Property barometer

19 September 2023

0.8% ↓
y/y FNB HPI

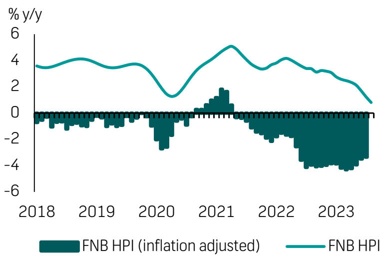
50.08 ↓
Market strength index

11 weeks and five days ↓
Time on market

Key themes:

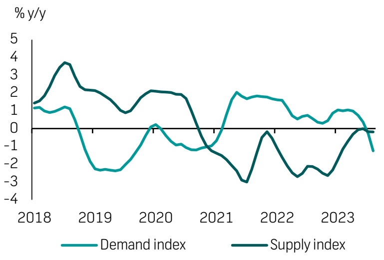
- Global inflation continues to decelerate, allowing central banks to signal the end of their hiking cycles.
- On the domestic front, forecasts indicate that interest rates have reached their peak, with a measured cutting cycle coming into view in the latter half of 2024. Nevertheless, the short-term prospects for this forecast carry an upside risk bias, where the possibility of another rate hike looms if the US Federal Reserve raises rates further or if inflation surprises to the upside. In the medium term, we perceive the risk tilting toward the downside, where a pronounced decline in global activity and inflation could prompt central banks to implement rate cuts sooner than currently projected.
- In line with deteriorating affordability, buying activity continues to decline across the spectrum, with volumes now at pre-pandemic levels. Our indicators suggest widespread downscaling in the market, supporting buying activity in lower-priced brackets.
- The global housing market continues its trend of moderation following a robust resurgence in 2021 and 2022, owing to the mounting cost of debt and inflation, which are constraining demand. While real house prices are declining across most nations, the underlying factors vary between advanced and emerging economies. In advanced economies, prices are receding from elevated levels, bolstered by comparatively resilient labour markets and shortages in housing supply. In contrast, emerging markets contend with elevated real interest rates, subdued income growth, and higher post-pandemic unemployment rates, particularly among younger demographics, resulting in subdued demand from first-time buyers.

Figure 1: FNB HPI



Source: FNB Economics

Figure 2: Market strength indices



Source: FNB Economics

House price growth slows in August

The FNB House Price Index growth slowed to 0.8% y/y in August, down from 1.2% in July (revised from 1.1%) (Figure 1). Our internally developed market strength index, derived from our property valuers' database, continues to show declining levels of demand, while the supply of properties for sale was relatively stable in August (Figure 2). As shown previously, mortgage volumes are now tracking lower than

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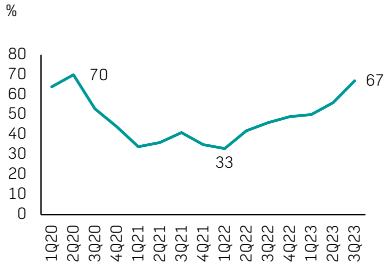
Figure 3: Proportion of properties that take three months or more to sell



Source: FNB Estate Agents survey, FNB Economics

pre-pandemic levels. Feedback from our latest Estate Agents survey suggests that two-thirds (67%) of listed properties now take three months or more to sell, up from 56% in 2Q23 (Figure 3). Nevertheless, 50% of interviewed agents expect activity to pick up in the next three months, especially in the affordable market, largely due to seasonal factors.

More positively, recent macroeconomic data shows a level of resilience in domestic economic activity, despite structural constraints, including acute electricity shortages and railway network inefficiencies. Similarly, the labour market continues to surprise to the upside, with formal employment now back at pre-pandemic levels. Nevertheless, available data suggests that wage growth is unable to keep up with the elevated living costs: compensation of employees increased by 5% y/y in 2Q23, below the 6.2% inflation in the same period. However, surveyed wage expectations signal that wage growth could accelerate slightly above inflation next year, which could provide some relief for consumers.

Monthly FNB House Price Index (% y/y)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2001		-1.7	-0.7	-0.4	-0.5	0.7	3.0	5.9	8.6	10.6	11.6	11.8
2002	11.6	12.0	12.8	13.8	14.2	14.0	13.6	13.1	13.2	13.5	13.8	13.8
2003	14.0	14.5	15.3	16.2	17.1	18.2	19.3	20.3	21.4	22.9	24.7	27.0
2004	29.4	31.3	32.4	33.2	33.7	33.9	34.5	35.1	35.3	35.2	35.3	35.4
2005	34.8	33.8	32.9	31.8	30.7	29.7	28.8	27.9	26.9	25.7	23.9	21.7
2006	19.9	18.5	17.6	17.3	17.3	17.2	16.9	16.5	15.8	15.1	14.4	14.0
2007	14.0	14.3	14.9	15.7	16.3	16.6	16.3	15.5	14.5	13.2	12.0	11.0
2008	9.7	8.0	5.5	2.5	-0.4	-2.9	-4.7	-5.6	-5.8	-5.6	-5.1	-5.1
2009	-5.0	-5.0	-4.5	-3.8	-2.8	-1.8	-0.7	0.0	0.5	0.9	1.2	2.0
2010	3.0	3.9	4.6	5.2	5.6	5.5	5.0	4.7	4.5	4.1	3.7	3.1
2011	2.4	2.1	2.0	2.2	2.5	2.8	3.3	3.6	3.8	3.9	4.1	4.4
2012	4.7	4.8	4.8	4.7	4.6	4.7	4.9	5.2	5.6	5.7	5.8	5.8
2013	5.9	6.0	6.1	6.1	6.1	6.3	6.5	6.4	6.3	6.5	7.0	7.7
2014	8.2	8.3	8.2	8.3	8.4	8.3	8.0	7.8	7.6	7.2	6.8	6.2
2015	5.8	5.9	6.3	6.5	6.6	6.4	6.3	6.2	6.1	6.2	6.3	6.3
2016	6.3	6.2	6.1	6.0	5.9	5.8	5.7	5.6	5.4	5.1	4.8	4.8
2017	4.7	4.6	4.5	4.3	4.2	4.1	4.1	4.2	4.2	4.2	4.0	3.8
2018	3.5	3.3	3.4	3.5	3.7	3.8	3.9	4.0	4.1	4.2	4.1	4.0
2019	3.8	3.6	3.4	3.4	3.4	3.5	3.6	3.7	3.8	3.7	3.5	3.0
2020	2.4	1.9	1.4	1.3	1.4	1.7	2.3	2.8	3.2	3.6	3.8	4.1
2021	4.4	4.7	4.9	5.1	4.9	4.5	4.1	3.7	3.5	3.3	3.4	3.7
2022	3.8	4.0	4.2	4.0	3.8	3.6	3.4	3.4	3.1	3.2	3.2	3.1
2023	2.8	2.6	2.5	2.3	2.1	1.7	1.2	0.8				

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ADDENDUM - NOTES:

Note on The FNB House Price Index:

The FNB Repeat Sales House Price Index has been one of our repertoire of national house price indices for some years, and is based on the well-known Case-Shiller methodology which is used to compile the Standard & Poor's Case-Shiller Home Price Indices in the United States.

This "repeat sales approach" is based on measuring the rate of change in the prices of individual houses between 2 points in time, based on when the individual homes are transacted. This means that each house price in any month's sample is compared with its own previous transaction value. The various price inflation rates of individual homes are then utilized to compile the average price inflation rate of the index over time.

The index is compiled from FNB's own valuations database, thus based on the residential properties financed by FNB.

We apply certain "filters" and cut-offs to eliminate "outliers" in the data. They main ones are as follows:

- The maximum price cut-off is R15m, and the lower price cut-off is R20 000.
- The top 5% of repeat sales price growth rates, and the bottom 5% of growth rates are excluded fromthe data set.
- Repeat transactions that took place longer than 10 years after the previous transaction on the same home are excluded, as are repeat transactions that took place less than 6 months after the previoustransaction on the same home.
- The index is very lightly smoothed using Central Moving Average smoothing technique.

Note on the FNB Valuers' Market Strength Index:

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.