Property Insights

New Mortgage Lending in the 2nd quarter showed a small positive growth rate, but remains mired in mediocrity.

John Loos:
Property Strategist

FNB Commercial Property Finance

Tel: 087-312 1351

Email:
john.loos@fnb.co.za

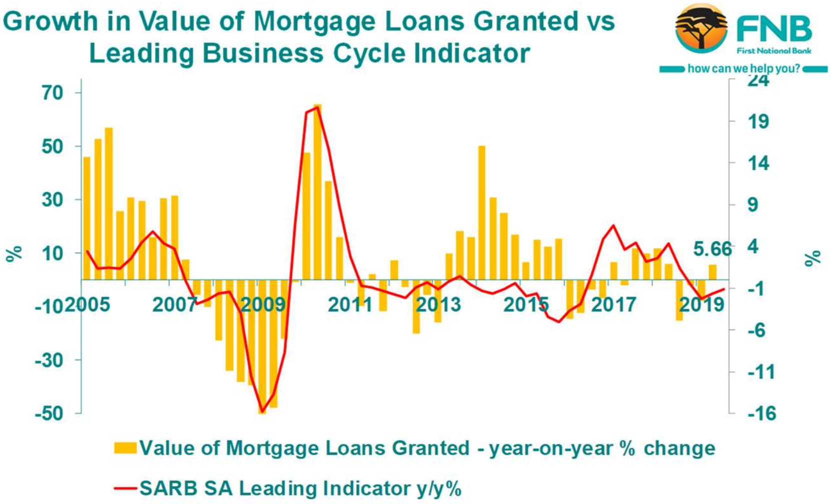
2nd Quarter 2019 SARB New Mortgage Lending data, released in the September SARB Quarterly Bulletin, showed continued "mediocrity", but with the value of new mortgage loans granted showing a small positive growth rate of 5.66%. This is a mild improvement from the prior quarter's -7.8% decline. To give perspective as to why we say "small positive growth rate", strong growth rates in this variable can get up to as high as 50% and even beyond on the odd occasion.

The mild improvement arguably reflects a slightly better economic growth rate in the 2nd quarter, compared to a contraction in the 1st quarter.

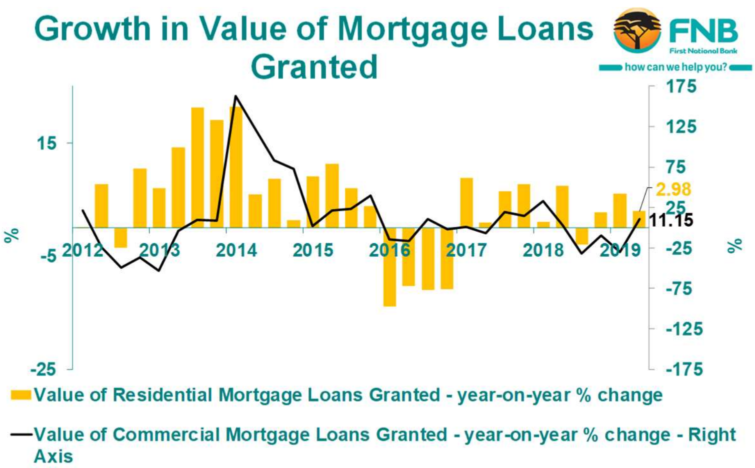
With New Mortgage Lending often being a more "leading" part of the economy, we see that its cyclical growth turning points can traditionally often be in line with or close to, timing-wise, the SARB Leading Business Cycle Indicator.

The SARB Leading Indicator's slightly diminished rate of year-on-year decline in the 2nd quarter, compared to the 3rd quarter, had led us to expect that the decline in new mortgage lending could begin to "level off", and this return to mildly positive growth in new mortgage loans granted in the 2nd quarter may be a sign of such a "levelling off.

But the fact that the leading indicator remains in year-on-year decline territory, even going into the 3rd quarter, leads us to expect that the pace of new mortgage lending growth would remain weak at best.



COMMERCIAL MORTGAGE LOANS WERE A POSITIVE GROWTH CONTRIBUTOR

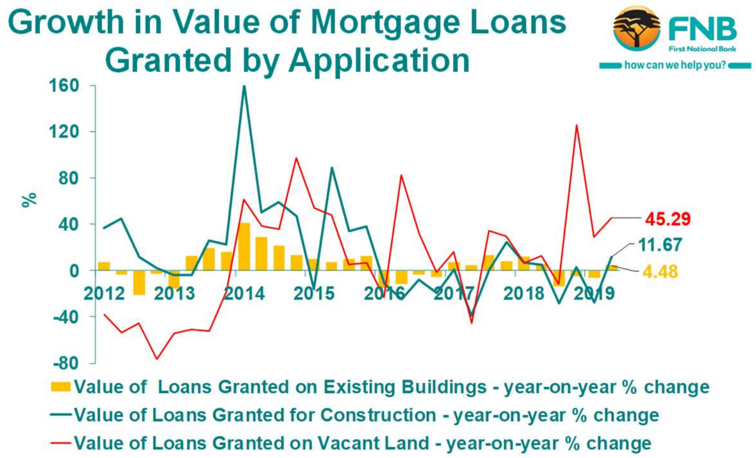


The large New Residential Mortgage sub-component saw its growth slow slightly in the 2nd quarter of 2019 to 2.98% year-on-year, down from 6.09% in the 1st quarter.

It was therefore the New Commercial Mortgage Grants component's strengthening, from a year-on-year decline of -29.6% in the 1st quarter to positive growth of +11.15% in the 2nd quarter of 2019, that caused overall new loans granted growth to turn mildly positive in the 2nd quarter.

Despite some modest growth in New Commercial Loans Granted, however, the value of these grants remains -10.4% down on the multi-year high for the corresponding quarter of 2014, reflecting the economic weakness and low business confidence of recent years.

MORTGAGES BY APPLICATION



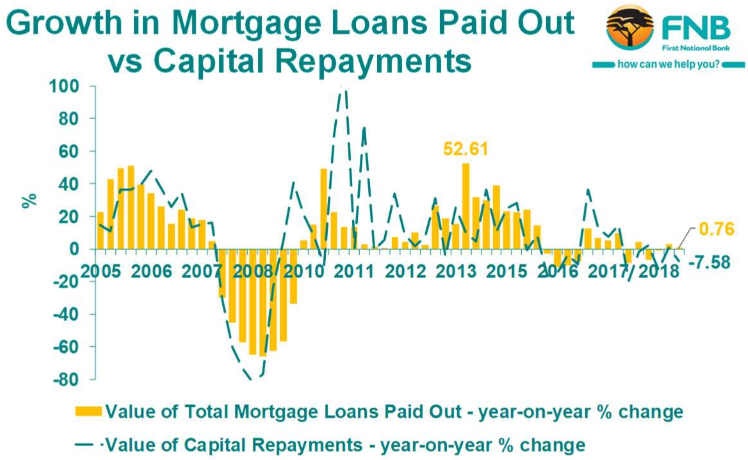
We also view New Mortgage Loans Granted "By Application", i.e. on Existing Buildings vs Vacant Land vs for New Construction.

Typically, market and economic slowdowns bring about a more extreme decline in new building activity than in existing property transactions, and this means that Mortgage Lending for New Construction of buildings is the most cyclical of the applications.

Interestingly, the most recent quarter's data shows some positive growth in New Mortgage Loans Granted for Construction, to the tune of +11.67%, while New Loans Granted for Existing Buildings showed a slower +4.48% growth rate. The strongest growth, however, was in the area of New Mortgage Loans Granted for Vacant Land, recording 45.29% year-on-year in the 2nd quarter. However, we would caution against reading too much into this recent spike, as this category makes up only a tiny 3.3% of total grants, and is thus subject to huge volatility.

With new building planning at mediocre levels of late, and economy-wide business confidence weak, we are not yet convinced that a sudden positive growth rate in New Mortgage Loans Granted for Construction is sustainable either. In what are still tough economic times, we would expect Loans Granted on Existing Buildings to be the relative "outperformer".

NEW LOANS PAID OUT VS CAPITAL REPAYMENTS



New Mortgage Loans Paid Out saw a very small 2nd quarter increase of +0.76%%, slower than the +2.95% year-on-year in the 1st quarter of 2018.

The trend in the Value of Capital Repayments, which would be driven significantly by loan settlement upon sale of a property, was thus also in the doldrums, with a decline of -7.58% year-on-year in the 2nd quarter of 2019.

CONCLUSION

While returning to some mild positive growth in terms of the value of new loans granted, new mortgage lending growth remains mediocre, reflecting weak economic times, but economic times that were slightly better in the 2nd quarter of 2019 than in a dismal 1st quarter.

The SARB Leading Business Cycle Indicator had perhaps pointed to a very slight improvement, with its own year-on-year rate of decline having diminished slightly in the 2nd quarter compared to the 1st quarter, and new mortgage lending can often track the Leading Indicator in terms of growth direction.

The New Commercial Mortgage Loans Approved category was the fastest growth area in the 2nd quarter, whereas the Residential Component's growth slowed in the same quarter.

All-in-all, though, despite what is a modest growth rate in the 2nd quarter, the value of total mortgage loans granted in the 2nd quarter continued to reflect weak economic conditions, remaining -4.06% lower than the corresponding quarter of 2015, which itself was a multi-year high. It was shortly after that 2015 high, in 2016, that the property market became noticeably weaker and real property capital growth turned negative. This has shown in the stagnant mortgage growth of recent years.

Disclaimer