Property barometer

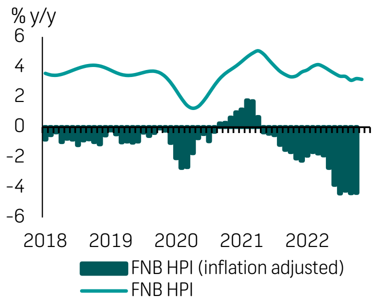
7 December 2022

3.2%
y/y FNB HPI

50.19
Market strength index

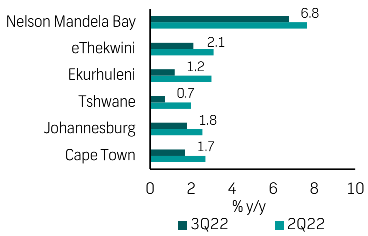
9 weeks & 4 days
Time on market

Figure 1: FNB HPI



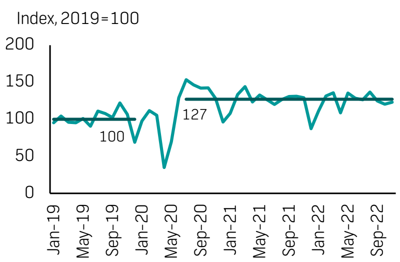
Source: FNB Economics

Figure 2: House price growth by region



Source: FNB Economics

Figure 3: Mortgage applications



Source: FNB Economics

Key themes:

- Global inflation looks set to remain high and above-targets for some time, while policy rates are likely to rise further as central banks seek to dampen demand to alleviate price pressures and inflation expectations. Domestically, we expect that the pace of interest rate tightening will now slow as inflation appears to have peaked and a positive real interest rate is coming into view. We pencil in a further 50bps hike at the next meeting, which will likely be the last in the current cycle, taking the peak to 7.5%. Mild interest rate cuts are now firmly in the horizon, with the first 25bps cut likely in 4Q23, and another in 1Q24. A stronger lift in interest rates now means monetary policy will have more space to support economic activity following next year's slowdown and as inflation sustainably slows towards the preferred 4.5% anchor.
- The steeper-than-expected interest rate hikes and slower aggregate wage growth mean that housing affordability is becoming more stretched, suggesting the market will slow further in the coming months. Nevertheless, internal mortgage applications, market-wide mortgage volumes, property tax receipts and mortgage extensions data all suggest that the slowdown to date has been modest.
- Incoming data shows some positive momentum, with the labour market and GDP growth outperforming expectations in 3Q22, despite the mounting headwinds.
- Our research shows that there are four key factors that have supported market resilience: the pandemic-induced changes in consumer preferences, structurally improved affordability following a decade-long real house price correction, credit availability, and a higher household formation rate.

Annual house price growth moved lower in November

Annual growth in the FNB House Price Index was unchanged in November, at 3.2% y/y, following October's outcome that was upwardly revised to 3.2% from 3.0% (Figure 1). Slower price growth appears to be broadbased, with Nelson Mandela Bay a top pick among the six major metros in South Africa (Figure 2). The slowing price growth trend from the post-pandemic highs reflects relatively softer demand amid higher living costs and deteriorating affordability.

Market volumes continue to soften, albeit modestly and are still above pre-pandemic levels. Similarly, internal mortgage applications, while softening, are still significantly ahead of the pre-pandemic 2019 levels (Figure 3). Disaggregating by income level, we note that the resilience has come from higher income brackets. Indeed, relative to the July 2020 volumes when stringent lockdown restrictions were removed, applications from those earning<R450k pa and those earning between R450k and R750k were lower by approximately 33% and 20%, respectively, in November 2022. In contrast, demand from those earning >R750k pa

Economists

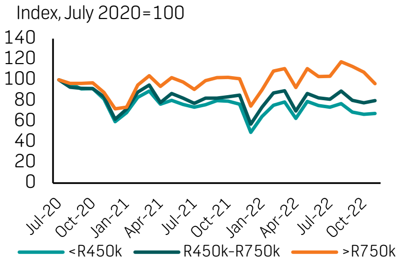
Siphamandla Mkhwanazi
Koketso Mano

Statistician
Sameel Ambaram

Contact us:

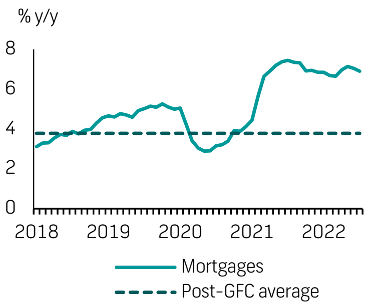
Website: www.fnb.co.za/economics-commentary
Email: Siphamandla.Mkhwanazi@fnb.co.za
Tel: 087 312 3280

Figure 4: Evolution of applications by income level



Source: FNB Economics

Figure 5: Mortgage extension



Source: SARB, FNB Economics

was only 4% lower (Figure 4). This was expected, as these households generally have stronger balance sheets and are less sensitive to interest rate changes. In line with this, mortgage extension remains relatively robust, with the latest data showing growth of 6.9% y/y in October, much quicker than the post-Global Financial Crisis (GFC) average of 3.8% (Figure 5). Nevertheless, surveyed data shows signs of a weakening market, with estate agent activity slowing towards the long-term average, and property sales due to financial pressure building up in lower priced segments.

The 3Q22 Quarterly Labour Force Survey (QLFS) data showed that the economy continued on a job recovery path, posting net job gains of 203 546 (or 1.3% q/q). Compared to the same period last year, net job gains were 1 483 396 (or 10.4 % y/y). This took the unemployment rate to a still high 32.9%, from 33.9% in the pevious quarter. Consensus expectations were for the unemployment rate to ease marginally to 33.5%. Nevertheless, employment is still approximately 610 000 jobs (or 3.7%) below the pre-pandemic 3Q19 level. Similarly, GDP growth outpefromed expectations and grew by a solid 1.6% q/q (seasonally adjusted but not annualised), following a 0.7% quarterly decline in 2Q22. The level of GDP is now 1.2% (or R13.2 billion, not annualised) above the pre-pandemic 4Q19 level. This outcome suggests that growth will likely average 2.2% in 2022, above our initial estimate of 1.9%. Next year, economic growth is expected to moderate alongside softer global growth. We pencil in growth of 1.2% for 2023, gradually lifting to 1.6% and 1.8% in 2024 and 2025, respectively.

We expect buying activity to continue to slow towards pre-pandemic levels as financial conditions tighten and household budgets are squeezed further. We are concerned about the mounting recessionary headwinds, including escalated geopolitical tensions and enduring inflation, which could see a more accelerated decline in market activity. In this report, we identified four key fundamentals that have anchored market activity against swelling consumer pressures. See our report for a comprehensive outlook.

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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	

FNB SA Economic Forecast

Economic Indicator	2020	2021	2022f	2023f	2024f
Real GDP %y/y	-6.3	4.9	1.9	1.2	1.6
Household consumption expenditure %y/y	-5.9	5.6	3.0	1.4	1.4
Gross fixed capital formation %y/y	-14.6	0.2	4.0	3.8	4.3
CPI (average) %y/y	3.3	4.5	6.9	5.7	4.7
CPI (year end) % y/y	3.1	5.9	7.3	4.8	4.6
Repo rate (year end) %p.a	3.50	3.75	7.00	7.25	7.00
Prime (year end) %p.a	7.00	7.25	10.50	10.75	10.50
USDZAR (average)	16.60	14.80	16.40	17.20	17.40

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.