Standard Bank
Also trading as Stanbic Bank

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Data Release: House Price Index

South Africa | Macroeconomics

May print of HPI slows to 6.8% y/y

The effects of rising interest rates may be starting to filter through to the housing market

- The Standard Bank House Price Index (HPI) grew by 6.8% y/y in May, down from an upwardly revised 7.0% y/y in April (originally 6.9% y/y). Looking at property performance by type, freehold properties slowed to 7.9% y/y in May from 9% y/y in April. In contrast, sectional units accelerated to 9.8% y/y in May from 7.7% y/y in April (fig 1).

- From the supply side, the number of residential units coming into the market grew 9.4% y/y. In Q1:2016, about 9,300 new units were completed, compared to 10,808 in Q4:2015 and 8,500 in Q1:2015 (fig 3). We note that building activity has not recovered from the recession of 2009. Since the recession, for the period Q1:2010-Q1:2016, new units coming into the market have averaged around 10,000 per quarter, a far cry from an average of 17,300 per quarter for the period Q1:2003-Q4:2008 (fig 4). Commensurately, GDP growth has halved, from an average of 4.6% between Q1:2003-Q4:2008 to 2.3% between Q1:2010 to Q4:2015.

- Slowing growth in the HPI is in line with slowing growth in mortgage advances and less purchasing activity (fig 5), as well as tighter lending standards and reduced risk appetites by lenders (fig 2). In May, mortgage advances slowed for a second consecutive month, to 4.3% y/y from 4.5% y/y in April. We think that rising interest rates and a softening labour market are starting to negatively affect demand and supply of mortgages and ultimately house prices (fig 6).

- Despite SA escaping a downgrade by S&P on Friday the 3rd of June 2016, we pencil in another 50bps hike in 2016, which will continue to soften demand for mortgages.

- We use the SARB's 50 bps repo rate increase January 2016 as a case study to estimate the potential effect of further hikes in the repo rate on the affordability of houses. The sample period is carefully selected to capture home purchases after the November 2015 hike but before the January 2016 hike. We then grouped the sample by income and identify a median buyer in each income group. We quantify the increase in the median instalment per income group, keeping buyer preferences constant (e.g., preferred house price; loan amount; loan term etc.).

We construct income groups as follows:

- Low income: <R16 417 pm;
- Emerging middle income: R16 418- R33 333 pm;
- Middle income: R33 334-R123 417 pm; and
- Upper Income: R 123 418 pm+.

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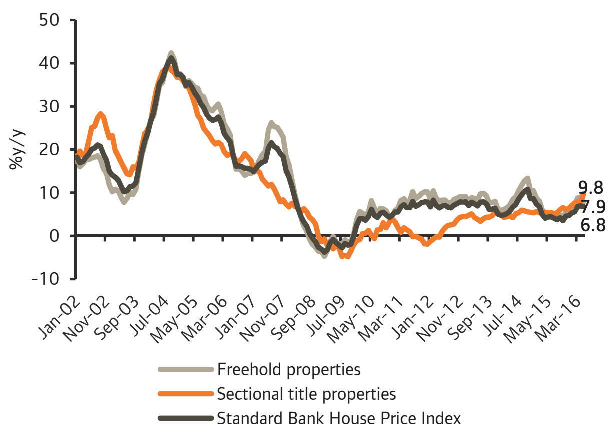
- We find that, post the 50bps hike in January 2016:

- **Low income group:** The median monthly instalment on a house grew by 3.5% or R125 (fig 7). Effectively, this reduced the median home buyer's disposable income, which for the purpose of this analysis we define as income after tax & mortgage payments, by 1.74% (fig 9). Put differently, this is equivalent of a pay-cut of 1.74%. Instalments as a proportion of median take-home pay (net income after tax) increased from 32.9% to 34.1% (Fig 8).
- **Emerging middle income group**: The median monthly Instalment grew by 3.4% or R187 (fig 7). Effectively, this reduced disposable income by around 1.65% (fig 9). Instalments as a proportion of median take-home pay increased from around 32.7% to 33.8% (fig 8).
- Middle income group: The median monthly instalment grew by 3.3% or R300 (fig 7). Effectively, this reduced disposable income around 1.28% (fig 9). Instalments as a proportion of median take-home pay increased from between 28% to 28.9% (fig 8).
- Upper income group: The median monthly instalment grew by 3.3% (fig 7). Effectively, this reduced disposable income by around 0.67% or R516 (fig 9). Instalments as a proportion of take home pay increased from 16.9% to 17.5% (fig 8).

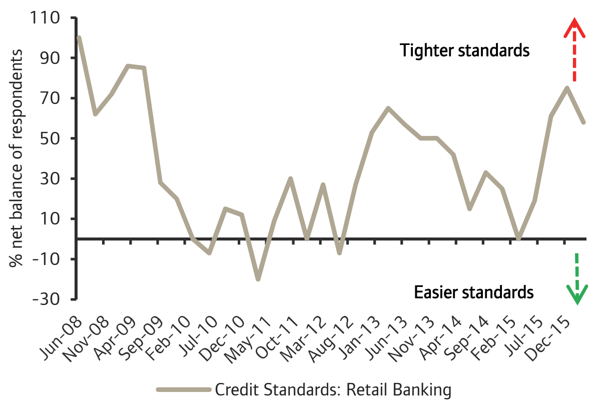
- We conclude that the lower income buyers take the biggest strain as a result of rising interest rates. This is because of generally higher instalment payments as a percentage of income in this category.

Figure 1: May HPI grew by 6.8% y/y, 0.2 ppts lower than the April print.



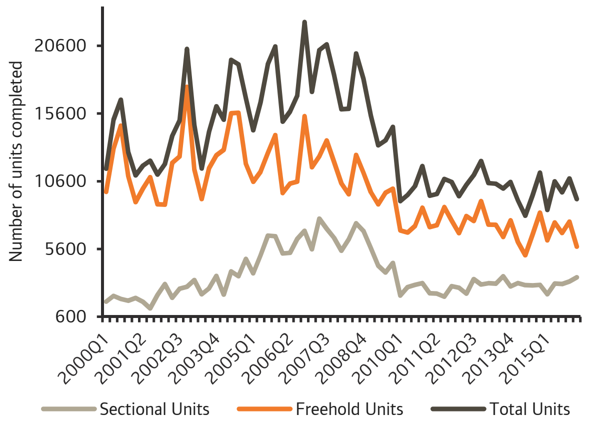
Source: SBR

Figure 2: EY credit standards indicator shows that it is still relatively difficult for consumers to access credit, as retail bankers apply tight lending measures.



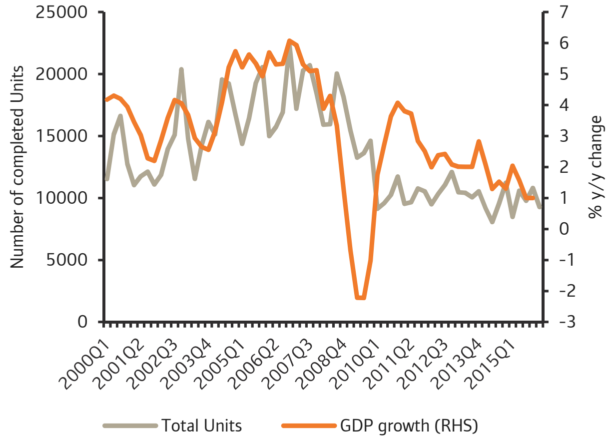
Source: EY/BER, SBR

Figure 3: Total number of residential units coming into the market hovering around 10,000 units mark, far below the average of 17,300 seen before the recession of 2009



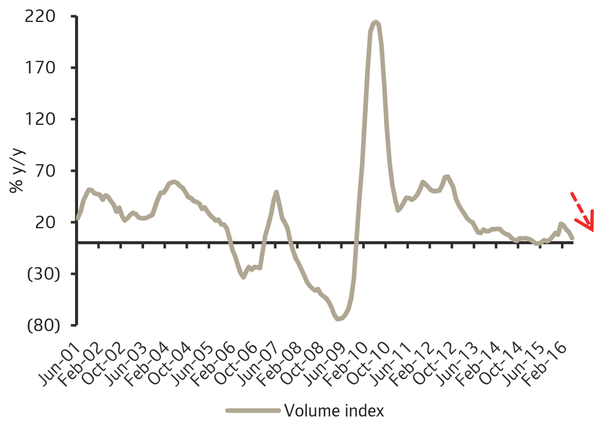
Source: Stats SA, SBR

Figure 4: Responding to sluggish GDP growth, the supply of new residential properties has not recovered since the recession.



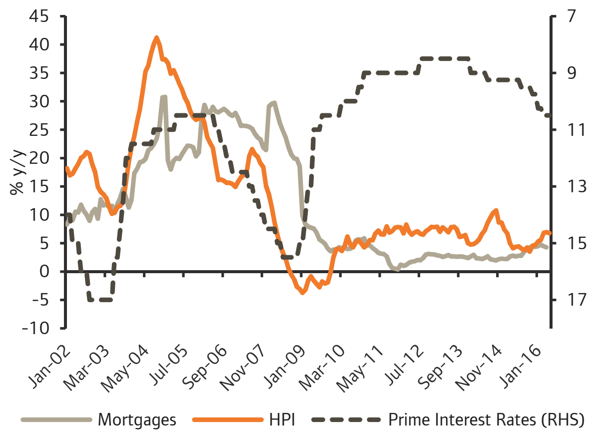
Source: Stats SA, SARB, SBR

Figure 5: Our estimated volumes indicator still shows declining purchasing activity.



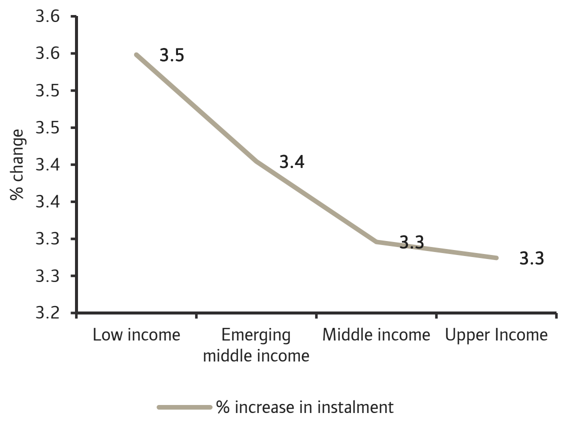
Source: SBR

Figure 6: The decline in mortgage advances and HPI may be in keeping up with higher interest rates.



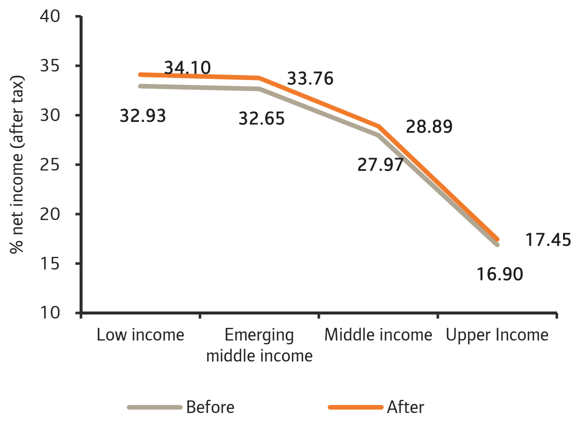
Source: SARB, SBR

Figure 7: The January rate hike raised instalments by between 3.3% and 3.5%.



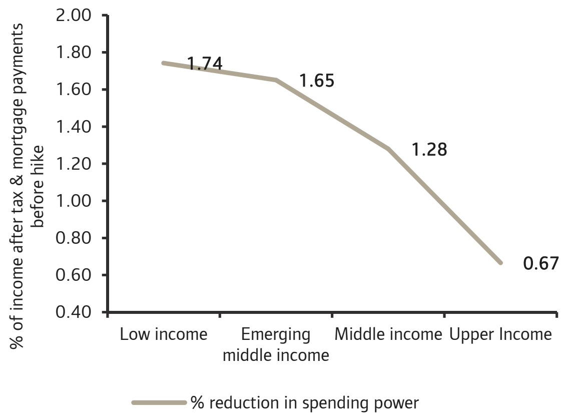
Source: SBR

Figure 8: Increased instalments eat more into the pockets of those in the lower income groups



Source: SBR

Figure 9: Relatively, spending power (net income after mortgage payments) of the low income groups declines the most



Source: SBR

Figure 10: Standard Bank HPI

	2011	2012	2013	2014	2015	2016
January	5.5	6.7	7.9	4.8	7.4	5.3
February	5.5	8.3	7.0	4.9	6.7	5.6
March	6.7	7.0	7.8	5.2	4.9	6.8
April	7.2	6.5	7.4	5.7	4.1	7.0
May	6.6	6.9	6.9	6.7	4.4	6.8
June	6.5	7.1	7.8	7.3	4.4	
July	8.0	6.6	7.9	8.6	4.1	
August	6.9	6.5	7.5	9.5	3.7	
September	7.2	7.1	6.1	10.4	4.2	
October	7.7	7.5	6.2	10.8	3.5	
November	7.8	7.9	6.4	8.6	4.6	
December	7.8	7.9	5.0	8.6	4.6	

Source: SBR

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