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PROPERTY BAROMETER

FNB Property Monthly

The FNB House Price Index's year-on-year inflation rate slowed in March, as gradual interest rate hiking and a slow economy appear to take effect.

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MARKET ANALYTICS AND SCENARIO FORECASTING UNIT

JOHN LOOS:
HOUSEHOLD AND PROPERTY SECTOR STRATEGIST
087-328 0151
john.loos@fnb.co.za

THEO SWANEPOEL:
PROPERTY MARKET ANALYST
087-328 0157
tswanepoel@fnb.co.za

In March 2016, the FNB House Price Index recorded a 6.0% year-on-year rate of increase, which is slower than the revised rate of the prior month.

This mild slowing is believed to be further sign of a weak economy and rising interest rates gradually taking effect on the residential market, slowing demand for housing.

FNB Valuers' market perceptions have been supportive of the expectation of slowing house price growth to come, with some mild market weakening in the Valuers' Market Strength Index (MSI) having been recorded of late.

However, there are some indications that the pace of deterioration in the MSI, as well as the pace of deterioration in certain key economic indicators, may have slowed at least.

KEY POINTS

- *The FNB House Price Index showed a year-on-year increase of 6.0% in March 2016, slower than the revised 6.2% of the previous month. The most recent months' house price growth rates are mildly down off the 6.9% 2015 high point of October.*

- *FNB's Valuers, as a group, appear to have provided support for the expectation of slower house price growth in recent months, with the FNB Valuers' Market Strength Index (MSI) having declined in months prior to March, on the back of slowing residential demand.*

- *We forecast an average house price inflation rate of 4.8% for 2016, slower than the 6% recorded for 2015.*

- *Our expectation of slower house price growth in 2016 has to do with the expectation that real economic growth will slow further from 1.3% in 2015 to 0.5% this year. Depressed export commodity markets, along with a severe drought, are key to this slower growth forecast, as are rising interest rates.*

- *We expect further gradual interest rate hiking through 2016, to a level where Prime Rate ultimately peaks at 11.0% next year, from a current level of 10.5%.*

- *On the Commercial Property side, IPD figures released last month showed Retail Property Returns to have outperformed those of Industrial and Office Space. This, we believe, may be partially explained by last year's temporary dip in consumer and retail price inflation, which contributed to real retail sales growth actually having been faster than that of 2014, and noticeably exceeding real economic growth.*

EXECUTIVE SUMMARY

The FNB House Price Index for March 2016 rose by 6.0% year-on-year. This is slower than the revised 6.2% for February, and mildly down from the 6.9% 2015 high point reached in October.

In real terms, when adjusting for CPI (Consumer Price Index) inflation, the rate of house price growth turned negative to the tune of -0.8% in February, from a revised +0.1% in January, a key contributor to this slowing being a rise in CPI inflation, from 6.2% in January to 7% in February (March CPI data not yet available).

Examining the longer term real house price trends (house prices adjusted for CPI inflation), we see that the level as at Febuary 2016 was +5.6% up on the October 2011 post-recession low.

However, the average real house price level remains -18% below the all time high reached in December 2007 at the back end of the residential boom period.

Looking back further though, the average real price currently remains 69.4% above the January 2001 level, around 15 years ago, and a time back just before boom-time price inflation started to accelerate rapidly. We therefore still regard current real price levels as very high.

FNB's valuers, in their FNB Valuers Market Strength Index (MSI), appear to have provided support in recent months for the expectation of a near term slowing in house price inflation.

The Valuers' Residential Demand Rating was at a level of 54.74 in March (scale 0 to 100), while the Supply Rating was at a lesser 52.93. This translates into an MSI of 50.90, with the level of above 50 implying that residential demand is still stronger than supply.

However, while the MSI level still points to a well balanced residential market, the rate of growth or decline in the indices is often insightful too. Examining the 3 indices on a year-on-year percentage change basis, we see that demand growth has been slowing steadily since early-2014, and eventually turned negative in December 2015.

The start of market weakening last year had to do with the combination of gradually rising interest rates along with weak and deteriorating economic fundamentals. And after a Real GDP (Gross Domestic Product) growth rate of 1.3% in 2015, the FNB forecast is for slower growth of 0.5% in 2016. The further expected slowing in growth is on the back of ongoing global economic and commodity price weakness.

The current environment of high social tensions and fragile labour relations continues, and this poses significant downside risk to economic and residential market performance forecasts.

CPI inflation is projected to rise from 4.6% average in 2015 to 6.5% average for 2016, on the back of a now weaker Rand, and higher food price inflation as the drought impact is felt. The SARB is expected to continue to lift interest rates slowly, with Prime Rate peaking at 11.0% in the 1st half of 2017. Much, though, will depend on the Rand's fortunes and its potential inflationary impact.

Under these weak economic conditions, and their negative impact on household income growth, the forecast is for average house price growth to slow from 6% average in 2015 to a 4.8% average in 2016, and a still slower 3.1% in 2017. While still positive in nominal terms, these projected rates would be below CPI inflation, translating into negative growth in real terms. Such negative real house price growth would reflect both higher interest rates along with ongoing weakness in economic growth, employment and household income growth.

The rental market could begin to mildly outpace the slowing home buying market through the forecast period, in turn leading to rising yields on residential property.

Finally, the IPD (Investment Property Databank) Commercial Property Returns data for 2015 was released in March, showing the Retail Property Segment to have been the best performer of the major Commercial Property Sector. We believe that this may have been partly due to a temporary 2015 dip in consumer and retail price inflation boosting real retail sales growth to a higher rate in 2015 than that of 2014. This real retail sales benefit is not expected to be repeated in 2016, with retail and consumer price inflation now rising steadily early in 2016.

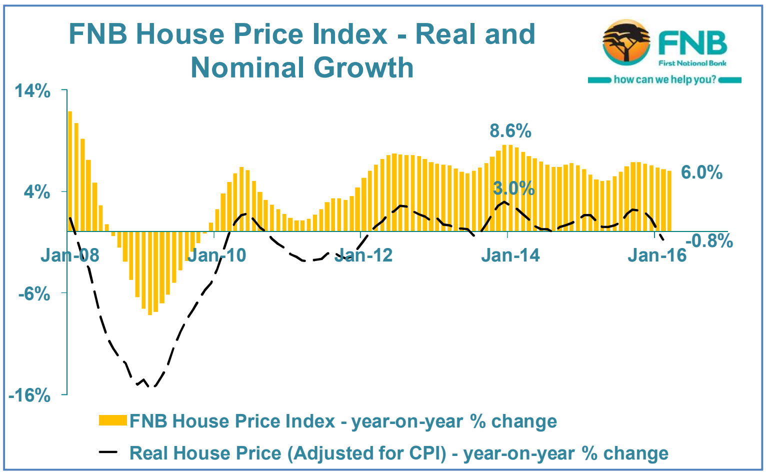
MARCH FNB HOUSE PRICE INDEX FINDINGS

MARCH AVERAGE HOUSE PRICE GROWTH

The FNB House Price Index for March 2016 rose by 6.0% year-on-year. This is slower than the revised 6.2% rate recorded for February, continuing a gradual slowing trend since the 6.9% "high" reached in October 2015.

The mild slowing in March is very much in line with our prior expectation regarding the near term trend in house price growth.

In real terms, when adjusting for CPI (Consumer Price Index) inflation, the rate of house price growth turned negative in February, to the tune of -0.8% year-on-year, the result of a combination of slowing average house price inflation and rising Consumer Price Index (CPI) inflation. By February, a steadily rising CPI inflation rate had reached 7% year-on-year (March CPI data not yet available). The average price of homes transacted in March was R1,053,512.



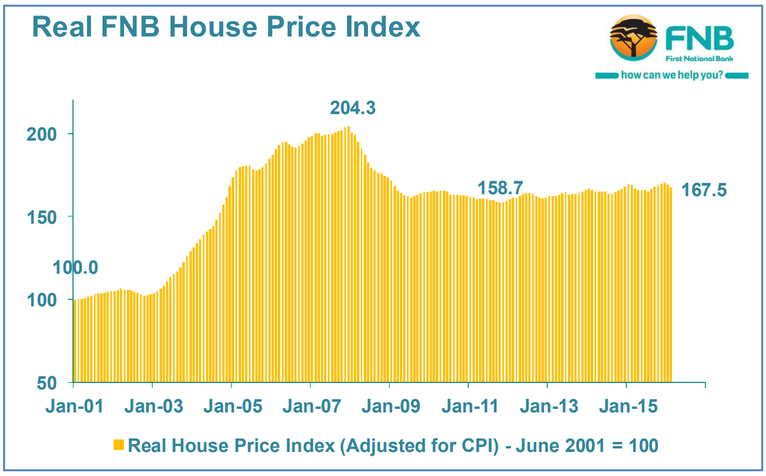
REAL HOUSE PRICE LEVELS

Examining the longer term real house price trends (house prices adjusted for CPI inflation), we see that the level as at Febuary 2016 was +5.6% up on the October 2011 post-recession low.

However, the average real house price level remains -18% below the all time high reached in December 2007 at the back end of the residential boom period.

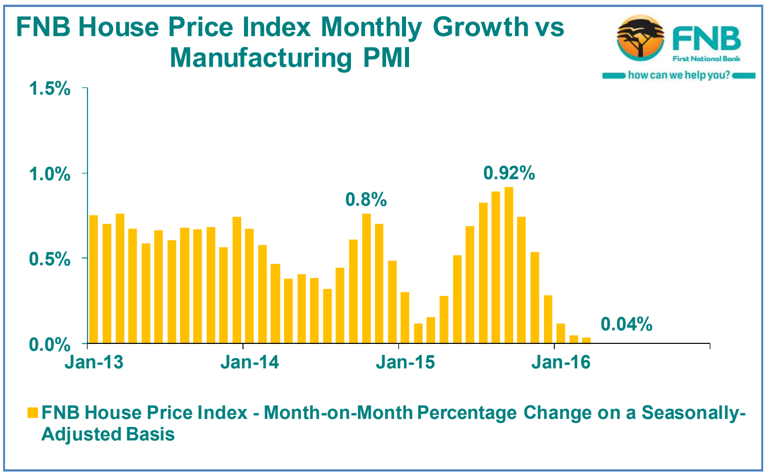
Looking back further though, the average real price currently remains 69.4% above the January 2001 level, around 15 years ago, and a time back just before boom-time price inflation started to accelerate rapidly. We therefore still regard current real price levels as very high.

In nominal terms, when not adjusting for CPI inflation, the average house price in March 2016 was 290.8% above the January 2001 level.

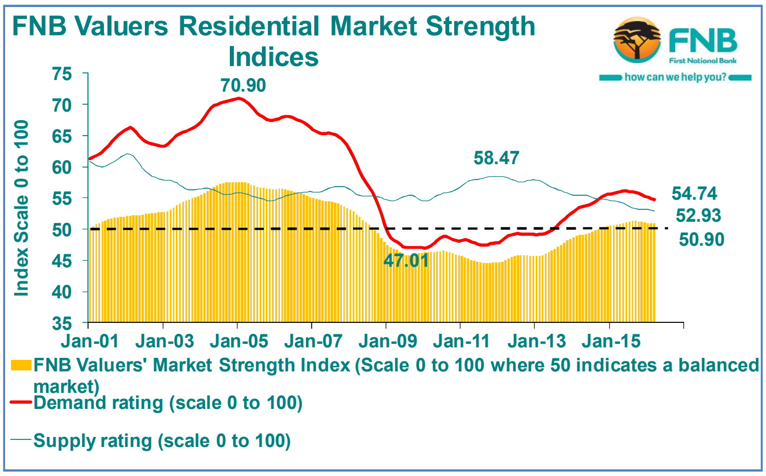


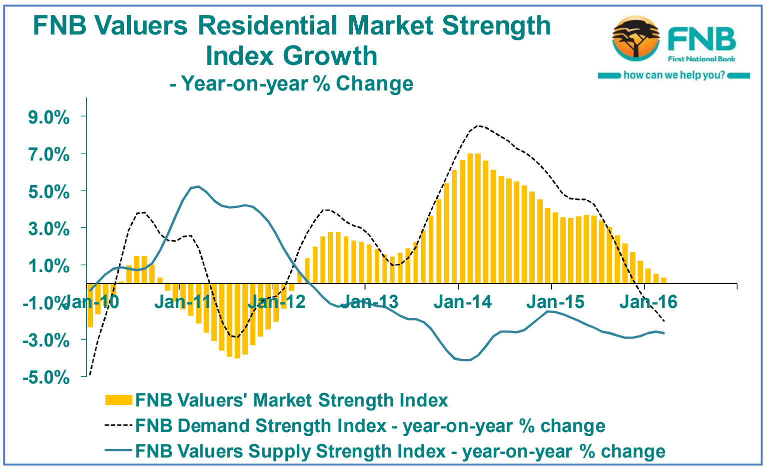
MONTH-ON-MONTH HOUSE PRICE RATE OF INFLATION LOSES MOMENTUM

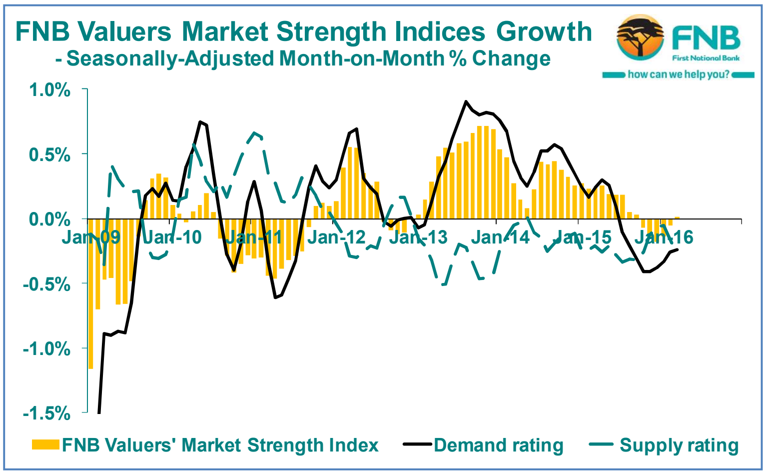
On a month-on-month seasonally adjusted basis (a better way to look at recent growth momentum), the rate of increase has already been slowing since October 2015. From a 0.92% month-on-month high in September 2015, the rate has slowed to 0.04% by March 2016.



FNB'S VALUERS PERCEIVE WEAKENING IN RESIDENTIAL DEMAND







FNB's valuers, in their FNB Valuers Market Strength Index (MSI) (Explanatory notes on Page 15) have in recent times been perceiving a weakening in the market.

Examining the Demand, Supply and MSI itself, which reflects the difference between Demand and Supply, we see a still well balanced residential market.

The Valuers' Residential Demand Rating was at a level of 54.74 in March (scale 0 to 100), while the Supply Rating was at a lesser 52.93. This translates into an MSI of 50.90, with the level of above 50 implying that residential demand is still stronger than supply.

However, the rate of growth or decline in the indices is often insightful too. Examining the 3 indices on a year-on-year percentage change basis, we see that demand growth has been slowing steadily since early-2014, and eventually turned negative in December 2015.

On a month-on-month seasonally-adjusted basis, a better way of identifying recent momentum, the Residential Demand Index has been in decline since July 2015. The Supply Index previously looked to be heading up into positive growth territory, but then turned downward to record more noticeable rates of decline in February and March once more.

This has perhaps been the "surprise" of the Residential Market in recent years, i.e. that supply has remain so constrained, with the level of residential building activity remaining low ever since the end of the boom period in 2007.

The result of a dip in the month-on-month Supply Rating decline was a very slight increase in the MSI in March, albeit an insignificant one.

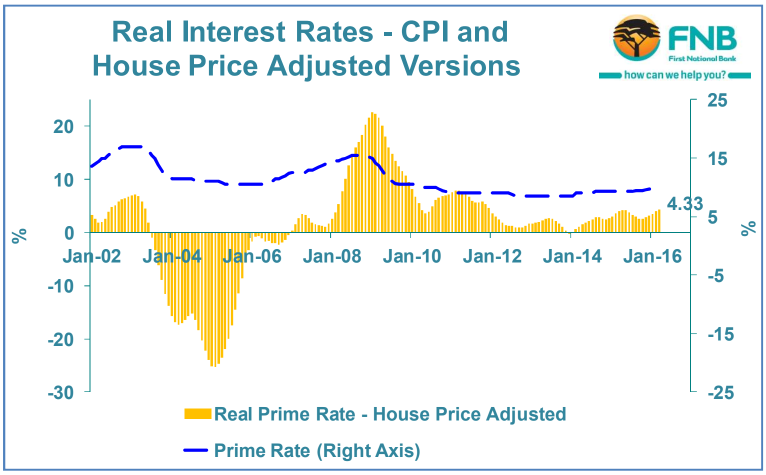
Constrained Supply, therefore, more so than Demand appears to be instrumental in keeping the residential market still well balanced, albeit a little weaker of late.

REAL ALTERNATIVE PRIME RATE AND POTENTIAL FOR A SPECULATORS' MARKET

Ongoing interest rate hikes, with the latest one having been a 25 basis point rise in March, continue to take the market away from the speculator.

In order to create a "speculator's paradise" in residential property, it is important to have price growth at a percentage significantly faster than the percentage of the annual interest charged on a mortgage loan.

Such an environment would give rise to widespread use of cheap credit to buy and sell properties in a relatively short space of time and make big capital gains. 2004-5 was such a speculators' paradise.

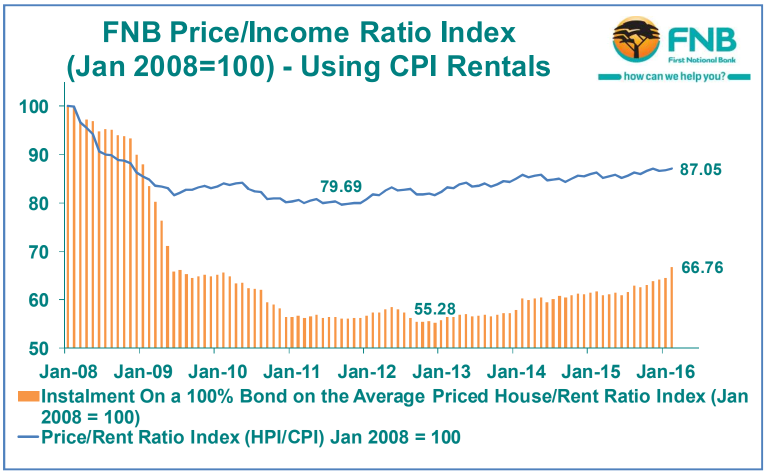


To monitor this, we calculate our very simple "Alternative Real Prime Rate", which adjusts Prime Rate to real terms using average house price inflation instead of the usual CPI inflation rate approach.

For a healthy market with low levels of speculation, we believe that this real rate should remain positive. Indeed, that was again the case in March, where the Real Alternative Prime Rate was 4.33%, having risen in recent times on the back of further interest rate hiking along with slowing house price inflation. We thus believe the SARB's monetary policy stance to be appropriate currently from a residential market health point of view.

PRICE-RENT RATIO

The Price-Rent Ratio is one important ratio in determining how costly the home buying option is relative to the competing option, i.e rental.



Analysts often become concerned when the Price-Rent Ratio is very high, as it can begin to make the rental option very appealing, translating at some stage into a drop in home buying and a fall in house prices.

House price booms typically take this ratio higher.

To this effect, we use the FNB House Price Index and the CPI for Actual rentals. We show it in index form (because the CPI is an index), with January 2008=100.

Given that January 2008 was right at the end of the real house price boom, we believe that it represented an extremely high level in the Price-Rent Ratio. After a drop through 2008/9, and again in 2011, the index began to rise noticeably as the residential market strengthened. The index was at 87.05 in February 2016, up 9.2% from September 2011.

While 87.05 is believed to be a high number, the other important ratio, i.e. the Instalment on a 100% bond on the average-priced house/Rent Ratio Index, is far lower. It has been kept far below January 2008 levels by a sharp drop in interest rates from late-2008. It reached a low of 55.28 as at December 2012. However, the combination of house price inflation broadly out-pacing rental inflation, along with gradual interest rate hiking over the past 2 years, has taken this ratio 19.2% higher by February 2016, to a reading of 66.76.

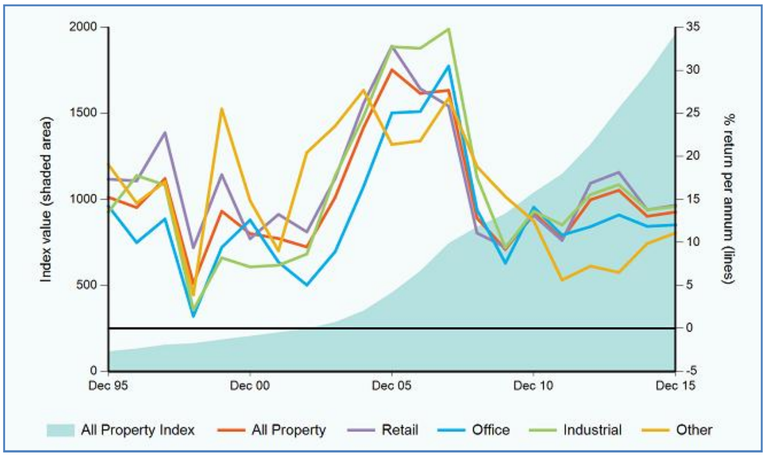
This remains well-below the January 2008 100 level though, as interest rates are still at relatively low levels. But, of course, rates are in the process of rising, gradually reducing the attractiveness of the home buying option relative to rental.

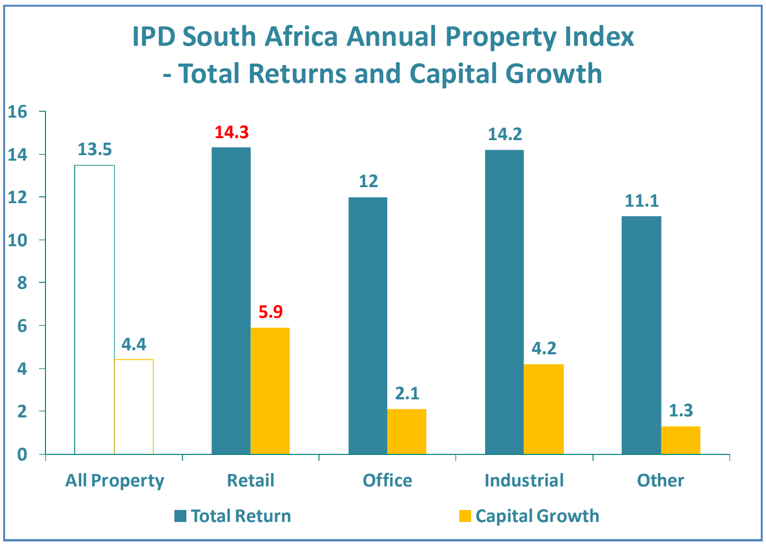
COMMERCIAL PROPERTY – RETAIL PROPERTY BENEFITED FROM LOW INFLATION IN 2015

2015 IPD South Africa Property Index

During March, the IPD (Investment Property Databank) South African Commercial Property Index for 2015 was released.

IPD South Africa Annual Commercial Property Index





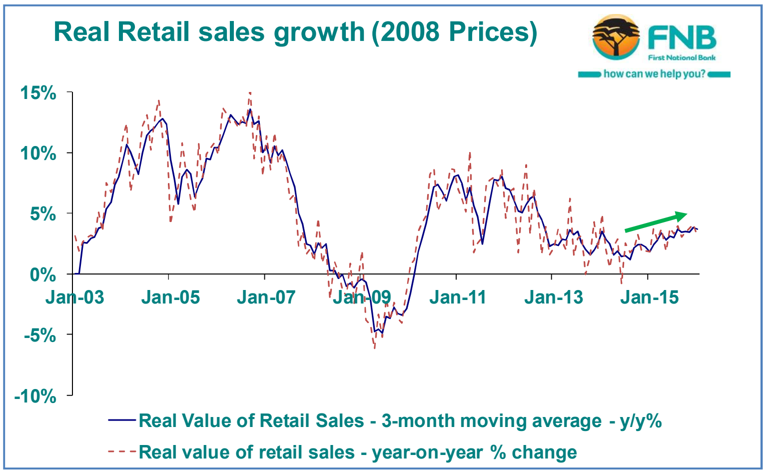
Total Commercial Property Returns measured 13.5%, perhaps surprisingly slightly higher than the 15% of 2014. Despite the slight increase, Total Returns remain noticeably down on their post-2008/9 Recession high reached in 2013, as one would expect after 4 consecutive years of slowing economic growth. The level is nevertheless respectable in the current economic environment.

Comparing the main sub-sectors of Commercial Property with each other, it is perhaps not so surprising to see that the Retail Property Sector was the top performer, with Total returns of 14.3%, slightly ahead of Industrial with 14.2%. Office Space, with its relatively high vacancy rates, continues to be the "weak link" of the major 3 sub-sectors.

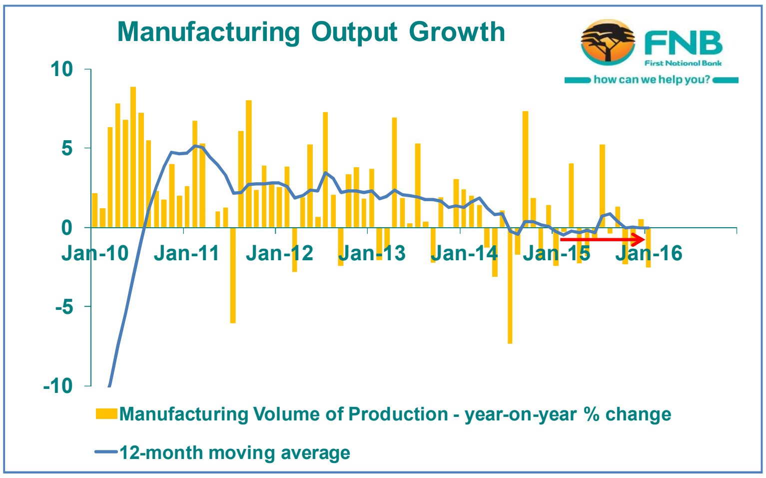
We say that it is unsurprising that retail Property still outperformed the other 2 segments, albeit by a small margin, because when viewing the related sectors of the economy we saw real retail sales growth holding up relatively well last year. This, in turn, had a lot to do with a period of abnormally low retail and consumer price inflation through much of 2015, the result of a major global commodity price slump, most importantly oil prices.

Commercial Property Fundamentals – does the retail economy still justify the Retail Property Sector having the strongest returns? Back in 2015 it still appeared to be so.

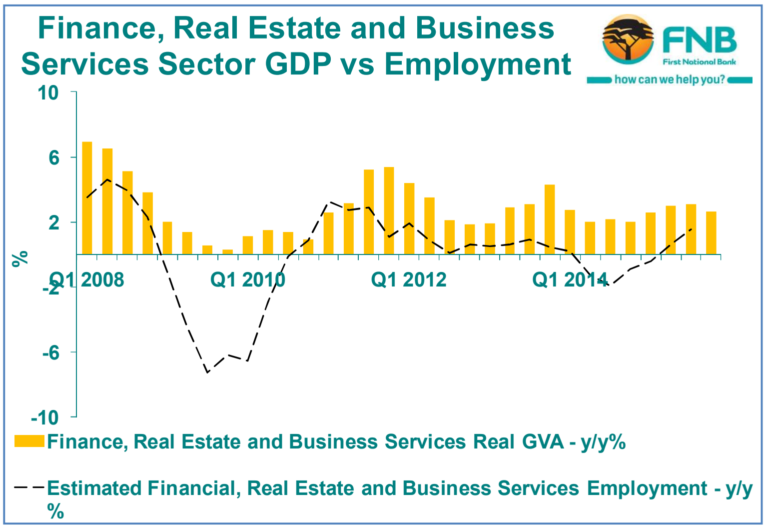
The Retail Property Sector had arguably the most supportive economic fundamentals in 2015, given a mild acceleration in real retail sales growth "against the run of play", i.e. despite a slowing economic growth rate. Average growth in the value of retail sales in 2014 was 7.6%, very similar to the 7.3% rate for 2014. However, Retail Price Inflation slowed from 5.2% in 2014 to 4.1% in 2015, boosting retail sales growth in REAL terms from 2.1% in the previous year to 3.3% in 2015. This was the strongest real growth rate in 3 years, and well-above the 1.3% real economic growth rate registered for 2015.



While the Industrial and Warehouse Property Segment in part benefits from retail sales growth and the need for warehousing, it arguably has a stronger link to the Manufacturing Sector. This sector did not have the benefit of a "kick-up" in 2015. From a lowly +0.07% average growth rate for 2014, Manufacturing Output for 2015 turned slightly negative to the tune of -0.03%.



The key sector when it comes to driving demand for Office Space is arguably the Finance, Real Estate and Business Service Sector, the country's largest major economic sector. This sector has experienced fairly solid Real Economic (Gross Value Added) growth in recent years, and even having slowed slightly in the final quarter of 2015 it still registered year-on-year growth of +2.6%. However, when it comes to office demand it is more employment trends that would influence office space demand as opposed to the sector's output growth. With productivity improvements the name of the game in this sector in recent years, its employment growth has been weak.



While there was some improvement to +1.5% year-on-year growth by the 3rd quarter of last year, this comes after a period of estimated sector employment decline lasting from late in 2013 until the 1st quarter of 2015, and a period in which the sector's employment growth well underperformed its Real Value Added growth consistently over the past decade or so. Therefore, despite some mild growth in the sector's employment growth in recent quarters, it remains weak, had just experienced a noticeable decline just prior, and this should imply weak demand growth for office space.

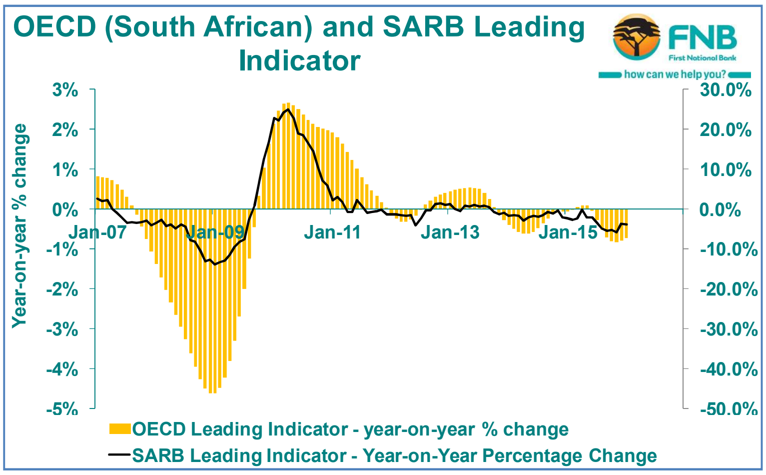
Note: SARB employment data was used, but adjustment was made in 2013 for a "structural break" in the data

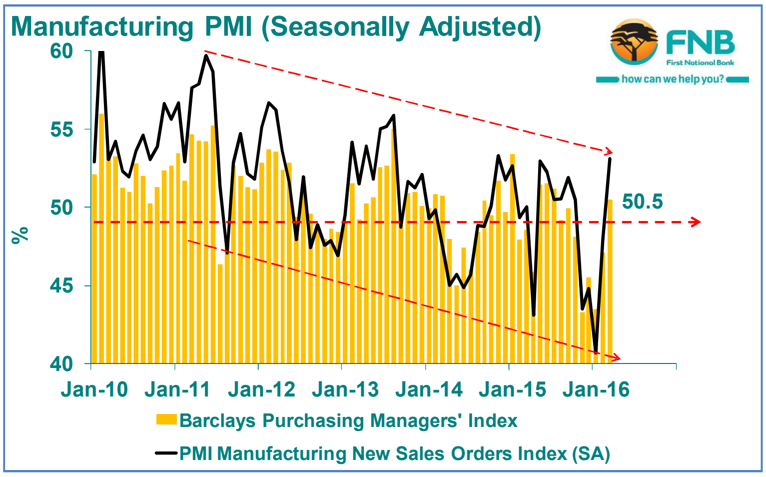
We believe, therefore, that the Retail Property Sector's economic fundamentals have likely been the strongest through 2015, and in the few years prior, contributing to Retail Property having shown (by a small margin), the best returns of the 3 Commercial Property sub-sectors in 2015.

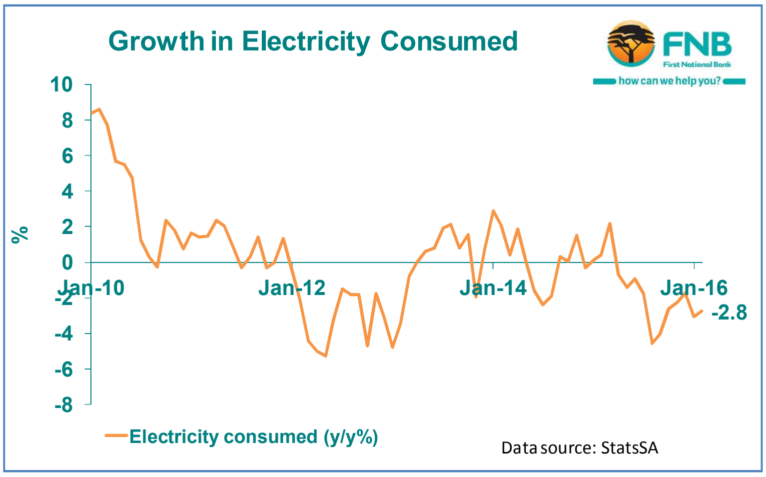
And 2016? With Retail and Consumer Price Inflation now steadily rising, with drought driven food price surges a key driver, it is not clear that the "Retail Economy" will maintain its superior performance.

THE GENERAL ECONOMIC ENVIRONMENT

March/early-April economic releases remained by-and-large weak. There were some hints that the economy may have hit what we could perhaps term a "less weak" period in recent months, but the signs are not overly encouraging yet.





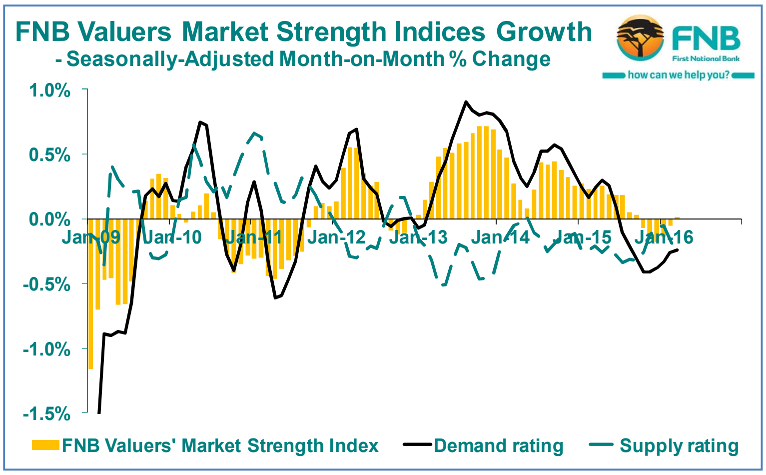


The 2 South African Leading Indicators, i.e. the SARB and the OECD version, probably put it in perspective. They still show significant rates of year-on-year decline as at their most recent data points in January 2016, but are both slightly off their worst rates of decline recorded late last year...." Very Weak, but slightly less weak". As at January, the OECD Leading Indicator showed year-on-year decline of -0.7%, slightly less decline than the -0.8% low of October 2015. The SARB Leading Indicator recorded -4% decline, also off its recent low of -5.8% in November 2015.

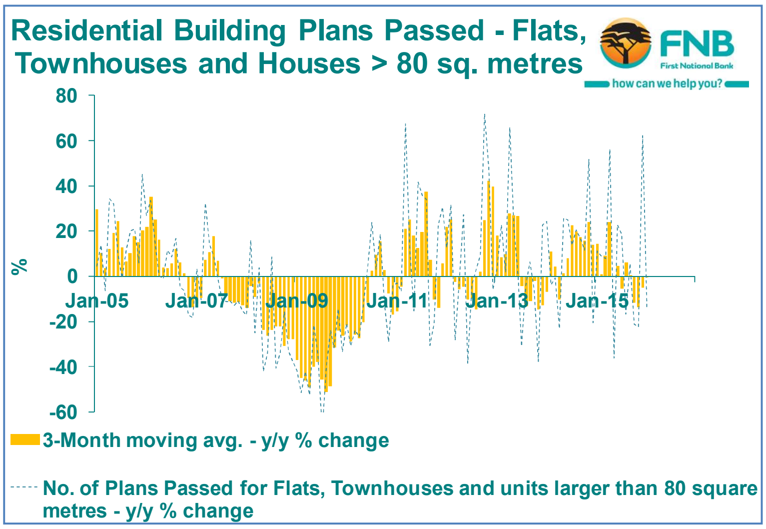
The impression of a "Weak but slightly less weak" economy was enhanced by something of a mild rebound in the Manufacturing Sector Purchasing Managers Index (PMI) to slightly above the crucial 50 level (Scale 0 to 100) in March, recording a level of 50.5. 50 is the dividing line between expansion and contraction in the sector, so after a 5 month period of being well-below the 50 mark, the March PMI level suggests the possibility of a return to some mild growth in manufacturing output should such levels be sustained in the coming months.

February 2016 Electricity Consumption data points to a similar situation, i.e. a very weak economic situation still, put some sign of "less weakness". Gigawatt Hours of Electricity Available for Consumption in South Africa declined by -2.8% year-on-year in February, slightly less of a decline from the prior month's -3%, and off a recent worst rate of decline of -4.6% in August 2015. The rate of decline, at least, has been diminishing.

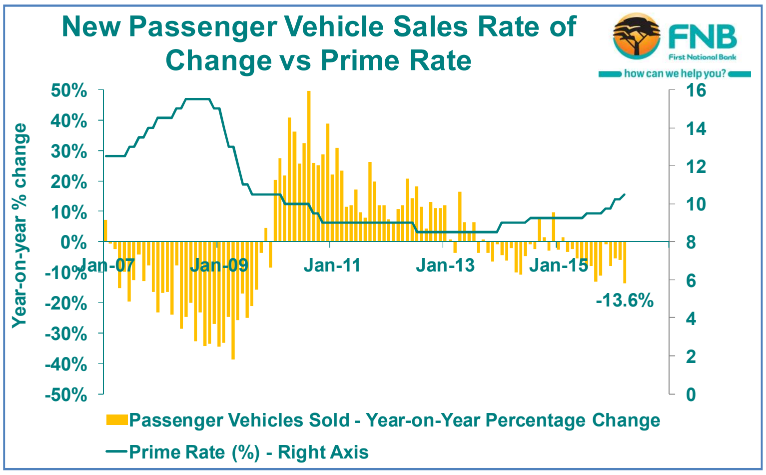
The longer run picture shows these South African Electricity Sales being -6.5% down from a multi-year high reached in May 2011, arguably being key in alleviating some of the need for "load shedding".



Perhaps this recent economic environment of "still weak but less weak" is what FNB's Valuers may just be picking up "on the ground", if one examines the month-on-month rate of decline in their FNB Valuers' Demand Strength Index. This Index also points to decline, but a slightly slower rate of decline in recent months.



The residential property-related leading indicator which gets used in the SARB Composite Leading Business Cycle Indicator is the Number of Building Plans Passed for "Dwelling Houses larger than 80 square metres, Flats and Townhouses". This data is hugely volatile on a month to month basis, but using a 3-month moving average to smooth it, this indicator's year-on-year growth rate, too, has been in negative growth territory since October 2015, but its rate of negative growth also diminished early in 2016

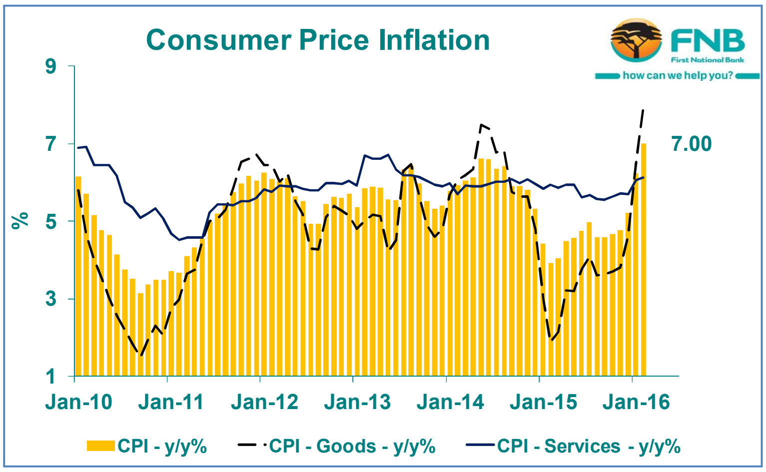


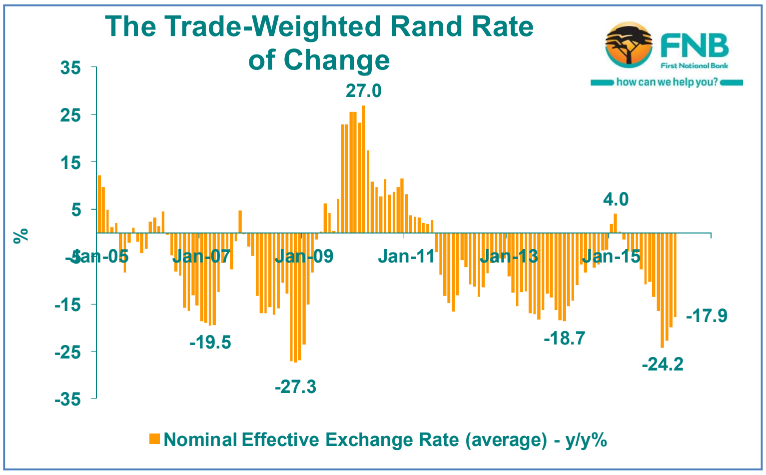
Vaguely encouraging signs, perhaps, but then came the other very up to date leading indicator, i.e. March New Vehicle Sales, and more significantly New Passenger Vehicle Sales, just to remind us that all is far from good.

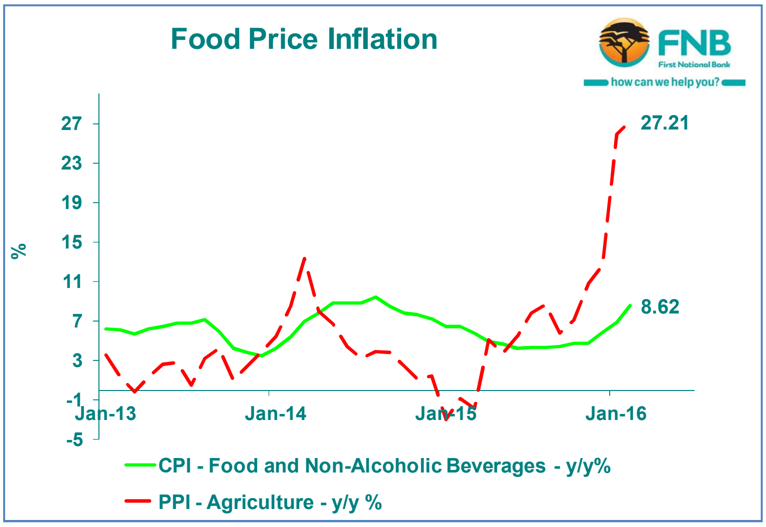
Passenger Vehicle Sales is an important leading indicator which is incorporated in the Composite SARB Leading Indicator. It had also shown diminishing year-on-year decline from late in 2015 to a rate of -6% in February 2016. But then came March data, showing a renewed acceleration in the pace of decline to -13.6%. This is not surprising after the January 50 basis point interest rate hike, and another 25 basis points in March. This March rate of decline suggests that we are not convincingly on our way out of the proverbial woods yet.

In short, the indicators related to economic growth remain extremely weak, but there have been some mild hints at the pace of weakening perhaps slowing in recent months.

Then there are the main inflation numbers, which continue to point to the risk of further interest rate hiking in the near term. Food price inflation is a key contributor here, hit by the combination of domestic drought along with Rand weakness, while transport cost inflation, too, has begun to rise due to a very low base created in the area of petrol prices after a massive drop up until early last year.







CPI (Consumer Price Index) inflation reached 7% year-on-year by February, with the CPI for Goods being the main driver with an inflation rate of 7.9%, a rate which is reflective of big increased contribution by the Food and Transport CPIs.

In months to come, the Transport CPI inflation impact may subside, with year-on-year petrol price inflation having slowed noticeably in March compared to February.

This subsiding year-on-year petrol price inflation is in part due to the Rand. Here, as in the case of petrol price inflation, we have started to see some mildly positive indications of a subsiding in this source of imported inflation pressure, with the year-on-year rate of decline in the Trade-Weighted Rand Index, from a low of -24.2% year-on-year as at January 2016 to a lesser -17.9% by March.

Like the economic growth indicators, therefore, the Rand's depreciation rate not yet looking good, but perhaps one could say "less bad".

But a recent extreme acceleration in the Producer Price Index (PPI) inflation rate for Agriculture suggests that we may not yet have seen the end of accelerating food price inflation. The Agriculture PPI inflation rate is normally a good leading indicator of the direction of CPI Food inflation.

In February, the PPI for Agriculture hit an extreme inflation rate of 27.21% year-on-year. Some consolation is that it looks to be near its inflation peak, having risen only marginally further from January's also-extreme inflation rate of 26.9%. But the impact will probably still need to feed into the lagging CPI Food numbers for another few months at least.

CONCLUSION

Slowing average house price growth, on both a month-on-month and year-on-year basis, reflects slowing residential demand, which in turn is the result of both rising interest rates over the past 2 years as well as 4 years of stagnating economic growth.

The March FNB Valuers' Market Strength Index has supported an expectation of slowing house price growth in recent months, having showed decline in months prior to March, driven lower by slowing residential demand. However, the signals emanating from this data have not been pointing to a sharp real house price correction, because despite some demand weakening, the balance between demand and supply has been kept at good levels due to significant market supply constraints.

On the Commercial Property side, IPD Returns for 2015, released in March, showed Retail Property to be slightly ahead on Total Returns, compared with Industrial and Office Space. This did not come as too much of a surprise, as we believe that the "Retail Economy's" growth fundamentals were better in 2015 than the other 2 because of a temporary dip in retail and consumer price inflation last year, which strengthened real retail sales growth in 2015 compared with 2014. This growth compared well with very weak Manufacturing Sector growth, to which the Industrial Property Sector is strongly linked, as well as to weak employment growth in the Finance, Real Estate and Business Services Sector, to which demand for office space is strongly linked.

We don't expect this superior real retail sales growth performance to continue, however, as consumer and retail price inflation have once more been steadily rising early in 2016.

On average , we expect property market fundamentals to be weaker in 2016, due to lower projected economic growth this year compared with 2015, as well as due to higher interest rates, as the SARB continues to gradually "normalize" rates upward. However, there are some signs that the deterioration in economic growth may diminish in magnitude in the near term, with key Composite Leading Business Cycle Indicators having shown diminishing rates of decline in recent months, while the Manufacturing PMI has moved mildly higher. Nevertheless, economic numbers remain generally weak, and a more rapid pace of decline in New Vehicle Sales in March just reminded us that we are not yet out of the woods on the economic growth front.

In addition, CPI inflation hitting 7% year-on-year in March, driven higher by a drought driven food price along with higher petrol price inflation, leads us to expect further gradual interest rate hiking.

THE FORECAST

After a Real GDP (Gross Domestic Product) growth rate of 1.3% in 2015, the FNB forecast is for slower growth of 0.5% in 2016. The further expected slowing in growth is on the back of ongoing global commodity price weakness, gradually rising interest rates, and of course the major drought currently ravaging the Agriculture Sector.

In 2017, slightly better growth of 1.1% is projected on the assumption that the drought passes on and Agriculture output returns to normal. Some vague hints of a stabilizing in the global economy may also assist with mildly improved economic growth in 2017. However, this projected growth rate remains very weak.

The current environment of high social tensions and fragile labour relations, which can periodically be disruptive to economic output, but is unpredictable, places a significant downside risk to the growth forecast, however.

CPI inflation is projected to rise from a 4.6% average in 2015 to 6.5% average for 2016, on the back of a now weaker Rand, and higher food price inflation as the drought impact is felt.

The SARB is expected to continue to lift rates slowly, with Prime Rate peaking at 11.0% in the 1st half of 2017. Much, though, will depend on the Rand's fortunes, and the FNB "Base Case" assumes a reasonably well-behaved Rand not far from what is now a very weak level.

Under these economic conditions, the forecast for average house price growth is to slow from 6% average for 2015 as a whole to 4.8% for 2016, and a still slower 3.1% in 2017. While still positive in nominal terms, these projected rates would be below CPI inflation, translating into negative growth in real terms. Such negative real price growth would reflect both higher interest rates along with ongoing weakness in economic growth, employment and household income growth. The rental market could mildly outpace the home buying market through the forecast period, in turn leading to rising yields on residential property.

ECONOMIC, HOUSEHOLD SECTOR AND HOUSING MARKET SUMMARY FORECAST TABLE

MACROECONOMIC SCENARIO SUMMARY				Forecast Period		
	2013	2014	2015	2016	2017	2018
Domestic Economy (2005 Prices)						
Gross Domestic Product (Real) - % change	2.2%	1.5%	1.3%	0.5%	1.1%	1.3%
Prices						
Consumer Price Index - % change	5.8%	6.1%	4.6%	6.5%	6.4%	5.8%

MACROECONOMIC SCENARIO SUMMARY				Forecast Period		
	2013	2014	2015	2016	2017	2018
Interest Rates (%)						
Prime Interest Rate (Annual Average)	8.5	9.1	9.4	10.4	11.0	11.0
Effective Interest Rate on Household Debt (Annual Average)	10.7	11.4	12.0	13.0	13.6	13.6
Long Bond Yield (Annual Total %)	7.7	8.3	8.2	10.0	10.7	11.1
Currency						
	2013	2014	2015	2016	2017	2018
US Dollar/Rand Exchange Rate (Annual Average - Rand)	9.65	10.84	12.78	16.58	16.31	16.80

HOUSEHOLD SECTOR SCENARIO SUMMARY				Forecast Period		
	2013	2014	2015	2016	2017	2018
Nominal Disposable Income - % change	8.1%	7.4%	5.7%	6.0%	7.2%	7.1%
Debt to Disposable Income (%)	79.5%	78.2%	78.0%	77.4%	75.6%	74.5%
Debt Service Ratio	8.6	9.1	9.5	10.1	10.3	10.1
Real Disposable Income - % change	2.5%	1.4%	1.7%	-0.7%	0.5%	1.0%

RESIDENTIAL MARKET SCENARIO SUMMARY				Forecast Period		
	2013	2014	2015	2016	2017	2018
FNB Valuers Demand Rating (Scale 0-100)	50.38	54.15	55.82	52.00	50.97	52.33
- year-on-year % change	3.0%	7.5%	3.1%	-6.9%	-2.0%	2.7%
Valuers Supply Rating (Scale 0-100)	56.71	55.10	53.80	52.86	52.64	52.71
- year-on-year % change	-2.1%	-2.8%	-2.4%	-1.7%	-0.4%	0.1%
Market Strength Index (Scale 0-100)	46.84	49.53	51.01	49.57	49.16	49.81
- year-on-year % change	3.0%	5.7%	3.0%	-2.8%	-0.8%	1.3%
FNB Average House Price - % change	6.8%	7.1%	6.0%	4.8%	3.1%	3.1%
FNB Average House Price - Real (Rands - 2005 Prices)	0.9%	1.0%	1.4%	-1.6%	-3.2%	-2.6%
Residential Gross Yield	8.9%	8.7%	8.5%	8.8%	9.2%	9.4%

Monthly FNB House Price Index (Jan 2001 = 100)

Date	Index	y/y % change	Date	Index	y/y % change	Date	Index	y/y % change	Date	Index	y/y % change
Jan-01	100.0		**Jan-05**	209.7	36.1%	**Jan-09**	272.8	-7.6%	**Jan-13**	317.88	6.7%
Feb-01	100.7		**Feb-05**	215.4	36.3%	**Feb-09**	270.7	-8.2%	**Feb-13**	321.34	6.6%
Mar-01	101.4		**Mar-05**	219.6	35.6%	**Mar-09**	269.5	-7.9%	**Mar-13**	325.00	6.5%
Apr-01	102.4		**Apr-05**	221.7	34.3%	**Apr-09**	268.6	-7.1%	**Apr-13**	327.78	6.3%
May-01	103.6		**May-05**	222.0	32.5%	**May-09**	267.5	-6.2%	**May-13**	329.41	5.9%
Jun-01	104.7		**Jun-05**	221.7	30.4%	**Jun-09**	267.8	-5.1%	**Jun-13**	330.66	5.8%
Jul-01	105.3		**Jul-05**	221.1	27.9%	**Jul-09**	269.2	-3.8%	**Jul-13**	331.90	6.0%
Aug-01	105.6	10.0%	**Aug-05**	221.3	25.0%	**Aug-09**	271.4	-2.9%	**Aug-13**	333.38	6.3%
Sep-01	106.0	9.2%	**Sep-05**	222.3	21.9%	**Sep-09**	273.8	-2.0%	**Sep-13**	335.14	6.8%
Oct-01	106.5	8.9%	**Oct-05**	224.5	19.1%	**Oct-09**	275.5	-1.1%	**Oct-13**	337.06	7.4%
Nov-01	107.3	9.0%	**Nov-05**	227.3	16.2%	**Nov-09**	276.6	-0.2%	**Nov-13**	339.17	8.1%
Dec-01	108.6	9.5%	**Dec-05**	231.0	13.9%	**Dec-09**	277.6	0.9%	**Dec-13**	342.06	8.6%
Jan-02	110.2	10.2%	**Jan-06**	235.3	12.2%	**Jan-10**	278.9	2.3%	**Jan-14**	344.98	8.5%
Feb-02	112.2	11.4%	**Feb-06**	240.0	11.4%	**Feb-10**	281.0	3.8%	**Feb-14**	348.07	8.3%
Mar-02	114.1	12.6%	**Mar-06**	244.2	11.2%	**Mar-10**	282.8	4.9%	**Mar-14**	350.63	7.9%
Apr-02	115.6	12.9%	**Apr-06**	247.4	11.6%	**Apr-10**	284.0	5.8%	**Apr-14**	352.28	7.5%
May-02	116.5	12.4%	**May-06**	248.9	12.1%	**May-10**	284.5	6.4%	**May-14**	353.20	7.2%
Jun-02	116.8	11.6%	**Jun-06**	249.3	12.5%	**Jun-10**	284.0	6.1%	**Jun-14**	353.54	6.9%
Jul-02	117.0	11.2%	**Jul-06**	249.9	13.0%	**Jul-10**	282.7	5.0%	**Jul-14**	353.81	6.6%
Aug-02	117.2	10.9%	**Aug-06**	251.1	13.5%	**Aug-10**	282.1	3.9%	**Aug-14**	354.62	6.4%
Sep-02	117.4	10.7%	**Sep-06**	252.9	13.8%	**Sep-10**	282.4	3.2%	**Sep-14**	356.61	6.4%
Oct-02	117.9	10.7%	**Oct-06**	255.1	13.6%	**Oct-10**	282.9	2.7%	**Oct-14**	359.32	6.6%
Nov-02	118.7	10.6%	**Nov-06**	257.7	13.4%	**Nov-10**	282.8	2.2%	**Nov-14**	362.14	6.8%
Dec-02	119.8	10.3%	**Dec-06**	260.8	12.9%	**Dec-10**	282.6	1.8%	**Dec-14**	364.47	6.6%
Jan-03	121.1	9.9%	**Jan-07**	263.9	12.1%	**Jan-11**	282.8	1.4%	**Jan-15**	366.27	6.2%
Feb-03	123.2	9.8%	**Feb-07**	266.3	11.0%	**Feb-11**	284.2	1.2%	**Feb-15**	367.55	5.6%
Mar-03	125.7	10.2%	**Mar-07**	268.1	9.8%	**Mar-11**	286.1	1.2%	**Mar-15**	368.74	5.2%
Apr-03	128.5	11.1%	**Apr-07**	269.7	9.0%	**Apr-11**	287.8	1.3%	**Apr-15**	369.92	5.0%
May-03	131.1	12.5%	**May-07**	271.9	9.2%	**May-11**	289.3	1.7%	**May-15**	371.19	5.1%
Jun-03	133.6	14.4%	**Jun-07**	274.8	10.2%	**Jun-11**	290.3	2.2%	**Jun-15**	372.77	5.4%
Jul-03	136.3	16.5%	**Jul-07**	277.7	11.1%	**Jul-11**	291.0	3.0%	**Jul-15**	374.89	6.0%
Aug-03	138.6	18.3%	**Aug-07**	280.6	11.8%	**Aug-11**	291.5	3.3%	**Aug-15**	377.53	6.5%
Sep-03	140.9	20.0%	**Sep-07**	283.6	12.1%	**Sep-11**	291.7	3.3%	**Sep-15**	381.05	6.9%
Oct-03	143.6	21.8%	**Oct-07**	287.0	12.5%	**Oct-11**	291.9	3.2%	**Oct-15**	384.08	6.9%
Nov-03	146.8	23.6%	**Nov-07**	290.8	12.9%	**Nov-11**	292.9	3.6%	**Nov-15**	386.47	6.7%
Dec-03	150.4	25.5%	**Dec-07**	293.9	12.7%	**Dec-11**	294.9	4.4%	**Dec-15**	388.20	6.5%
Jan-04	154.1	27.2%	**Jan-08**	295.3	11.9%	**Jan-12**	297.8	5.3%	**Jan-16**	389.40	6.3%
Feb-04	158.1	28.3%	**Feb-08**	294.9	10.7%	**Feb-12**	301.3	6.0%	**Feb-16**	390.25	6.2%
Mar-04	161.9	28.8%	**Mar-08**	292.6	9.1%	**Mar-12**	305.1	6.6%	**Mar-16**	390.85	6.0%
Apr-04	165.1	28.5%	**Apr-08**	289.0	7.1%	**Apr-12**	308.5	7.2%			
May-04	167.6	27.9%	**May-08**	285.2	4.9%	**May-12**	311.0	7.5%			
Jun-04	169.9	27.2%	**Jun-08**	282.0	2.6%	**Jun-12**	312.6	7.7%			
Jul-04	172.8	26.8%	**Jul-08**	279.9	0.8%	**Jul-12**	313.2	7.6%			
Aug-04	177.0	27.7%	**Aug-08**	279.4	-0.4%	**Aug-12**	313.5	7.6%			
Sep-04	182.3	29.4%	**Sep-08**	279.3	-1.5%	**Sep-12**	313.8	7.6%			
Oct-04	188.5	31.3%	**Oct-08**	278.6	-2.9%	**Oct-12**	313.7	7.5%			
Nov-04	195.6	33.3%	**Nov-08**	277.1	-4.7%	**Nov-12**	313.9	7.2%			
Dec-04	202.9	34.9%	**Dec-08**	275.1	-6.4%	**Dec-12**	315.1	6.9%			

ADDENDUM - NOTES:

Note on The FNB Average House Price Index: Although also working on the average price principle (as opposed to median or repeat sales), the FNB House Price Index differs from a simple average house price index in that it could probably be termed a "fixed weight" average house price index.

One of the practical problems we have found with house price indices is that relative short term activity shifts up and down the price ladder can lead to an average or median price index rising or declining where there was not necessarily "genuine" capital growth on homes. For example, if "Full Title 3 Bedroom volumes remain unchanged from one month to the next, but Sectional Title 1 Bedroom and Less (the cheapest segment on average) transaction volumes hypothetically double, the overall national average price could conceivably decline due to this relative activity shift.

This challenge of activity shifts between segments is faced by all constructors of house price indices. In an attempt to reduce this effect, we decided to fix the weightings of the FNB House Price Index's sub-segments in the overall national index. This, at best, can only be a partial solution, as activity shifts can still take place between smaller segments within the sub-segments. However, it does improve the situation.

With our 2013 re-weighting exercise, we have begun to segment not only according to room number, but also to segment according to building size within the normal segments by room number, in order to further reduce the impact of activity shifts on average price estimates.

The FNB House Price Index's main segments are now as follows:

• The weightings of the sub-segments are determined by their relative transaction volumes over the past 5 years, and will now change very slowly over time by applying a 5-year moving average to each new price data point. The sub-segments are:

- Sectional Title:
    - Less than 2 bedroom – Large
    - Less than 2 bedroom – Medium
    - Less than 2 bedroom – Small

    - 2 Bedroom – Large
    - 2 bedroom – Medium
    - 2 bedroom – Small

    - 3 Bedroom and More - Large
    - 3 Bedroom and More - Medium
    - 3 Bedroom and More - Small

- Full Title:
    - 2 Bedrooms and Less - Large
    - 2 Bedrooms and Less - Medium
    - 2 Bedrooms and Less - Small

    - 3 Bedroom - Large
    - 3 Bedroom - Medium
    - 3 Bedroom - Small

    - 4 Bedrooms and More - Large
    - 4 Bedrooms and More - Medium
    - 4 Bedrooms and More – Small

The size cut-offs for “small”, medium” and “large” differ per room number sub-segment. “Large” would refer to the largest one-third of homes within a particular room number segment over the past 5 year period, “Medium” to the middle one-third, and “Small” to the smallest one-third of homes within that segment.

- The Index is constructed using transaction price data from homes financed by FNB.
- The minimum size cut-off for full title stands is 200 square metres, and the maximum size is 4000 square metres
- The maximum price cut-off is R10m, and the lower price cut-off is R20,000 (largely to eliminate major outliers and glaring inputting errors).
- The index is very lightly smoothed using a Hodrick-Prescott smoothing function with a Lambda of 5.

ADDENDUM - NOTES:

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.

Property and Mortgage Market Summary

END OF PERIOD	2013	2014	2015	Q2-2015	Q3-2015	Q4-2015	Q1-2016	Dec-15	Jan-16	Feb-16	Mar-16
Residential Property Prices											
FNB National Average House Price (Rand)	891 925	955 463	1 012 745	1 000 809	1 018 402	1 041 125	1 051 675	1 046 387	1 049 610	1 051 902	1 053 512
y/y % change	*6.8*	*7.1*	*6.0*	*5.2*	*6.4*	*6.7*	*6.2*	*6.5*	*6.3*	*6.2*	*6.0*
m/m seasonally-adjusted % change								*0.28*	*0.12*	*0.05*	*0.04*
FNB Valuers Demand Strength Index	50. 38	54. 15	55. 82	56. 07	55. 97	55. 5	54. 9	55. 28	55. 05	54. 9	54. 74
y/y % change	*3.0*	*7.5*	*3.1*	*4.4*	*2.8*	*0.2*	*-1.5*	*-0.5*	*-1.1*	*-1.5*	*-2.0*
m/m % change								*-0.42*	*-0.40*	*-0.28*	*-0.30*
FNB Valuers Supply Strength Index	56. 71	55. 1	53. 8	54. 13	53. 44	53. 16	53. 06	53. 158	53. 154	53. 077	52. 934
y/y % change	*-2.1*	*-2.8*	*-2.3*	*-2.2*	*-2.7*	*-2.9*	*0.0*	*-2.8*	*-2.7*	*-2.6*	*-2.7*
m/m % change								*0.01*	*-0.01*	*-0.14*	*-0.27*
FNB Valuers Market Strength Index	46. 84	49. 53	51. 01	50. 97	51. 26	51. 17	50. 92	51. 06	50. 95	50. 91	50. 9
y/y % change	*3.0*	*5.7*	*3.0*	*3.7*	*3.0*	*1.7*	*0.0*	*1.3*	*0.83*	*0.54*	*0.32*
m/m % change								*-0.23*	*-0.22*	*-0.07*	*-0.02*
Major Metro Areas Average House Price (Rand)	1 076 982	1 160 719		1 226 400	1 242 243	1 260 520					
y/y % change	*6.6*	*7.8*		*6.7*	*5.9*	*5.6*					
- Upper Income Area Average House Price (Rand)	2 278 659	2 498 681		2 654 625	2 684 939	2 717 055					
y/y % change	*7.9*	*9.7*		*7.5*	*6.0*	*5.1*					
- Middle Income Area Average House Price (Rand)	1 240 517	1 343 803		1 434 520	1 456 507	1 478 734					
y/y % change	*6.4*	*8.3*		*7.9*	*7.2*	*6.7*					
- Lower Income Area Average House Price (Rand)	787 175	835 433		874 506	885 735	900 323					
y/y % change	*5.7*	*6.1*		*5.4*	*5.2*	*5.5*					
- Affordable Area Average House Price (Rand)	410 634	441 057		461 056	465 789	472 848					
y/y % change	*6.4*	*7.4*		*5.4*	*4.6*	*4.6*					
- Major 3 Provinces' Former Black Township Average House Price (Ran	273 706	296 268		326 617	330 319	333 984					
y/y % change	*7.5*	*8.2*		*12.1*	*10.2*	*8.3*					
- Holiday Towns Average House Price (Rand)	829 378	900 787		966 371	964 099	955 977					
y/y % change	*1.4*	*8.6*		*8.9*	*5.3*	*1.6*					
FNB Estate Agent Survey											
Level of Residential Demand Activity (Scale 1 to 10)	6. 27	6. 58	6. 31	6.3 3	6.1 4	6.0 2					
y/y % change	*4.8*	*4.9*	*-4.1*	*0.0*	*-7.4*	*-8.9*					
First time buyers as a percentage of total buyers (%)	22.5	26.5	24.3	21.0	25.0	26.0					
Buy-to-let as a percentage of total buyers (%)	7.8	9.3	8.8	9.0	8.0	9.0					
Average time of properties on the market (Weeks and Days)	16.0	12.2	12.0	12.1	11.1	12.1					
Percentage of properties sold at less than asking price (%)	88.0	81.5	86.0	87.0	87.0	87.0					
Percentage of properties on the market for 3 months or more (%)	74.5	56.0	49.0	46.0	47.0	55.0					
Residential Building Sector											
Number of units' plans passed	50 447	56 809		16 660	16 831	13 643		4 086	3 634		
y/y % change	*1.3*	*12.6*		*17.9*	*10.8*	*1.1*		*23.4*	*-13.6*		
Square metres' worth of plans passed	6 647 115	7 467 385		2 020 328	2 092 849	1 804 851		519 394	440 653		
y/y % change	*6.4*	*12.3*		*11.9*	*1.2*	*-3.8*		*13.4*	*-19.5*		
Average size of units' plans passed (square metres)	131.8	131.4		121.3	124.3	132.3		127	121		
Number of units completed	41 485	38 043		10 592	9 784	10 808		3 243	2 725		
y/y % change	*-3.5*	*-8.3*		*31.5*	*2.2*	*-3.7*		*-7.8*	*22.7*		
Square metres' worth of buildings completed	4885830.0	4707294.0		1 325 713	1 322 928	1 383 942		431 877	321 958		
y/y % change	*1.5*	*-3.7*		*28.8*	*7.3*	*-1.3*		*2.0*	*6.9*		
Average size of units' completed (square metres)	117.8	123.7		125.2	135.2	128.0		133.17	118.15		

Property and Mortgage Market Summary

END OF PERIOD	2013	2014	2015	Q2-2015	Q3-2015	Q4-2015	Q1-2016	Dec-15	Jan-16	Feb-16	Mar-16
Mortgage Market											
New residential loans and re-advances granted (R'm)	196 144	213 318		58 201	60 250	55 516		15 305			
y/y % change	*15.6*	*8. 8*		*11.3*	*7.0*	*3.9*		*5.4*			
Residential re-advances granted (R'm)	10 452	11 911		4 262	3 386	2 626		680			
y/y % change	*26.06*	*13.96*		*50.3*	*7.0*	*-11.8*		*-11.8*			
Total residential mortgage loans outstanding - Banks (R'm)	837 817 308	854 418 677		868 135 474	875 775 279	886 123 502		886 123 502	889 550 223		
y/y % change	*1. 3*	*2.*		*2. 5*	*2.7*	*3.7*		*3.7*	*3.9*		
Key Economic Indicators											
Real Gross Domestic Product (R'm at 2000 prices)	2 963 390	3 009 283		3 041 689	3 046 807	3 051 485					
y/y % change	*2.2*	*1.5*		*1.3*	*1.0*	*0.6*					
Real Residential Fixed Investment (R'm)	46 676	43 975		42 170	42 248	41 819					
y/y % change	*-7.1*	*-5.8*		*-0.7*	*-0.1*	*-1.2*					
Prime Rate (%)	8. 5	9. 1	9. 4	9.3	9.5	9.7	10.3	9.75	9.7738	10.25	10.3
Yields on Government Bonds 10 years and Longer (%)	7.7	8.3	8.2	8.1	8.3	8.7	9.4	9.3	9.6	9.2	9.3
Currencies - USDZAR	9. 66	10. 85	12. 78	12. 107	12. 996	14. 212	15. 844	15.	16. 35	15. 77	15. 43
Currencies - EURZAR	12.82	14.39	14.17	13. 376	14. 444	15. 558	17. 456	16.32	17.76	17.50	17.12
CPI - y/y % change	*5. 8*	*6. 1*	*4. 6*	*4.6*	*4.7*	*4.9*		*5. 2*	*6. 2*	*7.*	
Gauteng pump price y/y%				*-8.7*	*-6.5*	*-5.8*	*11.0*	*-1.6*	*9.7*	*20.4*	*3.7*
FNBBER Consumer Confidence Index	-5.3	-0.8	-9.5	-15.0	-5.0	-14.0					
RMBBER Business Confidence Index	46	45	42	43.0	38.0	36.0	36.0				
SARB Composite Leading Business Cycle Indicator	99. 4	97. 8		95. 8	93.	92. 9		92.8	92.2 4		
y/y % change	*0.1*	*-1.7*		*-1.5*	*-4.7*	*-5.0*		*-3.80*	*-3.99*		
m/m % change								*-0.04*	*-0.60*		
Real Retail Sales (2008 Prices) - R'm	723 291	738 224		181 640	184 556	219 224		87 989	60 425		
y/y % change	*2.7*	*2.1*		*3.1*	*3.4*	*3.8*		*4.1*	*3.1*		
Manufacturing - Volume of Production (Index 2005=100)	106. 53	106. 6		102. 5	110. 5	111. 8		100.0	89.8		
y/y % change	*1.4*	*0.1*		*-1.6*	*2.0*	*-1.1*		*0.5*	*-2.5*		
Mining - Volume of Production (Index 2005=100)	99. 49	98. 14		102. 9	102. 5	102. 1		100.8	85.6		
y/y % change	*3.7*	*-1.4*		*5.9*	*1.1*	*-2.3*		*-1.2*	*-4.5*		
Vehicle Sales - Total (NAAMSA)	565 999	571 501	555 397	129 142	143 510	140 158	87 405	49 250	48 615	48 149	47 631
y/y % change	*5.0*	*1.0*	*-2.8*	*-1.9*	*-6.8*	*-3.1*	*-38.7*	*-4.3*	*-7.1*	*-8.1*	*-14.1*
Passenger Vehicle Sales - Total (NAAMSA)	379 673	377 507	359 603	83 067	94 117	89 789	59 701	33 025	34 936	32 826	30 702
y/y % change	*4.1*	*-0.6*	*-4.7*	*-2.6*	*-9.1*	*-5.6*	*-35.5*	*-8.1*	*-5.5*	*-6.0*	*-13.6*