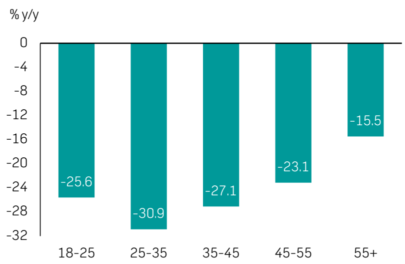
Economics weekly

1 December 2023

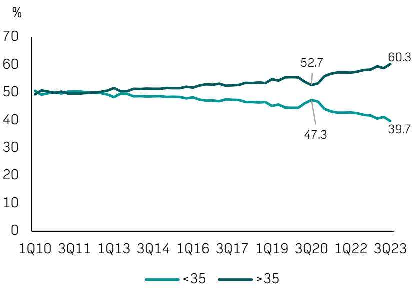
Lower activity in the property market overall, but who is currently buying?

Figure 1: YTD change in mortgage volumes by age group



Source: Deeds, FNB Economics

Figure 2: Share of volumes by age group



Source: Deeds, FNB Economics

Our previous report delved into the apparent disparity between mortgage advances and homebuying activity. We suggested that the diverse saving strategies adopted by homeowners during the pandemic cloud the true extent of the underlying weakness in the homebuying market. We maintained that these trends would eventually converge as savings deplete. In this piece, we provide an update with an assessment of buying activity across age groups and price segments.

Younger buyers are more despondent…

Year-to-date (January to September), new mortgage volumes have declined by 28%, according to the latest available Deeds registrar data. Measured from the most recent peak in 4Q20, market volumes are down by just over 40%, still better than the peak-to-trough decline of approximately 69% between 3Q07 and 1Q09 in the aftermath of the Global Financial Crisis (GFC). The decline has been more pronounced among younger buyers (Figure 1). In fact, the share of mortgage volumes attributed to individuals aged below 35 has declined from the most recent peak of 47.3% in 3Q20 to 39.7% in 3Q23. By contrast, the share of >35 has risen from 52.7% to 60.3% in the same period (Figure 2). This reflects the disproportionate impact of subdued economic activity and high interest rates on younger individuals, while stronger balance sheets often insulate older individuals.

Nevertheless, the declining home ownership levels among younger individuals predates the current cycle. In 2000, the below 35 age group accounted for 53.5% of mortgage volumes, compared to just 40.5% currently (YTD). This is due to factors such as high youth unemployment, changes in preferences (such as lower affinity to owning assets), as well as an inadequate supply of affordable housing units. Whatever the underlying cause, this has broader implications for wealth distribution in South Africa.

Volumes in lower priced segments are holding up better

Ranking mortgage transactions by purchase price, we note that the decline in activity is more pronounced in higher priced segments. YTD, volumes in the bottom 20% bucket,

Economists

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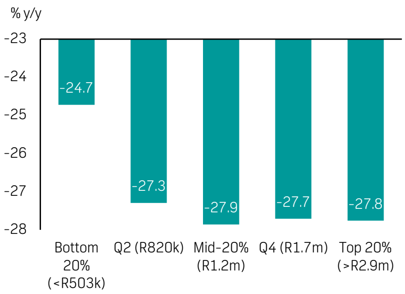
Figure 3: YTD change in mortgage volumes by price quintiles



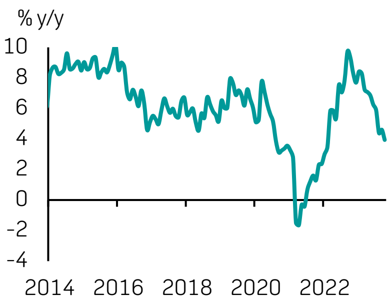
Source: Deeds, FNB Economics

with an average purchase price of approximately R500,000, are 24.7% lower compared to the same period last year (Figure 3). In contrast, volumes in the top 20% (average R2.9 million) are 27.8% down. This may sound counterintuitive, given the high-interest rate environment which tends to have a disproportionate impact on lower-income earners and first-time buyers, as demonstrated by younger buyers' despondency above. Instead it reflects the buying-down effect, where existing and new buyers seek cheaper options as affordability diminishes. Indeed, the average size of a mortgage has compressed by 2.5% y/y, from R1.4 million in 3Q22 to R1.3 million in 3Q23. The last time we experienced this was during the GFC, where the average bond size declined by as much as 7.1% in 4Q08.

Overall, these trends align with our expectations and reflect higher debt servicing costs, reduced affordability, and tighter lending standards. Our projections of slightly lower interest rates and moderately better growth outcomes should help stabilise mortgage volumes next year.

Week in review

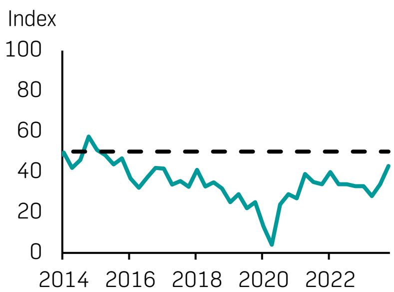
Figure 4: Private sector credit



Source: SARB, FNB Economics

Private sector credit extension (PSCE) underwhelmed market expectations and slowed to 3.9% y/y in October, from 4.6% in September. The deceleration was supported by corporate credit, which slowed from 5.1% to 4.2% in October. General loans and advances, which account for approximately 46% of corporate credit, slowed from 5.5% in September, to 3.5% in October. Mortgages, accounting for 23%, were virtually unchanged at 3.5% y/y. Meanwhile, instalment sales, which mainly comprises vehicle asset finance and account for 7% of corporate credit, accelerated to 15.3%, from 14.7% in the previous month. Household credit growth moderated to 5.2% in October from 5.5% in the previous month. Mortgage advances slowed to 4.7% y/y from 5.0% previously, as high interest rates continue to constrict home buying activity. Instalment sales credit grew by 7.0%, modestly slower than the 7.1% recorded in September. The relative resilience of instalment sales in part reflects a shift in household preferences towards bigger and more pricier cars, such as light commercial vehicles (LCVs) and sports utility vehicles (SUVs). Overall, unsecured credit slowed to 5.1% from 5.8%, as debt service costs bite and lending standards tighten. Nevertheless, the utilisation of credit cards remains robust, with outstanding credit card balances rising by 9.0% in October, unchanged from the previous month.

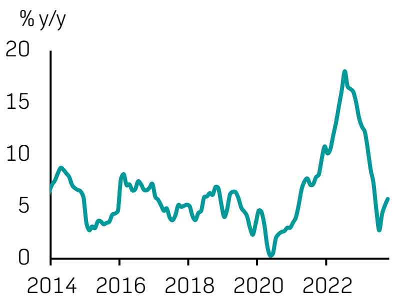
Figure 5: FNB/BER Building Confidence Index



Source: BER, FNB Economics

The **FNB/BER Building Confidence Index** gained nine points to reach 43 index points in 4Q23, the highest level in eight years. Overall confidence was spurred by a 24-point increase in the sentiment of architects, while hardware retailers also saw their confidence increase by 18 points, although coming from a depressed position. While the overall results are reasonably upbeat, the divergence between the residential and non-residential sub-segments is becoming clearer. Although activity for residential building work still held up well, order books deteriorated. Meanwhile, non-residential builders are optimistic (confidence moved further above 50) partly due to much better overall profitability.

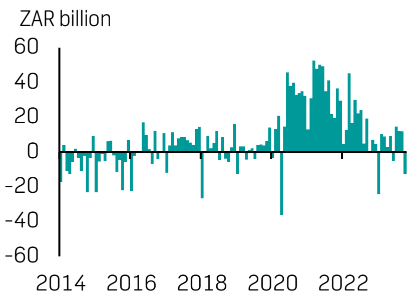
Figure 6: PPI



Source: Stats SA, FNB Economics

Producer inflation climbed further to 5.8% y/y in October from 5.1% y/y in September, with monthly pressure easing slightly to 1.0% from 1.5% but still above the 0.6% median for this year. The annual increase in producer inflation primarily reflected a jump in petroleum-related product inflation, particularly fuel, to 15.4% y/y from 4.6% y/y and diesel to 3.8% y/y from -3.9% y/y over the corresponding period. Food product inflation also increased to 5.5% y/y from 4.5% y/y, underscoring upward pressure from meat inflation, fruits and vegetables, as well as sugar and other food products. While having moderated to 6.3% y/y from 6.5% y/y, inflationary pressure from metals, machinery, and equipment persists. Motor vehicle inflation remained in the double-digits but slowed to 11.5% y/y from 12.3% y/y, while inflation for transport equipment parts was 3.6% y/y from 6.0% y/y. Intermediate producer inflation remained in deflation for the fourth successive month, reflecting further easing in input costs. Overall, producer inflation is up by 7.3% YTD (January-October), slightly below our 7.7% forecast for this year, but reflects a material moderation from the 14.4% average for 2022.

Figure 7: Trade balance

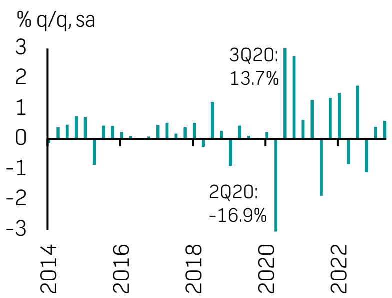


Source: SARS, FNB Economics

The **trade balance** (not seasonally adjusted) unexpectedly recorded a deficit of R12.66 billion in October from a downwardly revised surplus of R11.97 billion (previously R13.10 billion) in September. Exports increased by 6.8% y/y but declined by 1.8% m/m to R170.4 billion. Meanwhile, imports grew strongly by 11.0% y/y and 13.3% m/m to R183.0 billion. The YTD trade balance has recorded a surplus of R28.48 billion, reflecting significant deterioration from a surplus of R180.75 billion registered over the corresponding period last year. Exports have generally underperformed, up 0.7% YTD compared to imports, up by 11.2% YTD. This is consistent with our current account deficit forecast of around 2.5% of GDP this year from a deficit of 0.5% in 2022. The ongoing congestion and delays at the Durban port should drag trade and incur additional costs for export and import businesses.

Week ahead

Figure 8: GDP

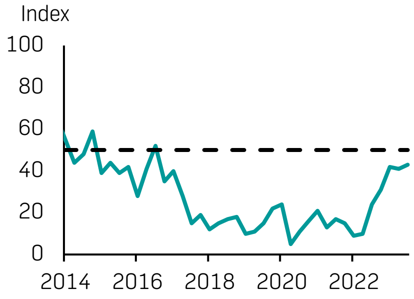


Source: Stats SA, FNB Economics

On Tuesday, **GDP** data for 3Q23 will be released. The economy expanded by 0.6% q/q in 2Q23, sustaining the growth momentum from 0.4% in the first quarter, even as load-shedding intensified. The quarterly GDP expansion reflected increased economic activity in six sectors, while economic activity decreased in the remaining four. Our estimate is for quarterly GDP growth to have materially slowed to near-zero, with a risk of marginal contraction as the growth momentum in the productive (mining and manufacturing) sectors reversed during the reference quarter. Increased activity, though with the usual volatility, is expected from the agricultural sector as delayed harvesting in 2Q23 ensued in the third quarter. While we expect the private services sectors to have supported growth, the cost-of-living pressures confronting the consumer imply that the risk is biased to the downside.

On Wednesday, the **FNB/BER Civil Confidence Index** for 4Q23 will be published. The Civil Confidence Index increased by two index points to 43 in 3Q23, reflecting sustained improvement in the business mood of civil engineering contractors. At 43 points, the

Figure 9: FNB/BER Civil Construction Confidence Index

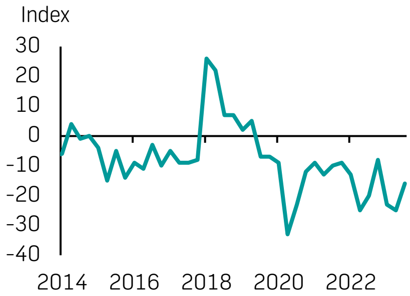


Source: BER, FNB Economics

index was at its highest since September 2016, when it registered 52. It was also 19 points higher than the same quarter last year. Improved confidence was underpinned by a sustained rise in construction activity, particularly related to renewable energy investment and tendering activity in roads and water infrastructure. In addition, lower tendering competition has also underpinned improvement in sentiment, with the index measuring tendering price competition at its lowest since 2014. The better confidence outcome suggests a continued, albeit slow, improvement in the annual gross value added by the construction sector in the third quarter.

On Thursday, SA's **gross foreign exchange reserves** data for November will be released. SA's gross foreign exchange reserves for October declined marginally to $61.0 billion, from $61.1 billion in September. The decrease largely reflected foreign exchange payments made on behalf of government, including a partial repayment of $500 million on a loan from the IMF. Partly countering these were higher gold reserves given an increase in the dollar-denominated gold price.

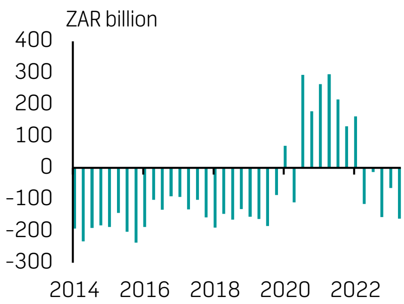
Figure 10: FNB/BER Consumer Confidence Index



Source: BER, FNB Economics

Also on Thursday, the **FNB/BER Consumer Confidence Index (CCI)** for 4Q23 will be published. The CCI improved to -16 index points in 3Q23, this is after plunging to -25 points in 2Q23 from -8 points in 4Q22. This reading reflected a rebound in the confidence of higher-income households, which was likely weighed on by adverse political and economic events during 2Q23. Nevertheless, confidence across the spectrum remains below the long-term average, highlighting concerns regarding general economic prospects. While consumer perceptions of the appropriateness to purchase durable goods at present are less pessimistic, views on expected household finances have barely changed. This suggests some contention within consumers, as softer inflation and continued job creation should allow slower real wage compression and strengthen spending capacity. However, this is confronted by a resilient US economy that poses an upside risk to global financial conditions, risk aversion, and the rand. Ultimately, confidence is less pessimistic, but still weak.

Figure 11: Current account balance



Source: SARB, FNB Economics

Also on Thursday, data on the **current account balance** for 3Q23 will be published. The current account deficit widened to R160.7 billion in 2Q23 from R63.7 billion in 1Q23. As a percentage of GDP, the current account deficit was -2.3% in 2Q23, compared to -0.9% recorded in 1Q23. The worsening in the current account balance reflected a narrowing in the trade balance, given weaker terms of trade as well as buoyant import volumes. These adverse outcomes highlight the impact of weaker export commodity prices and local infrastructure constraints, which should be exacerbated by continued investment in alternative sources of energy. A current account deficit reflects a lack of savings generated in the local economy which will have to be sourced externally, likely placing upward pressure on the yield required to access those funds.

Lastly on Thursday, data on **electricity generated and available for distribution** for October will be published. In September, electricity production (not seasonally adjusted) declined by 1.0% y/y, after declining by 6.4% in August. Meanwhile, seasonally adjusted electricity fell by 0.9% m/m, reversing the 0.9% monthly expansion in the prior month. Still, production expanded by 0.7% in the third quarter, suggesting a positive quarterly contribution to real GDP growth.

Tables

The key data in review

Date	Country	Release/Event	Period	Act	Prior
29 Nov	SA	Private sector credit extension % y/y	Oct	3.9	4.6
	SA	FNB/BER Building Confidence Index	4Q23	43.0	34.0
30 Nov	SA	Producer inflation % y/y	Oct	5.8	5.1
	SA	Producer inflation % m/m	Oct	1.0	1.5
	SA	Trade balance R billion	Oct	-12.7	12.0

Data to watch out for this week

Date	Country	Release/Event	Period	Survey	Prior
5 Dec	SA	GDP s.a. % q/q	3Q23	--	0.6
	SA	GDP % y/y	3Q23	--	1.6
6 Dec	SA	FNB/BER Civil Confidence Index	4Q23	--	43.0
7 Dec	SA	Gross foreign exchange reserves $ billion	Nov	--	61.0
	SA	FNB/BER Consumer Confidence Index	4Q23	--	-16.0
	SA	Current account balance R billion	3Q23	--	-160.7
	SA	Electricity production % y/y	Oct	--	-1.0

Financial market indicators

Indicator	Level	1 W	1 M	1 Y
All Share	75,534.36	0.1%	8.1%	0.9%
USD/ZAR	18.85	0.2%	0.0%	9.6%
EUR/ZAR	20.53	0.0%	2.6%	14.7%
GBP/ZAR	23.80	0.9%	3.7%	14.7%
Platinum US$/oz	929.53	1.2%	-0.7%	-10.4%
Gold US$/oz	2,036.41	2.2%	2.0%	15.1%
Brent US$/oz	82.83	1.7%	-5.3%	-3.0%
SA 10 year bond yield	9.97	-1.4%	-6.7%	-2.7%

FNB SA Economic Forecast

Economic Indicator	2021	2022	2023f	2024f	2025f	2026f
Real GDP %y/y	4.7	1.9	0.8	1.2	1.6	1.8
Household consumption expenditure % y/y	5.8	2.5	1.1	1.3	1.3	1.4
Gross fixed capital formation % y/y	0.6	4.8	5.3	3.2	4.4	3.8
CPI (average) %y/y	4.5	6.9	5.9	5.2	4.8	4.7
CPI (year end) % y/y	5.9	7.2	5.2	4.7	4.9	4.6
Repo rate (year end) %p.a.	3.75	7.00	8.25	7.50	7.00	7.00
Prime (year end) %p.a.	7.25	10.50	11.75	11.00	10.50	10.50
USDZAR (average)	14.80	16.40	18.50	18.10	17.50	18.40

Source: FNB