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Completion date:
3 February 2016

Housing review

First quarter 2016

- Real growth of just 0,7% at a seasonally adjusted, annualised rate was recorded in the South African economy in the third quarter of 2015, after a contraction of 1,3% in the second quarter. This caused the economy to have averted a technical recession by a narrow margin. Based on global and domestic trends and prospects, the economy is forecast to grow by a subdued 0,9% in 2016.

- Headline consumer price inflation averaged 4,6% in 2015, driven by factors such as the exchange rate, food prices and fuel prices. The forecast is for inflation to average above the 6% level in the next two years, with the abovementioned factors posing a risk to the inflation outlook.

- Interest rates were raised by a cumulative 50 basis points in 2015, with rates hiked by a further 50 basis points in January this year in view of inflationary pressures. Interest rates are forecast to increase further during the course of the year on the back of inflation expected to be on a rising trend up to early 2017.

- The household sector experienced increased financial strain throughout 2015 and in the early stages of 2016. Economic growth and employment levels remained low, while inflationary pressures caused interest rates to be hiked further. With these conditions expected to prevail in 2016, consumers will continue to face financial strain over the short to medium term. Consumer credit-risk profiles are to remain under pressure and are important in the accessibility of and the demand for and growth in credit. Against this background consumer confidence is expected to remain relatively low.

- The downward trend in nominal year-on-year house price growth in the middle segment of the South African residential property market continued up to the end of 2015. Real year-on-year middle-segment house price growth was also lower due declining nominal price growth and trends in inflation. Price growth in the affordable segment improved further in 2015 after some higher growth in 2014 compared with the preceding year. The segment for luxury housing showed a declining trend in nominal and real price growth during last year, with full-year growth down on that of 2014.

- The general outlook for nominal house price growth is to remain in the single digits for the next two years, with the risk for price growth to the downside against the background of trends in and prospects for the economy and the household sector. Based on expectations for nominal house price growth and consumer price inflation in 2016 and 2017, real price deflation is projected over the 2-year period.

Economic overview

The global economy

Global real economic growth is estimated to have measured 3,1% in 2015, after growth of 3,4% recorded in 2014. This is according to the International Monetary Fund's (IMF) latest assessment of the performance of the world economy, published in the *World Economic Outlook Update* of January 2016. Economic growth in advanced economies continued to show a modest improvement last year, whereas growth in the economies of emerging market and developing countries slowed down further. The global growth performance was diverse across regions and countries, impacted by aspects such as declining energy and other commodity prices, structural adjustment measures and geopolitical developments.

Economic growth in advanced economies remained relatively subdued in 2015, with only a very modest improvement to 1,9% from a level of 1,8% in 2014. The gradual economic recovery in the Eurozone continued against the background of extensive quantitative easing, with growth increasing from 0,9% in 2014 to an estimated 1,5% in 2015. The United States economy expanded at a steady pace of around 2,5% per annum in the past two years, with the first interest rate hike in many years announced in December last year. Growth in the United Kingdom's economy was projected to have been slightly lower at 2,2% in 2015 compared with 2,9% in 2014. The Japanese economic performance was still very much subdued last year, with growth estimated at 0,6%, marginally up from no growth in the preceding year. Consumer price inflation in advanced economies dropped to 0,3% in 2015 from a level of 1,4% in 2014, mainly driven by the continued declining trend in international oil prices. Against this background and the relatively low economic growth, monetary policy remained largely accommodative in these countries, with only the US raising interest rates late last year.

The group of emerging market and developing economies is estimated to have shown lower growth of 4% in 2015 compared with an average growth rate of 4,6% recorded in 2014. The slowdown in Chinese economic growth to just below 7% from 7,3% in 2014 was a major contributor to the lower growth in this group of countries. The economies of Brazil and Russia remained in recession last year, with growth in sub-Saharan Africa that dropped to around 3,5% from a level of 5% in 2014, largely impacted by the effect of further commodity price declines and currency depreciations. Oil-producing and other commodity-exporting developing countries experienced increased pressure on revenue as a result of the declining commodity price cycle, which was reflected in deteriorating economic conditions in many of these countries.

Weaker currencies caused inflationary pressures in emerging market and developing economies last year, with consumer price inflation rising to an average of 5,5% from 5,1% in 2014, which led to higher interest rates in a number of these countries.

The South African economy

Seasonally adjusted, annualised growth of a marginal 0,7% in real gross domestic product (GDP) was recorded in the third quarter of 2015, after a contraction of 1,3% in the second quarter. However, this caused the economy to avert a technical recession (two consecutive quarters of contraction in GDP) by a narrow margin. Although the secondary and tertiary sectors of the economy expanded by 3,3% and 1,9% respectively in the third quarter, the primary sector contracted by 10,4%. This was the result of output in the agricultural and mining sectors declining by 12,6% and 9,8% respectively. The most severe drought in decades, which continued into the early stages of 2016, was the major driver of the significant drop in agricultural production in the penultimate quarter of last year.

The South African Reserve Bank's leading business cycle indicator remained on a downward trend up to November last year, dropping by 3,2% year-on-year (y/y) over the 11-month period. After peaking in 2011, this trend in the leading indicator is a confirmation of a slowing economy over the past four years and an indication of ongoing depressed economic conditions in the short to medium term. The leading business cycle indicator is forward looking and represents the direction of expected economic activity 6 — 9 months into the future. A range of variables is used in the calculation of the leading indicator, with these variables related to the labour market, manufacturing, vehicle sales, building activity, commodity prices, interest rates, confidence, money supply, business financial performance and business conditions in trading-partner countries.

Headline consumer price inflation averaged 4,6% y/y in 2015, largely driven by factors such as food prices and domestic fuel prices (determined by international oil price and $/R exchange rate movements). The inflation rate came in at a level of 5,2% y/y in December last year, with the effect of the drought and the significantly weaker rand exchange rate remaining the major upside risks to the inflation picture. The rand exchange rate has depreciated significantly against most major international currencies last year, dropping by 15% to R12,75 against the US dollar from an average of R10,84 per dollar in 2014.

Interest rates were hiked by a cumulative 50 basis points in 2015 and by a further 50 basis points in January this year, with the repurchase rate, or repo rate (the key monetary policy interest rate and the rate at which commercial banks borrow money from the Reserve Bank) currently at 6,75% per annum and commercial banks' prime lending and variable mortgage interest base rates for extending credit to the household and business sectors at 10,25% per annum. Lending rates have been raised by a cumulative 175 basis points since early 2014, impacting debt repayments and the affordability of credit over a wide front.

Household sector overview

The household sector experienced increased levels of financial strain throughout 2015 and in the early stages of

2016. Economic growth and employment levels remained low, while inflationary pressures caused interest rates to be hiked further, eroding consumers' spending power. The tax burden on individuals increased after personal tax rates were increased in the National Budget last year, which contributed to lower growth in household disposable income and consumption expenditure. Against this background household savings remained at a critically low level, while the debt-to-income ratio stayed above the 78% level. Credit-active consumers' risk profiles remained a constraint to the accessibility of credit, with growth in household credit balances that remained in single-digit territory up to the end of the year. In view of these developments, consumer confidence dropped further in 2015, which contributed to the low growth in household consumption expenditure and credit extension.

Growth in real household disposable income, i.e. after-tax, inflation-adjusted income, slowed down further to an annualised rate of 0,7% in the third quarter of 2015, which was the lowest growth on record since the third quarter of 2009. The further slowdown in real disposable income growth came against the background of inflationary pressures and continued low levels of employment. However, the nominal wage settlement rate was reported by Andrew Levy Employment Publications to have averaged 7,7% in 2015 (8,1% in 2014), which was well above the average headline consumer price inflation rate of 4,6% last year (6,1% in 2014). This resulted in a real wage settlement rate of 3% in 2015 (1,9% in 2014).

In line with declining real disposable income growth, real household consumption expenditure also recorded lower growth at an annualised rate of 0,9% in the third quarter of 2015. The continued close correlation between growth in real household disposable income and consumption expenditure is evident of a severe lack of household savings. Consumers' limited financial ability to access credit in view of prevailing debt levels and credit-risk profiles is also a contributing factor to the low growth in consumption expenditure.

The ratio of net household savings to disposable income, in negative territory since 2006, was -2,3% in the third quarter of 2015. Net household savings are 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 [R1 475,3 billion at end-December and comprising instalment sales credit, leasing finance, mortgage loans, credit card debt, overdrafts and general loans and advances (mainly personal loans and microfinance)], measured 4,5% y/y at the end of last year.

The value of outstanding household secured credit balances, which amounted to R1 114,2 billion at end-December and consisting of instalment sales credit, leasing finance and mortgage loans, showed growth of 3,8% y/y in the 12-month period. This was largely the result of relatively low growth in household mortgage balances and a noticeable downward trend in growth in instalment sales balances, mainly related to vehicle finance.

Growth in the value of outstanding household unsecured credit balances (R361,1 billion at end-December and consisting of credit card debt, overdrafts and general loans and advances) was 6,7% y/y in 2015.

Factors such as the National Credit Act (NCA), banks' risk appetites and lending criteria, consumers' credit-risk profiles and consumer confidence largely affected the availability and accessibility of and demand for credit by households.

With household debt rising by 1,7% quarter-on-quarter (q/q) and nominal household disposable income increasing by 1% q/q in the third quarter of 2015, the ratio of household debt to disposable income came to 78,3% in the quarter, up from 77,7% in the second quarter. 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.

As a result of an increase in interest rates, the household debt service-cost ratio increased to 9,6% in the third quarter of 2015 from 9,4% in the first and second quarters. This ratio is the interest component of debt repayments expressed as a percentage of disposable income and takes into account the debt-to-income ratio and the average effective lending rate in respect of the servicing of household debt during a specific period. Based on the abovementioned debt-to-income and debt service-cost ratios, the average effective interest rate charged to service household debt is calculated to have been 12,26% per annum in the third quarter of 2015, which was 2,76 percentage points above the ruling average prime interest rate of 9,5% per annum over this period. This interest rate premium paid by consumers on total outstanding debt, i.e. secured and unsecured debt, of above the ruling prime lending rate, is the result of factors such as the state of household finances, credit-risk profiles, banks' risk appetites and lending criteria, expectations of future interest rate movements, as well as the composition of debt, with unsecured credit normally extended at a higher interest rate than secured credit. The share of unsecured credit in total household credit balances increased from 15,4% in 2009 to 24,5% by end-2015.

According to data published by the National Credit Regulator, the following trends were evident in consumer credit-risk profiles in the third quarter of 2015:

- 23,45 million consumers were credit-active.
- 13,53 million (57,7%) credit-active consumers were in good standing.
- 9,91 million credit-active consumers (42,3%) had impaired credit records.
- 80,6 million consumer credit accounts were active, of which 60,37 million (74,9%) were in good standing and 20,24 million (25,1%) were impaired.

Consumers' credit-risk profiles are reflected in banks' risk appetites and lending criteria, impacting the access to credit and growth in household consumption expenditure against the background of a continued low level of savings.

TransUnion's SA Consumer Credit Index showed that the general credit health of consumers deteriorated in the third quarter of 2015, with distressed borrowing that increased, households' cash flow that deteriorated, and debt service costs that increased on the back of higher interest rates.

According to Statistics South Africa's *Quarterly Labour Force Survey,* 15,828 million people were employed in the formal and informal sectors of the economy in the third quarter of 2015. A total of 171 000, or 1,1%, more people were employed by the third quarter of the year compared with the second quarter. The unemployment rate was 25,5% in the third quarter, with a total of 5,418 million people being unemployed in that quarter. This implies that the number of unemployed people increased by 181 000 q/q and 267 000 y/y in the third quarter of the year.

Consumer confidence, as measured by the Bureau for Economic Research (BER), declined further to -14 index points in the fourth quarter of 2015. An annual average of -9,5 index points was recorded in the consumer confidence index in 2015, which was its lowest annual figure since 1993. An index value of zero indicates confidence neutrality. Consumer confidence is measured by expectations regarding the outlook for the domestic economy, household finances and durable consumption expenditure. Consumer confidence is an important factor with regard to the demand for and growth in household credit, which is closely related to especially durable consumption expenditure, such as vehicles, furniture, household appliances, audio-visual equipment, photographic equipment, communication devices, computers and related equipment, as well as the acquisition of property for primary, investment and leisure purposes.

Property sector overview

Based on statistics supplied by Lightstone, there were 6,18 million residential properties in South Africa with a total value of R4,25 trillion in the third quarter of 2015. Of the almost 6,2 million properties, about 2,18 million (35,3%) with a total value of R2,33 trillion were bonded and about 4 million (64,7%) with a total value of R1,92 trillion were non-bonded (see relevant table at the back of the report).

Residential building activity improved in the first eleven months of 2015 on a year-on-year basis, but growth was in the single digits in both the planning and construction phases over this period. The number of new housing units for which building plans were approved increased by 4% y/y to more than 55 600 units in the period January to November last year. This was the net result of growth of 12,9% y/y in the segment of houses less than 80m², whereas the segments of houses larger than 80m² and flats and townhouses showed some marginal declines. The number of new housing units constructed increased by 5,2% y/y to more than 36 300 units in the 11-month period, which was largely driven by the category of houses larger than 80m² that showed growth of 14,5% to about 11 200 units.

Building confidence, based on the BER's building confidence index, was recorded at a level of 48 index points in the fourth quarter of 2015, with an average of 50 index points for the full year. An index reading of 50 represents confidence neutrality among survey respondents. The building confidence index measures prevailing business conditions in the building industry subsectors of architects, quantity surveyors, main building contractors, subcontractors, manufacturers of building materials and retailers of building materials and hardware.

The variable mortgage base interest rate is 10,25% per annum after being raised by 50 basis points in January this year, implying that the mortgage rate has increased by a cumulative 175 basis points since late January 2014. 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.

Year-on-year growth in household mortgage balances was on an upward trend in the last few months of 2015, mainly as a result of the base effect of slowing growth a year ago and indications that fewer homeowners with mortgages have the financial ability to pay extra funds into their mortgage accounts due to increased financial strain. The performance of the mortgage market is driven by trends in factors such as employment, inflation, interest rates, household finances, consumer credit-risk profiles, banks' risk appetites and lending criteria and consumer confidence. Growth in the value of outstanding household mortgage balances (R864,6 billion at end-December, with a share of 77,6% in household secured credit balances and 58,6% in total household credit balances) came to 4,4% in 2015. Outstanding mortgage balances are the net result of property transactions, mortgage finance paid out, capital and monthly repayments on mortgage loans, as well as loans fully paid up.

Housing rental indices, as published by Statistics South Africa, showed that national residential rental inflation averaged 5% in 2015 (5,1% in 2014), which was above the average headline consumer price inflation rate of 4,6%. Last year rental inflation measured 4,6% for houses (4,8% in 2014), 5,1% for townhouses (5,3% in 2014) and 5,8% for flats (5,7% in 2014).

According to Tenant Profile Network (TPN) Credit Bureau, as much as 84,7% of residential tenants were in good standing nationally in the third quarter of 2015, with 69,4% that paid on time, 5% that paid within the grace period and 10,4% that paid late. Impaired tenants are those who made only a partial payment (10% in the third quarter) and those who did not pay at all (5% in the third quarter).

House prices

Based on Absa's house price data, year-on-year growth in home values was on a declining trend through 2015, with full-year growth down compared with 2014. The lower house price growth was the result of a range of macroeconomic developments and factors that affected consumers financially (see the sections above on the economy and the household sector), and which were eventually evident in property market trends and conditions during the course of the year.

The downward trend in nominal year-on-year house price growth in the middle segment of the South African residential property market continued up to the end of last year. Real year-on-year middle-segment house price growth was also lower due to declining nominal price growth and trends in inflation during the year. Price growth in the affordable segment improved further in 2015 after some higher growth in 2014 compared with the preceding year. The segment for luxury housing showed a declining trend in nominal and real price growth during last year, with full-year growth down on that of 2014.

The nominal price of a property refers to the price at which it was valued or transacted on the open market, i.e. the market price, selling or purchase price and is reflected in a valuation, an offer to purchase, an application for mortgage finance and the transfer documents 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 average inflation rate. In addition to the nominal price, real property price trends are thus 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 housing segments 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

The fourth quarter of 2015 saw the average price of affordable housing (homes of 40 m² — 79 m² and priced up to R575 000 in 2015) increasing by 9,1% y/y to around R417 000. Real price inflation of 4% y/y was recorded in the fourth quarter.

The average price of affordable homes increased by a nominal 9,2% in 2015 compared with growth of 6,6% in 2014. In real terms prices were up by 4,4% last year after rising by 0,5% in the preceding year.

Middle-segment housing

The average nominal price growth of housing in the middle segment of the market (homes of 80 m² — 400 m² and priced at R4,2 million or less in 2015) slowed down further to 4,8% y/y to a level of about R1 380 000 in the fourth quarter of 2015. Price growth averaged 5,3% y/y in the third quarter, 6,4% y/y in the second quarter and 8,1% y/y in the first quarter of last year. Due to declining nominal price growth and trends in inflation, real price growth slowed down during the course of last year and some marginal price deflation of 0,1% y/y occurred in the middle segment in the fourth quarter of the year.

For the full 2015, middle-segment housing saw nominal price growth of 6,1% (9,3% in 2014), while prices increased by a real 1,5% last year (3,1% in 2014).

The following price changes occurred in the three middle-segment categories in 2015:

- Small houses (80 m² — 140 m²): 4,7% nominal and -1,4% real.
- Medium-sized houses (141 m² — 220 m²): 5,2% nominal and 0,6% real.
- Large houses (221 m² — 400 m²): 5,8% nominal and 1,2% y/y real.

Luxury housing

In the segment for luxury housing (homes priced at between R4,2 million and R15,5 million in 2015), the average nominal price increased by 4,1% y/y to a level of R6,1 million in the final quarter of 2015. In real terms, the average price in this category of housing was down by 0,7% y/y in the fourth quarter of last year.

Nominal price growth of 7% was registered in the luxury category in 2015 (9,3% in 2014), with real price inflation recorded at 2,3% last year (3% in 2014).

Regional house prices

The performance of the residential property market at geographical level is affected by national economic trends in general. However, the regional property markets may react differently to developments and trends at macro level, mainly due to additional area-specific factors such as location, physical infrastructure, sectoral economic composition and the level and extent of economic growth and development. These factors may have a /profound effect on property demand and supply conditions, market activity, buying patterns, transaction volumes and price levels and growth.

House prices in the middle segment of the market performed as follows at provincial level in 2015:

- Western Cape: A nominal 8,6% higher (3,8% in real terms).
- Gauteng: Up by 6,6% in nominal terms (1,9% in real terms).
- Eastern Cape: Up by a nominal 6,2% (1,5% in real terms).
- KwaZulu-Natal: Up by 4,2% in nominal terms (-0,4% in real terms).
- Limpopo: A nominal 3,7% higher (-0,9% in real terms).
- Northern Cape: 2,9% higher in nominal terms (-1,6% in real terms).
- North-West: Up by a nominal 1,2% (-3,3% in real terms).
- Free State: 1,1% higher in nominal terms (-3,3% in real terms).
- Mpumalanga: Down by a nominal 2,1% (-6,4% in real terms).

The performance of middle-segment house prices in the major metropolitan areas was as follows in 2015:

- East London: Up by 12,8% in nominal terms (7,9% in real terms).
- Cape Town: A nominal 10,6% higher (5,8% in real terms).
- Durban/Pinetown: 7,6% higher in nominal terms (2,9% in real terms).
- Greater Johannesburg: Up by a nominal 6,7% (2,0% in real terms).
- Port Elizabeth/Uitenhage: A nominal 5,7% higher (1,1% in real terms).
- Pretoria: 4,9% higher in nominal terms (0,3% in real terms).
- Bloemfontein: Down by 0,4% in nominal terms (-4,7% in real terms).

The coastal regions saw the following changes in the average price level of homes between 80 m² and 700 m² and priced up to R15,5 million in 2015:

- All coastal regions: Up by 8,3% in nominal terms (3,5% in real terms)
- KwaZulu-Natal: 10,4% higher in nominal terms (5,6% in real terms)
- Eastern Cape: A nominal 8,6% higher (4,1% in real terms)
- Western Cape: 6,8% higher in nominal terms (2,1% in real terms)

Coastal property markets prove to be relatively small and normally have a major investment and leisure focus, with these regions that may experience noticeable swings in market conditions, price levels and price growth against the background of trends in and developments regarding macroeconomic factors, household finances and confidence levels.

New and existing housing

The average nominal price of a new house was down by 1,9% y/y to R1 782 300 in the fourth quarter of 2015, after declining by 2,4% y/y in the third quarter. Real price deflation measured 6,5% y/y with regard to new housing in the fourth quarter of last year (-6,8% y/y in the third quarter). For the full 2015, the average nominal price of a new house was down by 0,2% (+1,6% in 2014), while in real terms the average price dropped by 4,6% last year (-4,2% in 2014).

The average price of an existing house increased by a nominal 6,6% y/y to a level of around R1 370 600 in the fourth quarter of 2015, which resulted in real year-on-year price growth of 1,6%. Nominal price growth of 7% was recorded with regard to an existing house last year (9,4% in 2014), with real price growth that came to 2,3% (3,1% in 2014).

In the fourth quarter of 2015 it was R411 700, or 21,3%, cheaper to have bought an existing house than to have had a new one built.

Building costs

The cost of having a new house built continued to increase at a rate above consumer price inflation, coming in at 9,1% y/y in the fourth quarter of 2015, with full-year growth in building costs recorded at 8% (7,6% in 2014).

Factors impacting building costs 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 affected 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 vacant residential stands in the middle and luxury segments of the housing market for which Absa received applications and approved mortgage finance, dropped by 7,7% y/y to an average of about R563 700 in the fourth quarter of the year. In real terms residential land values were down by 12% y/y in the fourth quarter. The ratio of the average price of land for new middle-segment and luxury housing to the total value of a new residential property in these segments of the market came to 23,4% in the final quarter of 2015.

The average value of residential stands was down by a marginal 0,2% in 2015, with real price deflation of 4,6% last year.

Residential land values reflect the factors of demand for new housing, location, the availability of suitable land for development, the availability of municipal services such as electricity, water, sewerage and refuse removal, the availability, condition and accessibility of transport infrastructure and the proximity to places of work, schools, shopping centres, medical facilities, etc.

Affordability of housing

The affordability of housing was on a gradually deteriorating trend in the past 3 — 4 years, as reflected by the ratios of house prices and mortgage repayments to household disposable income (see relevant graph at the back of the report). This was the net result of trends in growth in house prices and nominal disposable income, while interest rates were on a gradually rising trend since early 2014, which negatively affected the affordability of housing from a mortgage repayment point of view up to late 2015.

Apart from trends in house prices, disposable income and the mortgage interest rate, households' ability to afford housing is also influenced by a number of other important factors such as employment, savings, living costs, debt levels, credit-risk profiles (as reflected by the state of consumer credit records), National Credit Act stipulations and banks' risk appetites and lending criteria in the case of applications for mortgage finance to buy property.

A downward/upward trend in the abovementioned 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

Based on forecasts by the IMF, the world economy is expected to grow by a real 3,4% in 2016 and 3,6% in 2017, after growth of an estimated 3,1% in 2015. The outlook for global growth over the next two years remains on the downside, based on a number of risks identified by the IMF, which include the following:

- Slower growth in China and other emerging and developing countries.
- Continued downward pressure on commodity prices.
- Monetary policy normalisation in the US, which may cause further strain on developing countries regarding capital flows, currency movements, inflation, interest rates and economic growth.
- Geopolitical events and tensions.

Growth in advanced economies is forecast by the IMF to improve marginally from 1,9% in 2015 to 2,1% in 2016, with growth projected to remain at this level in 2017. The US economy is forecast to grow at 2,6% in both 2016 and 2017, supported by still relatively accommodative monetary policy and a gradual improvement in domestic economic conditions. The Eurozone is expected to grow at a steady pace of 1,7% in both 2016 and 2017, with economic activity to be driven by higher levels of consumption expenditure and continued measures of financial easing. The UK economy is projected to record economic growth of 2,2% per annum in 2016 and 2017. Economic growth in Japan is expected to rise to 1% in 2016 on the back of improved macroeconomic conditions, but lower growth of 0,3% is forecast for 2017.

Consumer price inflation in advanced economies is expected to remain relatively low at 1,1% in 2016 and 1,7% in 2017, largely due to commodity prices, and especially international oil prices, to stay at low levels. As a result, monetary policies in this group of countries are forecast to remain accommodative in an attempt to prevent deflation and to promote economic activity.

The group of emerging and developing countries is forecast to grow by 4,3% in 2016 and 4,7% in 2017, with an expected continuing economic slowdown in China to weigh on the overall growth performance of emerging and developing economies. Growth in China is forecast by the IMF to slow down from 6,9% in 2015 to 6,3% in 2016 and 6% in 2017, mainly as a result of declining fixed investment growth and the gradual transition to a more consumption-based economy. The Indian economy is projected to grow by 7,5% per annum in the next two years, with growth in other emerging Asian countries to remain robust. Regional growth could, however, be impacted by slower growth in China. The economies of Brazil and Russia are forecast to remain in recession in 2016, with some improvement that may become evident in 2017. Countries in sub-Saharan Africa are expected to see a gradual improvement in economic growth to 4% in 2016 and 4,7% in 2017.

The risk for economic growth in emerging and developing countries, especially commodity exporters, remains on the downside on the back of continued low commodity prices, prospects of further currency depreciations, inflationary pressures and rising interest rates. Against this background consumer price inflation in the group of emerging market and developing countries is forecast to rise from 5,5% in 2015 to 5,6% in 2016 and 5,9% in 2017.

The South African economy

Real economic growth in South Africa is forecast to slow down further to a much subdued 0,9% in 2016, from an estimated 1,3% in 2015. Factors such as low commodity prices and exports in view of global economic conditions, a weakening currency and extreme drought conditions due to the lowest annual rainfall in more than a century, which are causing upward pressure on inflation and interest rates, low levels of confidence and tight fiscal conditions are weighing on the country's growth performance and outlook.

Inflation expectations have increased, with headline consumer price inflation projected to rise from 4,6% in 2015 to above the upper limit of the inflation target range of 3% – 6% in the next two years, averaging 6,3% in 2016 and 6,4% in 2017. Some of the major risks to this inflation outlook remain food prices, the rand exchange rate, electricity price hikes and fuel prices. The local currency is forecast to depreciate further against the major international currencies this year and next year, adding to inflationary pressures. However, low international oil prices for longer will help to contain domestic fuel price hikes and will to an extent limit the upward pressure on headline inflation.

Against the background of the expected upward trend in inflation this year, domestic interest rates are forecast to rise further in 2016 and in early 2017.

The household sector

The household sector is forecast to continue to experience financial strain over the short to medium term, which will be the result of factors such as relatively low economic and employment growth, rising inflation, higher interest rates and subdued disposable income growth. These developments will have a negative effect on consumers' spending power and will prevent a major improvement in savings, with a concurrently adverse impact on households' ability to service debt and take up further credit. Against this background consumers' credit-risk profiles will most probably stay under pressure, which will remain a key factor in the accessibility of and the demand for and growth in household credit. These factors will continue to put a damper on the already low level of consumer confidence, which is regarded as an additional driver of credit demand, consumption expenditure, and eventually economic growth.

The property market

Factors related to the macro economy, household finances and consumer confidence are to remain major drivers of the residential property market. These factors will affect the performance of the property market, which will to a large extent depend on the affordability of housing and the accessibility of and demand for mortgage finance. Property market conditions will be reflected in levels of demand and supply, building activity, price trends, buying patterns, transaction volumes and growth in mortgage advances.

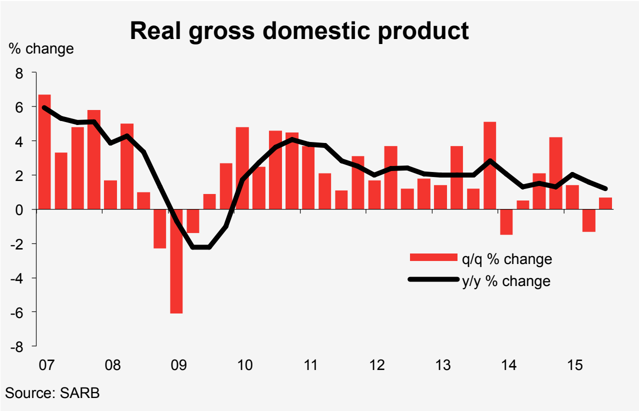
With the financial pressure on consumers expected to increase this year, the demand for rental property may rise and lead to higher rentals. This may cause an increase in investor demand to buy rental property, with some upward pressure on prices in this segment of the market.

The general outlook for nominal house price growth is to remain in the single digits for the next two years, with the risk for price growth to the downside against the background of trends in and prospects for the economy and the household sector. Based on expectations for nominal house price growth and consumer price inflation in 2016 and 2017, real price deflation is projected over the 2-year period.

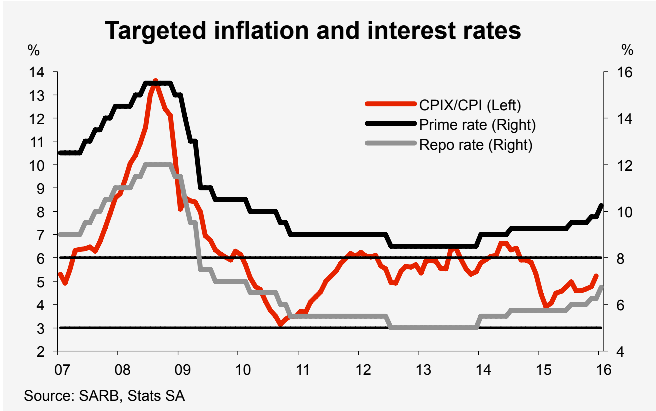
Growth in the value of outstanding household mortgage balances will be a reflection of interest rate trends, the state of household finances, consumer confidence and property market conditions, with continued low single-digit growth in mortgage balances expected over the next 12 — 24 months.

Factors related to the economy, household sector, confidence, development land, building costs, property rezoning and municipal services will remain important drivers of the demand for and supply of new housing and consequently levels of residential building activity across the various segments of housing. Residential building activity has been relatively subdued in recent years, and no major improvement from current levels is expected in the next year or two against the background of trends in and the outlook for the economy and the household sector.

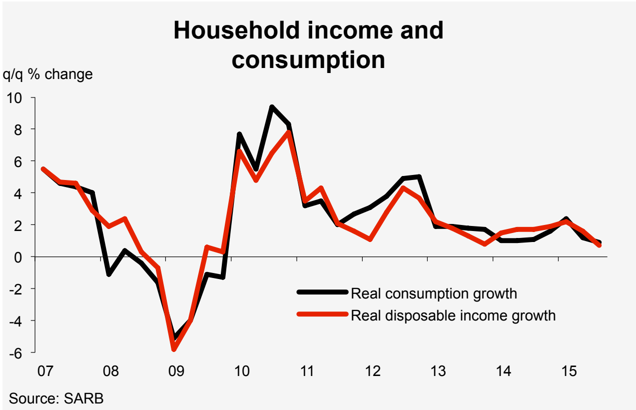
Graphs



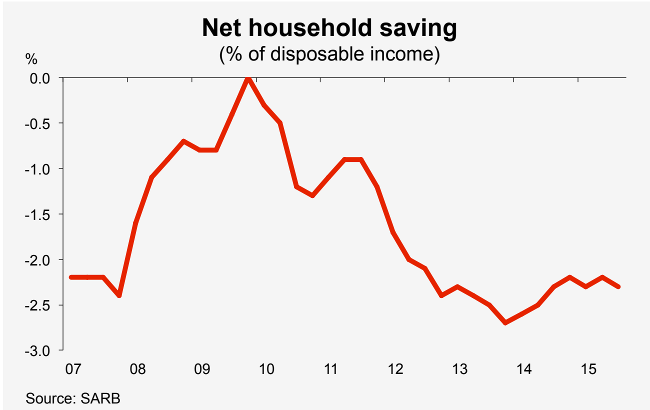
Real gross domestic product
% change
q/q % change
y/y % change
Source: SARB



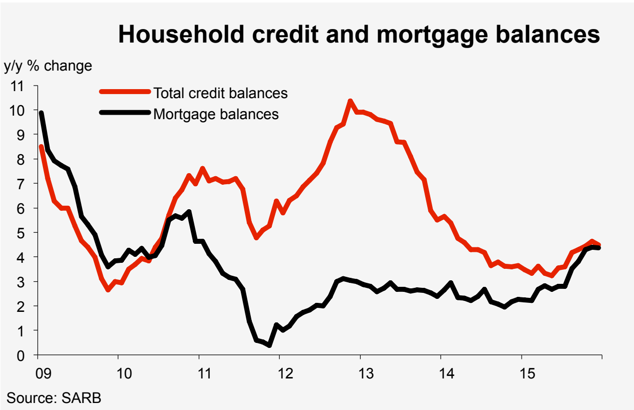
Targeted inflation and interest rates
CPIX/CPI (Left)
Prime rate (Right)
Repo rate (Right)
Source: SARB, Stats SA



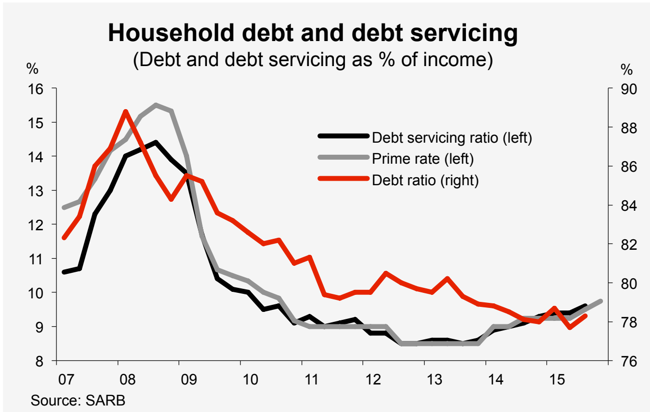
Household income and consumption
q/q % change
Real consumption growth
Real disposable income growth
Source: SARB



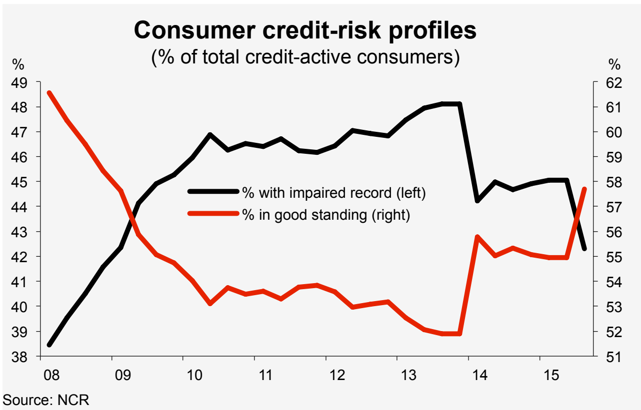
Net household saving
(% of disposable income)
Source: SARB



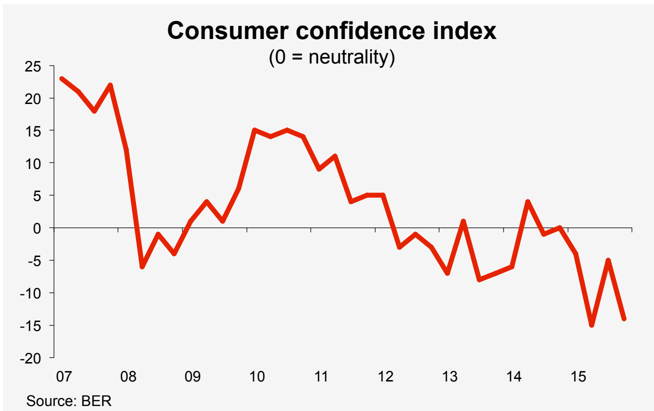
Household credit and mortgage balances
y/y % change
Total credit balances
Mortgage balances
Source: SARB



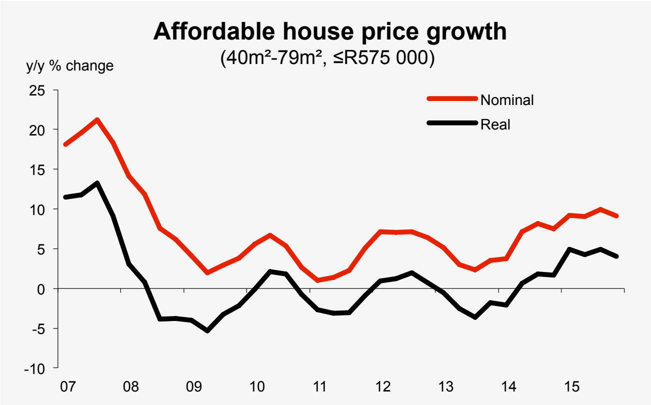
Household debt and debt servicing
(Debt and debt servicing as % of income)
Debt servicing ratio (left)
Prime rate (left)
Debt ratio (right)
Source: SARB

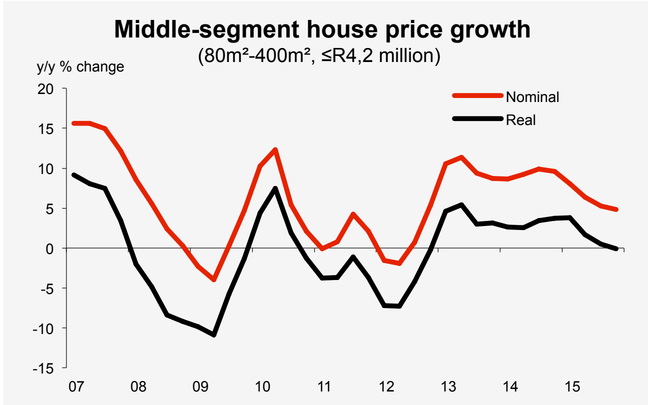


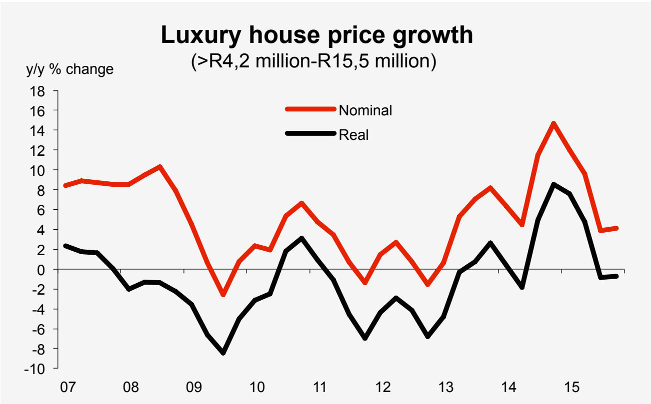
Consumer credit-risk profiles
(% of total credit-active consumers)
% with impaired record (left)
% in good standing (right)
Source: NCR

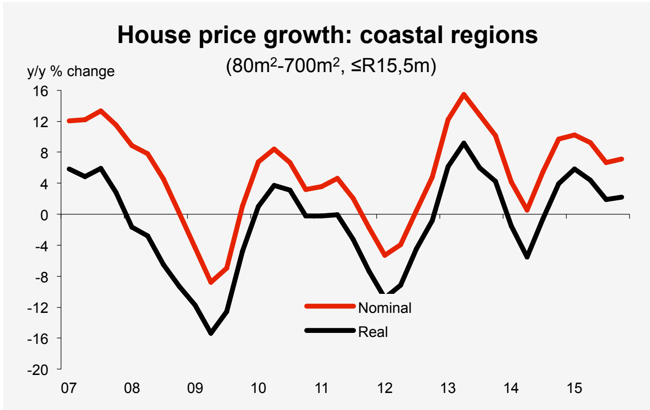


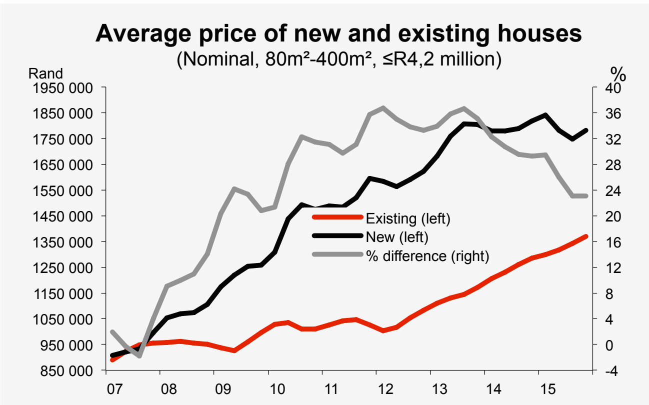
Consumer confidence index
(0 = neutrality)
Source: BER

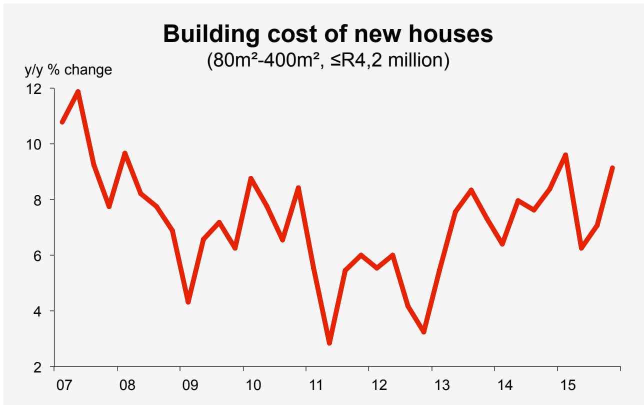

Affordable house price growth
(40m²-79m², ≤R575 000)
y/y % change
25
20
15
10
5
0
-5
-10
07
08
09
10
11
12
13
14
15
Nominal
Real

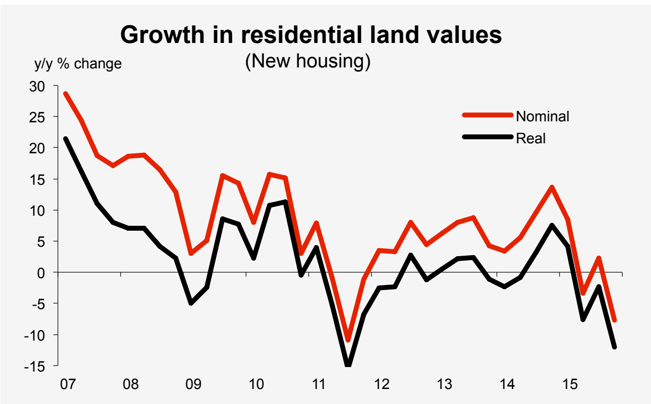

Middle-segment house price growth
(80m²-400m², ≤R4,2 million)
y/y % change
20
15
10
5
0
-5
-10
-15
07
08
09
10
11
12
13
14
15
Nominal
Real

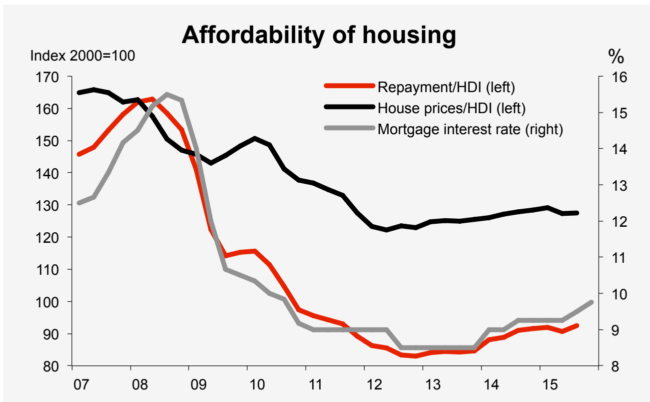

Luxury house price growth
(>R4,2 million-R15,5 million)
y/y % change
18
16
14
12
10
8
6
4
2
0
-2
-4
-6
-8
-10
07
08
09
10
11
12
13
14
15
Nominal
Real


House price growth: coastal regions
(80m²-700m², ≤R15,5m)
y/y % change
16
12
8
4
0
-4
-8
-12
-16
-20
07
08
09
10
11
12
13
14
15
Nominal
Real


Average price of new and existing houses
(Nominal, 80m²-400m², ≤R4,2 million)
Rand
%
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
15
Existing (left)
New (left)
% difference (right)


Building cost of new houses
(80m²-400m², ≤R4,2 million)
y/y % change
12
10
8
6
4
2
07
08
09
10
11
12
13
14
15


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


Affordability of housing
Index 2000=100
%
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
15
Repayment/HDI (left)
House prices/HDI (left)
Mortgage interest rate (right)

Statistics

Residential property stock[1]

	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	% share[2]
Number of properties						
Total number	6 101 803	6 118 358	6 128 977	6 142 219	6 181 901	100.0
Bonded	2 191 735	2 191 030	2 187 640	2 181 116	2 184 389	35.3
Non-bonded	3 910 068	3 927 328	3 941 337	3 961 103	3 997 512	64.7
Freehold properties (excluding estate properties)	5 105 123	5 114 968	5 121 649	5 131 138	5 161 387	83.5
Bonded	1 563 946	1 560 662	1 556 262	1 549 836	1 548 159	30.0
Non-bonded	3 541 177	3 554 306	3 565 387	3 581 302	3 613 228	70.0
Sectional title properties (excluding estate properties)	690 775	694 889	697 549	700 325	703 443	11.4
Bonded	427 347	428 983	429 557	429 935	431 111	61.3
Non-bonded	263 428	265 906	267 992	270 390	272 332	38.7
Estate properties[3]	305 905	308 501	309 779	310 756	317 071	5.1
Bonded	200 442	201 385	201 821	201 345	205 119	64.7
Non-bonded	105 463	107 116	107 958	109 411	111 952	35.3
Property value (R billion)						
Total value	3 954	4 028	4 094	4 155	4 252	100.0
Bonded	2 205	2 237	2 265	2 287	2 329	54.8
Non-bonded	1 749	1 791	1 829	1 868	1 923	45.2
Freehold properties (excluding estate properties)	2 784	2 832	2 876	2 918	2 983	70.1
Bonded	1 480	1 498	1 514	1 527	1 551	52.0
Non-bonded	1 304	1 334	1 362	1 391	1 432	48.0
Sectional title properties (excluding estate properties)	585	597	609	619	631	14.8
Bonded	349	356	361	367	373	59.1
Non-bonded	235	242	247	252	258	40.9
Estate properties[3]	586	599	609	618	639	15.0
Bonded	376	383	390	394	405	63.5
Non-bonded	210	215	220	224	233	36.5

[1]Housing and vacant land, excluding housing on agricultural smallholdings and farms

[2]Latest available quarter. Percentage share may not add up due to rounding

[3]Freehold properties, sectional title properties and vacant land

Historical data may be revised due to the inclusion of lagged and updated information, as well as the re-estimation of property values

Source: Lightstone

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

Average nominal house prices

	2012	2013	2014	2015	2014	2015					
	Rand	Rand	Rand	Rand	Q4	Q1	Q2	Q3	Q4		
					Rand	Rand	Rand	Rand	Rand	q/q %Δ	y/y %Δ
National											
Middle segment (80m²-400m², ≤R4,2m)	1 061 382	1 167 271	1 276 332	1 354 214	1 317 021	1 332 489	1 344 189	1 359 877	1 380 302	1.5	4.8
Small (80m²-140m², ≤R4,2m)	702 448	756 025	827 640	866 256	856 300	854 765	851 818	873 109	885 333	1.4	3.4
Medium (141m²-220m², ≤R4,2m)	1 018 200	1 078 920	1 161 038	1 221 225	1 192 833	1 196 477	1 203 797	1 223 522	1 261 104	3.1	5.7
Large (221m²-400m², ≤R4,2m)	1 520 389	1 674 287	1 807 658	1 912 079	1 835 490	1 844 251	1 884 729	1 943 530	1 975 806	1.7	7.6
New (80m²-400m², ≤R4,2m)	1 589 667	1 762 492	1 791 221	1 787 521	1 817 776	1 840 379	1 781 214	1 746 154	1 782 339	2.1	-1.9
Existing (80m²-400m², ≤R4,2m)	1 038 681	1 138 940	1 245 756	1 332 676	1 286 182	1 298 659	1 318 049	1 343 344	1 370 650	2.0	6.6
Affordable (40m²-79m², ≤R575 000)	336 856	348 867	371 828	405 914	382 357	393 022	402 601	413 156	417 220	1.0	9.1
Luxury (R4,2m-R15,5m)	4 802 714	5 068 703	5 537 598	5 923 797	5 867 965	5 857 934	5 857 677	5 915 885	6 109 345	3.3	4.1
Provinces											
Eastern Cape	904 423	965 120	1 011 738	1 074 149	995 820	1 038 258	1 104 521	1 075 965	1 075 737	0.0	8.0
Free State	870 266	944 634	1 051 002	1 062 573	1 086 771	1 091 492	1 075 520	1 031 001	1 044 643	1.3	-3.9
Gauteng	1 102 696	1 203 339	1 320 567	1 407 834	1 374 720	1 385 659	1 409 856	1 411 614	1 428 236	1.2	3.9
KwaZulu-Natal	935 796	1 085 768	1 180 205	1 229 614	1 198 049	1 176 733	1 212 737	1 246 458	1 280 430	2.7	6.9
Limpopo	931 739	1 013 543	1 066 814	1 105 961	1 081 537	1 089 927	1 100 958	1 111 634	1 121 326	0.9	3.7
Mpumalanga	929 682	1 031 063	1 092 615	1 069 370	1 085 234	1 061 312	1 062 856	1 075 646	1 077 664	0.2	-0.7
North West	871 993	919 274	951 894	962 873	937 342	927 107	937 738	960 224	1 026 420	6.9	9.5
Northern Cape	869 070	998 316	1 077 736	1 109 220	1 050 369	1 026 235	1 075 039	1 166 228	1 169 378	0.3	11.3
Western Cape	1 195 588	1 292 189	1 442 580	1 566 179	1 516 142	1 528 364	1 528 238	1 577 305	1 642 131	4.1	8.3
Metropolitan regions											
PE/Uitenhage (Eastern Cape)	854 298	900 802	911 895	964 128	919 642	939 250	957 693	972 196	987 372	1.6	7.4
East London (Eastern Cape)	1 051 749	1 158 736	1 179 065	1 329 982	1 176 386	1 290 247	1 332 274	1 342 785	1 354 623	0.9	15.2
Bloemfontein (Free State)	1 104 888	1 205 654	1 410 701	1 405 429	1 398 176	1 374 600	1 398 154	1 444 712	1 404 249	-2.8	0.4
Greater Johannesburg (Gauteng)	1 132 150	1 211 169	1 338 904	1 428 132	1 387 390	1 372 821	1 427 618	1 452 712	1 470 712	1.2	6.0
Johannesburg Central & South	866 817	865 549	1 003 671	1 037 726	991 701	950 667	1 028 050	1 092 373	1 079 813	-1.1	8.9
Johannesburg North & West	1 425 053	1 497 872	1 678 723	1 788 503	1 696 748	1 727 791	1 779 534	1 799 288	1 847 398	2.7	8.9
East Rand	1 016 242	1 106 874	1 164 702	1 237 247	1 204 626	1 209 307	1 226 751	1 252 142	1 260 789	0.7	4.7
Pretoria (Gauteng)	1 183 954	1 311 898	1 460 668	1 531 609	1 514 339	1 547 995	1 540 158	1 514 526	1 523 754	0.6	0.6
Durban/Pinetown (KwaZulu-Natal)	999 129	1 096 162	1 161 780	1 250 253	1 175 680	1 169 001	1 232 031	1 287 884	1 312 098	1.9	11.6
Cape Town (Western Cape)	1 237 423	1 338 566	1 514 596	1 675 603	1 599 442	1 616 669	1 646 648	1 701 391	1 737 706	2.1	8.6
Coastal regions											
South Africa	1 219 148	1 373 048	1 441 654	1 560 790	1 519 971	1 526 255	1 525 846	1 563 055	1 628 005	4.2	7.1
Western Cape	1 312 807	1 459 612	1 582 949	1 690 873	1 697 032	1 719 996	1 668 246	1 654 463	1 720 895	4.0	1.4
West Coast	1 235 750	1 399 162	1 475 315	1 607 605	1 640 345	1 825 247	1 657 332	1 484 896	1 462 945	-1.5	-10.8
Cape Peninsula and False Bay	1 309 267	1 480 522	1 607 505	1 697 995	1 682 401	1 668 371	1 683 104	1 704 067	1 736 437	1.9	3.2
Southern Cape	1 354 868	1 444 751	1 577 995	1 716 464	1 738 274	1 764 800	1 649 414	1 655 506	1 796 136	8.5	3.3
Eastern Cape	1 111 209	1 098 281	1 162 297	1 265 862	1 197 847	1 211 584	1 287 468	1 295 568	1 268 827	-2.1	5.9
KwaZulu-Natal	1 188 052	1 476 014	1 435 500	1 584 725	1 437 848	1 414 151	1 525 360	1 667 938	1 693 905	1.6	17.8
South Coast	1 004 453	1 082 961	1 073 257	1 317 277	1 040 517	1 190 548	1 349 486	1 358 223	1 370 853	0.9	31.7
North Coast	1 311 159	1 668 237	1 642 496	1 726 806	1 624 097	1 512 318	1 601 827	1 819 194	1 973 884	8.5	21.5

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 R4,2 million in 2015.
House prices for the coastal regions are smoothed for all houses between 80m² and 700m², up to R15,5 million in 2015.

Average nominal house prices by middle-segment category in the fourth quarter of 2015

	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	885 333	1.4	3.4	1 261 104	3.1	5.7	1 975 806	1.7	7.6
Eastern Cape	690 750	1.8	0.6	962 036	1.8	-0.1	1 669 862	-2.5	8.2
Free State	815 559	-8.4	5.9	819 495	6.7	-19.4	1 335 727	-1.4	-6.2
Gauteng	839 252	4.5	-4.0	1 231 766	0.7	2.1	2 034 001	3.3	5.5
KwaZulu-Natal	722 588	-1.4	-3.0	1 141 905	4.0	7.6	1 981 499	0.9	15.9
Mpumalanga	703 588	0.4	-5.9	1 059 744	4.0	4.4	1 433 619	-2.3	-1.0
North West	717 187	6.0	19.0	923 668	3.4	3.0	1 487 845	4.7	13.9
Northern Cape	680 600	-1.7	-3.0	1 187 812	4.0	10.6	1 834 592	6.0	14.5
Limpopo	622 164	-6.5	-5.9	1 251 704	6.0	19.3	1 513 246	0.2	3.1
Western Cape	1 175 106	5.3	14.0	1 543 491	2.0	8.0	2 303 163	3.8	7.2
Metropolitan regions									
PE/Uitenhage (Eastern Cape)	647 648	-0.3	0.3	848 135	3.5	-5.1	1 481 425	-8.9	6.5
East London (Eastern Cape)	778 608	2.2	2.2	1 117 474	-12.0	0.6	2 112 021	6.4	8.1
Bloemfontein (Free State)	1 051 317	-7.8	2.9	1 261 339	5.1	-2.7	1 723 923	-0.8	-2.8
Greater Johannesburg (Gauteng)	926 222	6.2	-2.5	1 279 019	1.5	3.7	2 094 081	3.9	8.4
Johannesburg Central & South	666 220	3.6	14.4	963 130	-0.7	3.8	1 539 827	-7.9	-5.0
Johannesburg North & West	907 326	-1.3	-1.9	1 640 892	3.4	12.8	2 436 235	8.3	12.8
East Rand	1 012 672	10.6	-2.5	1 065 018	-4.0	-1.0	1 817 199	1.2	10.4
Pretoria (Gauteng)	787 711	1.2	-3.5	1 304 508	0.9	4.1	2 136 995	1.7	2.5
Durban/Pinetown (KwaZulu-Natal)	803 739	-1.0	-1.9	1 226 677	2.7	13.8	1 926 790	1.2	13.8
Cape Town (Western Cape)	1 301 386	6.1	16.0	1 696 217	-1.0	11.0	2 380 836	0.6	3.8

House prices are based on the total smoothed purchase price of houses (including all improvements) between 80m² and 400m², up to R4,2 million, in respect of which loan applications were approved by Absa Bank.

Key variables and projections

Annual averages		2010	2011	2012	2013	2014	2015	2016	2017
World									
Gross domestic product	Real % Δ	5.4	4.2	3.4	3.3	3.4	3.1	3.4	3.6
Advanced economies	Real % Δ	3.1	1.7	1.2	1.1	1.8	1.9	2.1	2.1
Emerging market and developing economies	Real % Δ	7.5	6.3	5.2	5.0	4.6	4.0	4.3	4.7
South Africa									
Gross domestic product	Real % Δ	3.0	3.2	2.2	2.2	1.5	1.3	0.9	2.0
$/R exchange rate	Rand per US$	7.32	7.25	8.21	9.65	10.84	12.78	16.46	17.25
Headline consumer price inflation rate	%	4.3	5.0	5.7	5.8	6.1	4.6	6.3	6.4
Mortgage interest rate (end of period)	%	9.00	9.00	8.50	8.50	9.25	9.75	11.00	11.00
Household disposable income	Real % Δ	3.7	4.6	2.4	2.5	1.5	1.7	1.3	1.8
Household final consumption expenditure	Real % Δ	3.9	4.9	3.4	2.9	1.4	1.5	0.8	1.4
Household final consumption expenditure	% of GDP	59.0	59.4	60.5	60.6	60.6	60.8	61.0	61.0
Household saving to disposable income	%	-0.8	-1.1	-2.1	-2.5	-2.4	-2.2	-1.7	-1.4
Household debt to disposable income	%	81.9	79.8	79.9	79.5	78.3	78.3	78.2	78.3
House prices (80m²-400m², ≤R4m)	Nominal % Δ	7.4	1.8	0.6	10.0	9.3	6.1	5.0	4.5
House prices (80m²-400m², ≤R4m)	Real % Δ	3.0	-3.1	-4.7	4.0	3.1	1.5	-1.2	-1.8

Source: IMF, SARB, Stats SA, Absa