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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 R4 million or less in 2014 (including improvements), in respect of which mortgage loan applications were received and approved by Absa. Prices are seasonally adjusted and smoothed in an attempt to exclude the distorting effect of seasonal factors and outliers in the data. As a result, the most recent index values and price data may differ from previously published figures.

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House price indices

8 September 2014

Steady house price growth continues

The average nominal value of homes in the middle-segment of the South African residential market continued to show steady growth in the first eight months of the year, ranging between 7% and 8,5% in the various segments of the market analysed over this period. Nominal monthly price growth remains on a gradual downward trend since the start of the year, which is expected to affect year-on-year growth in the short to medium term.

In real terms, i.e. after adjustment for the effect of consumer price inflation, house prices showed some growth in the first seven months of the year up to July in comparison with the same period last year. These price trends are according to the Absa house price indices, which are based on applications for mortgage finance received and approved by the bank in respect of middle-segment small, medium-sized and large homes (see explanatory notes).

The average nominal value of homes in each of the middle-segment categories was as follows in August this year:

- Small homes (80m²-140m²): R829 000
- Medium-sized homes (141m²-220 m²): R1 166 000
- Large homes (221m²-400m²): R1 863 000

Real GDP growth of 0,6% quarter-on-quarter (q/q) was registered in the second quarter of 2014, after a contraction of 0,6% q/q in the first quarter of the year. As a result, an economic recession was thus technically averted. However, real year-on-year GDP growth slowed down further to 1% in the second quarter of the year, from 1,6% in the first quarter and 2% in the fourth quarter of last year. The forecast is for the economy to grow by a real 1,5% in 2014, with the risk for growth still to the downside.

Headline consumer price inflation remains above the 6% level and averaged 6,2% y/y in the first seven months of the year. Inflation is forecast at 6,3% in 2014 and 5,7% in 2015, with the main risks to the outlook being the exchange rate, food inflation, transport costs, property running costs and wage hikes.

The abovementioned trends in economic activity and inflation pose a risk of stagflation, as economic growth and domestic demand are trending down, whereas inflation remains under upward pressure. Interest rates are expected to rise further towards the end of the year and in 2015 to curb inflation, which may have a dampening effect on economic activity.

Many consumers continue to experience financial pressure on the back of low levels of employment, declining real income growth, low savings, impaired credit records, relatively high inflation and a rising trend in interest rates. Together with consumer confidence, these factors are expected to be reflected in property demand, property price trends and demand for mortgage finance in the remainder of the year and in 2015.

Absa house price indices (nominal, 2000=100)

Houses of 80m²-400m², up to R4 million

Month	Small houses 80m ² -140 m ²			Medium-sized houses 141m ² -220 m ²			Large houses 221m ² -400 m ²		
	2012	2013	2014	2012	2013	2014	2012	2013	2014
January	330.6	377.9	389.6	391.2	428.1	449.1	410.5	438.1	474.5
February	330.2	374.4	395.3	391.8	427.9	453.1	408.5	442.9	477.2
March	332.3	371.4	401.9	394.1	427.2	456.0	406.9	448.1	480.7
April	336.1	369.9	407.9	397.3	427.3	457.7	406.9	452.7	485.6
May	341.1	370.5	412.1	400.7	428.2	459.3	408.6	456.1	491.9
June	346.9	373.5	414.2	404.1	429.4	461.5	411.5	458.6	498.6
July	353.6	378.2	415.4	408.1	430.2	464.0	415.2	460.5	505.4
August	360.4	382.7	416.1	412.6	431.0	466.7	419.0	462.4	511.5
September	367.2	385.3		417.0	432.4		422.5	464.4	
October	373.5	385.6		421.2	435.0		426.0	466.5	
November	378.3	385.0		424.9	439.0		430.0	468.7	
December	379.8	385.9		427.2	444.0		434.0	471.6	
Average	352.5	378.4	406.6	407.5	431.7	458.4	416.6	457.6	490.7

Absa house price indices

Houses of 80m²-400m², up to R4 million

Category of housing	Nominal year-on-year % change			Real year-on-year % change		
	July 2014	August 2014	Year-to-date 2014	June 2014	July 2014	Year-to-date 2014
Small (80m ² -140m ²)	9.8	8.7	8.5	4.0	3.3	2.1
Medium (141m ² -220m ²)	7.9	8.3	6.9	0.8	1.4	0.5
Large (221m ² -400m ²)	9.7	10.6	8.5	2.0	3.2	1.8

