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PROPERTY BAROMETER –PROPERTY WEEKLY

Late last week, many South African eyes seemed to be firmly on 2 Rating Agencies, who didn't give us any good news, but the less talked about event was the OPEC meeting which was good news for households and property.

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Last week's economic events continued to point to ongoing economic stagnation as we head towards 2016. This is negative for near term residential property demand. Perhaps the good news, though, was that last week's OPEC meeting did not end in oil supply cuts and upward pressure on oil prices. This outcome has the potential to limit the magnitude of local consumer price inflation acceleration, reducing the risk of the SARB being required to lift interest rates at a faster pace than the current "snails' pace".

There were few economic surprises last week, but simultaneously there was limited good news at best for the South African economy or its property market.

Earlier in the week, 2 of the highly-watched up to date data releases, namely the Barclays Manufacturing Purchasing Managers' Index, and New Vehicle Sales data as published by NAAMSA, were hardly cause for great optimism.

The Manufacturing PMI slumped from 48.1 in the previous month to a 6-year low of 43.3 in November, with anything below the 50 mark signaling possible contraction in Manufacturing Output. In short, the country's large Manufacturing sector is under severe pressure.

New Passenger Vehicle sales numbers, a figure included in the SARB's Leading Business Cycle Indicator, showed a significantly lesser decline at least, to the tune of -0.7% year-on-year, compared to -11% in the previous month, which at best suggests the possibility of a bottoming out in the recent vehicle sales slump. And then came Electricity Sales figures for October, which provided little surprise by showing the 7th consecutive month of year-on-year decline.

But the week's data releases, as dismal as they were, were not the big news. Rather, we all waited for the late-Friday Fitch and Standard and Poor's announcements on their sovereign credit ratings for South Africa. Fitch did what was widely expected and downgrade South Africa to BBB-, the lowest so-called "Investment Grade" notch, the next level down being so-called "Junk Status".

Standard and Poor's kept its rating at BBB-, but lowered its outlook from "stable" to "negative"

So it was another largely negative week for investors. Perhaps not surprisingly, the Rand ended the week weaker than at the end of the previous week, with the Trade Weighted Rand Index weakening by -0.9% over the week, and is around -10% lower than at the corresponding stage a year ago.

Whilst there are some who may still believe that the weak rand should somehow boost economic growth by making South African exports more competitive, once again there exists little evidence to support this view, with the Rand having followed a multi-year weakening since around 2011, and real economic growth having begun its own stagnation around that time.

Property and Mortgage industry players alike should be concerned by last week's rating agency news, as it contributes to further potential weakness in net investor capital flows required to fund South Africa's gaping current account deficit on its Balance of Payments.

If we don't receive such capital inflows in such abundance as in the past, it simply implies that we as a country have to narrow that Current Account Deficit, which more or less means lowering Gross Domestic Expenditure more into line with National Income, and live more within our means.

The move towards curbing "excesses" as a nation are "growth negative" in the short term, though, and this in turn exerts downward pressure on Household Disposable Income growth in the process, the purchasing power for residential property. On the Commercial Property side, it goes without saying that less economic growth implies less growth in demand for Commercial Space.

The Reserve Bank (SARB) is effectively helping this process towards living within our means on by gradually raising interest rates.

Not only were both the domestic economic data releases and the Fitch downgrade potentially capital flow negative, but late in the weak came a good US Employment Data report. The significance? Given the US Federal Reserve's focus on labour market tightness, this increases the likelihood of the start of US interest rate hiking later in the month. For South Africa, that may be a further negative for our net capital flows, as the US would become slightly more attractive for a portion of global capital flows.

But last week's news was not all bad for the South African economy and its Household Sector. Perhaps less noticed last week was the OPEC (Organisation of Petroleum Exporting Countries) meeting that took place over the weekend. There had been fears of a possible decision to reign in production levels and drive oil prices higher, but a tighter production target for member nations did not materialize.

This is likely to keep the global oil prices depressed, containing what at times can be a major source of inflation for South Africa.

So, while South Africa's exporters battle in the currently depressed commodity price environment, weak global energy prices do have some benefit in terms of containing the country's imported inflation.

But that is not to say that CPI inflation won't rise somewhat. The domestic drought situation continues to make headlines, pointing towards some upward pressure on another key driver of inflation, namely food prices. And indeed, a rise in the Producer Price Inflation Rate for Agriculture from 5.8% year-on-year in September to 7.2% in October suggests a little more upward pressure on the CPI from this source.

In short, the economic news last week changed very little for South Africa. On the one hand, economic growth, which was slightly above 1% year-on-year as at the 3rd quarter, looks set to remain weak as we head into 2016. And food price inflation can drive CPI inflation a little higher in the coming months, especially the inflation rate for lower income groups with their high spending weight on food.

But the likelihood of ongoing subdued global oil prices suggests that CPI inflation's acceleration can remain modest, allowing the SARB to continue to lift interest rates at the current "snails' pace".

For the highly interest rate sensitive residential property market, that's the good news. While it can't escape economic and household income growth weakness, if the SARB's pace of interest rate hiking can remain at this currently very slow pace, the "soft landing" scenario for the residential market remains the likely one for the time being.

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