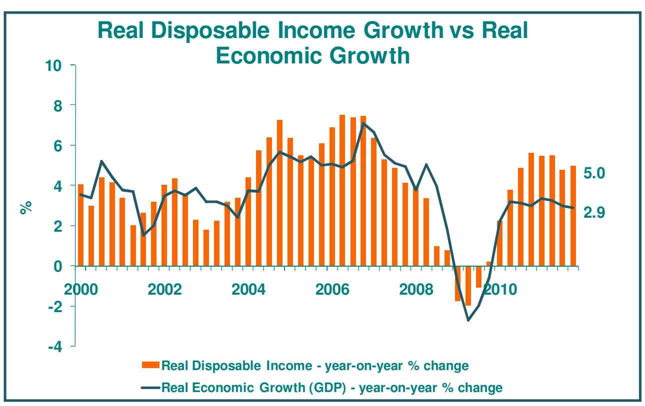
Net Investment income includes dividend payments received, and interest payments and rent received, but subtracts home rental payments and interest payments on debt.





HOW SUSTAINABLE IS THE RECENT HOUSE PRICE GROWTH RATE?

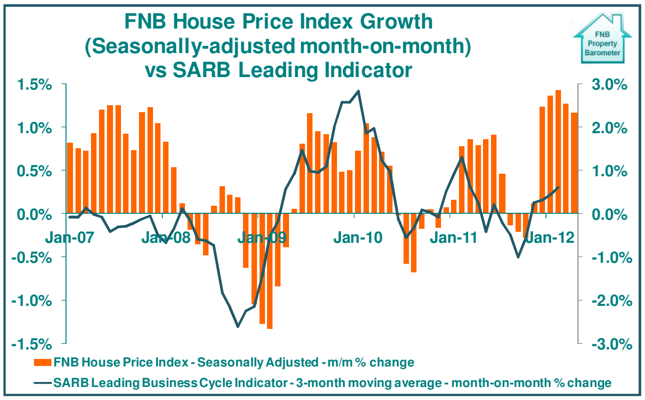
In order to answer the question as to whether recent house price growth rates are sustainable, one should probably ask the question as to how sustainable this recent strong growth in disposable income is? We think it is not sustainable at recent levels. After a sharp recovery off a low base in income from investments, one would think that this source of income would do as wage income already appears to be doing, i.e. shift lower to get more into line with the pace of general economic growth.



*This, in turn, would mean that, even should real economic growth remain at recent annualized levels of around 3%, we would expect disposable income in **real** terms (nominal disposable income growth adjusted for consumer inflation), to slow from recent strong levels of 5% year-on-year, to closer to 3%.*

On top of this, recent weeks have seen increasing concerns regarding global economic growth. US real GDP (Gross Domestic Product) growth slowed from an annualized rate of 3% in the previous quarter to 2.2% in the 1st quarter of 2012, while recession talk in Europe has stepped up a gear of late.

And indeed, examining month-on-month seasonally-adjusted house price growth, it may well be that the growth momentum is starting to subside a little (although one must bear in mind that month-on-month growth can be a little volatile), although this obviously will only seen in year-on-year growth figures with something of a lag.



From a February peak of 1,42% month-on-month, the FNB House Price seasonally-adjusted growth rate has slowed for 2 consecutive months to 1.17% in April. The recent month-on-month growth surge in the FNB House Price Index, which has taken place over the summer months starting in November 2011, was the 3rd "mini-surge in house prices since the 2008/9 recession dip, and it once again came in tandem with a minor improvement in the economy. This is reflected in the SARB Leading Indicator, which on a month-on-month basis, using a 3-month moving average, also recently showed its 3rd "uptick" since the recession (unfortunately its publication lags, and data only as far as February is available).

At present, therefore, the residential market's periodic minor price surges move in a very similar direction to the short term economic fluctuations, with little if anything in the way of "speculative" behavior to drive it in the opposite direction.

Given the current fragility in the world economy, and evidence pointing to global economic growth slowing once again., it appears to early to expect a sustained move to higher house price growth in South Africa.

*Notes: *When an FNB valuer values a property, he/she is required to provide a rating of demand as well as supply for property in the specific area. The demand and supply rating categories are a simple "good (100)", "average (50)", and "weak (0)". From all of these ratings we compile an aggregate demand and an aggregate supply rating, which are expressed on a scale of 0 to 100. After aggregating the individual demand and supply ratings, we subtract the aggregate supply rating from the demand rating, add 100 to the difference, and divide by 2, so that the FNB Valuers' Residential Market Strength Index is also depicted on a scale of 0 to 100 with 50 being the point where supply and demand are equal..*

***The FNB House Price Index is a fixed-weighted average of its sub-indices, which are split by room number and by sectional title versus freehold properties. The index is lightly smoothed using a Hodrick-Prescott smoothing function. An index month commences 7 days prior to the end of the previous month to 7 days prior to the said calendar month.*