

Home Loans



Compiled by
Jacques du Toit
Property Analyst
Absa Home Loans

45 Mooi Street
Johannesburg | 2001

PO Box 7735
Johannesburg | 2000
South Africa

Tel +27 (0) 11 350 7246
jacques@absa.co.za
www.absa.co.za

Explanatory notes:

The Absa house price indices, available back to 1966, are based on the total purchase price of houses in the 80m²-400m² size category, priced at R3,6 million or less in 2012 (including improvements), in respect of which mortgage loan applications were received and approved by Absa. Prices are smoothed in an attempt to exclude the distorting effect of seasonal factors and outliers in the data. As a result, the most recent index and price growth data may differ materially from previously published figures.

The information in this publication is derived from sources which are regarded as accurate and reliable, is of a general nature only, does not constitute advice and may not be applicable to all circumstances. Detailed advice should be obtained in individual cases. No responsibility for any error, omission or loss sustained by any person acting or refraining from acting as a result of this publication is accepted by Absa Group Limited and/or the authors of the material.

House price indices

10 September 2012

House prices show marginal growth

Marginally positive year-on-year growth was recorded in the average value of homes in the middle segment of the South African housing market in August 2012, while trends in month-on-month growth point to a continued subdued price performance in the near term. This is according to the Absa house price indices, which are based on applications for mortgage finance received and approved by the bank in respect of small, medium-sized and large homes (see explanatory notes).

Home values in the middle segment of the housing market were up by a marginal 0,2% year-on-year (y/y) in August this year after declining by a revised 0,5% y/y in July. Annual house price growth has been in negative territory since the beginning of the year, largely affected by continued price deflation in the small category of the middle segment of the market. On a month-on-month basis house prices improved gradually since the end of the first quarter this year, but monthly growth is slowing down again in all three middle-segment categories.

In real terms, i.e. after adjustment for the effect of inflation, house price deflation continued up to July 2012, but the momentum is slowing down on the back of nominal price trends and the headline consumer price inflation rate which tapered off to 4,9% y/y in July from a recent high of 6,3% y/y in January this year.

The average nominal value of homes in each of the three middle-segment categories of the housing market was as follows in August 2012:

- Small homes (80m²-141m²): R688 400
- Medium-sized homes (141m²-220 m²): R1 021 500
- Large homes (221m²-400m²): R1 491 600

Absa house price indices (nominal, 2000=100)

Month	Small houses 80m ² -140 m ²			Medium-sized houses 141m ² -220 m ²			Large houses 221m ² -400 m ²		
	2010	2011	2012	2010	2011	2012	2010	2011	2012
January	367.3	386.2	335.4	384.8	387.9	389.5	391.3	403.8	411.3
February	379.8	384.9	333.5	389.4	387.8	389.1	394.3	405.7	408.7
March	391.6	382.2	334.8	392.3	388.5	391.1	397.8	406.0	406.8
April	400.5	379.1	337.8	392.9	390.4	394.9	400.6	404.9	406.3
May	404.0	377.1	341.0	391.8	393.5	399.3	401.7	403.5	406.9
June	401.5	376.2	343.4	389.2	397.1	403.2	400.8	403.1	407.8
July	395.2	375.2	345.0	386.6	400.4	406.3	398.4	404.6	408.6
August	388.4	372.3	345.6	385.0	402.0	408.9	395.8	407.7	409.5
September	383.8	366.8		385.0	401.6		394.2	411.3	
October	382.5	358.6		385.9	399.3		394.6	414.0	
November	383.6	349.4		387.1	395.8		396.9	414.7	
December	385.5	341.0		387.9	392.0		400.4	413.6	
Average	388.6	370.7	339.6	388.1	394.7	397.8	397.2	407.8	408.2

South Africa's economic growth, as measured by trends in the country's real gross domestic product, improved to a seasonally adjusted annual rate of 3,2% in the second quarter of 2012 from 2,7% in the first quarter. The faster pace of growth in the second quarter was largely the result of a sharp rebound in mining production after a significant contraction in the preceding quarter. The forecast is for the economy to grow by a real 2,6% in 2012, with depressed global economic conditions to contribute to the expected lower growth figure compared with 2011 when the economy expanded by a real 3,1%. However, a high level of strike action in some sectors of the mining sector in the third quarter of the year is expected to weigh on mining production and the overall performance of the economy in this 3-month period, which might also adversely affect growth for the full year.

Although headline consumer price inflation, currently at 4,9% y/y, is within the inflation target range of 3% to 6%, there are specific risks to the short-term outlook for inflation:

- International food prices have risen markedly in recent times as a result of severe drought conditions in the US. These developments regarding global food prices point to possible upward pressure on local food price inflation in the near term.
- Recent movements in the international oil price and the rand exchange rate caused sharp hikes in domestic fuel prices in August and September this year, negatively impacting transport costs. The pump price of petrol increased by a cumulative R1,15/litre since July, while the wholesale price of diesel increased by a total of 84 cents/litre over the same period.

The South African Reserve Bank's Monetary Policy Committee will meet later this month to decide on the way forward for local interest rates, taking account of global and domestic economic trends and prospects, as well as recent developments in and the future outlook for inflation. Absa's current forecast is for stable to somewhat lower interest rates in the next twelve months.

In view of the latest trends in house prices and the current state of and expectations regarding the economy and the household sector, house price growth is forecast to remain subdued towards the end of the year and into 2013. Some real house price deflation is projected to continue over the short to medium term on the back of expected trends in nominal price growth and headline consumer price inflation.

Absa house price indices						
Houses of 80m ² -400m ² , up to R3,6 million						
Category of housing	Nominal year-on-year % change			Real year-on-year % change		
	July 2012	August 2012	Year-to-date 2012	June 2011	July 2011	Year-to-date 2012
Small houses (80m ² -140m ²)	-8.0	-7.2	-10.4	-13.5	-12.4	-15.8
Medium-sized houses (141m ² -220m ²)	1.5	1.7	1.1	-3.7	-3.3	-4.5
Large houses (221m ² -400m ²)	1.0	0.4	0.8	-4.1	-3.7	-4.7



