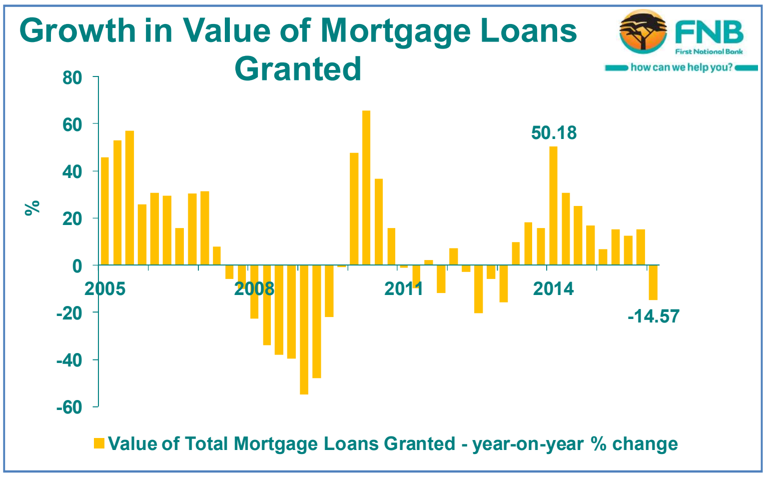
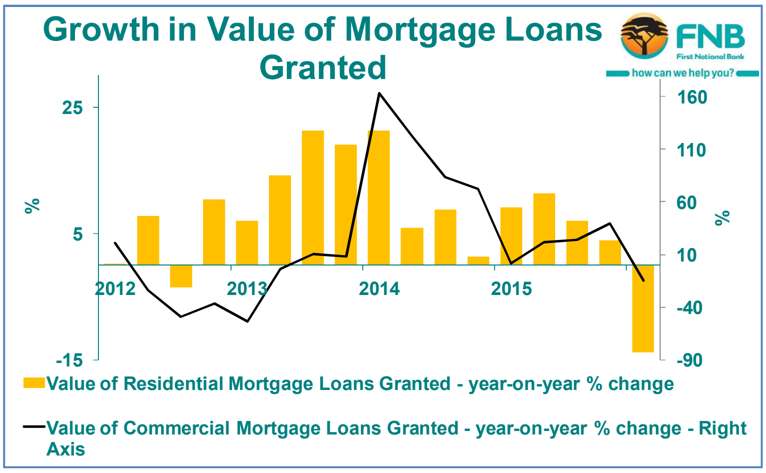
MORTGAGE BAROMETER – NEW MORTGAGE LENDING

According to SARB 1st quarter 2016 data, slowing growth has changed to decline in the Mortgage Lending Sector, and this applies to both Residential and Non-Residential Mortgage Lending.

14 June 2016

1st Quarter 2016 SARB New Mortgage Lending data showed a significant year-on-year drop. An Easter weekend during March this year may have made some difference to the level of loans processed, but some decline has nevertheless been anticipated for some time now, with our various indicators of residential activity long since having pointed to slowdown approaching for mortgage lenders.





The June 2016 SARB (Reserve Bank) Quarterly Bulletin showed the value of new mortgage loans granted (Residential, Commercial and Farms) to have declined by -14.57% year-on-year for the 1st quarter of 2016.

This is significantly slower compared with positive growth of +15.2% year-on-year in the previous quarter, and now reflecting a very significant turnaround since the 50.2% year-on-year multi-year high reached in the 1st quarter of 2014.

Both the Commercial and Residential sub-components were "drags" on the growth rate in the 1st quarter. The value of residential mortgages granted declined by -13.8% year-on-year, while that of commercial mortgages declined by -14.9% in the same quarter. Both these sectors' negative growth rates reflect a significant slowing on the prior quarter's positive growth.

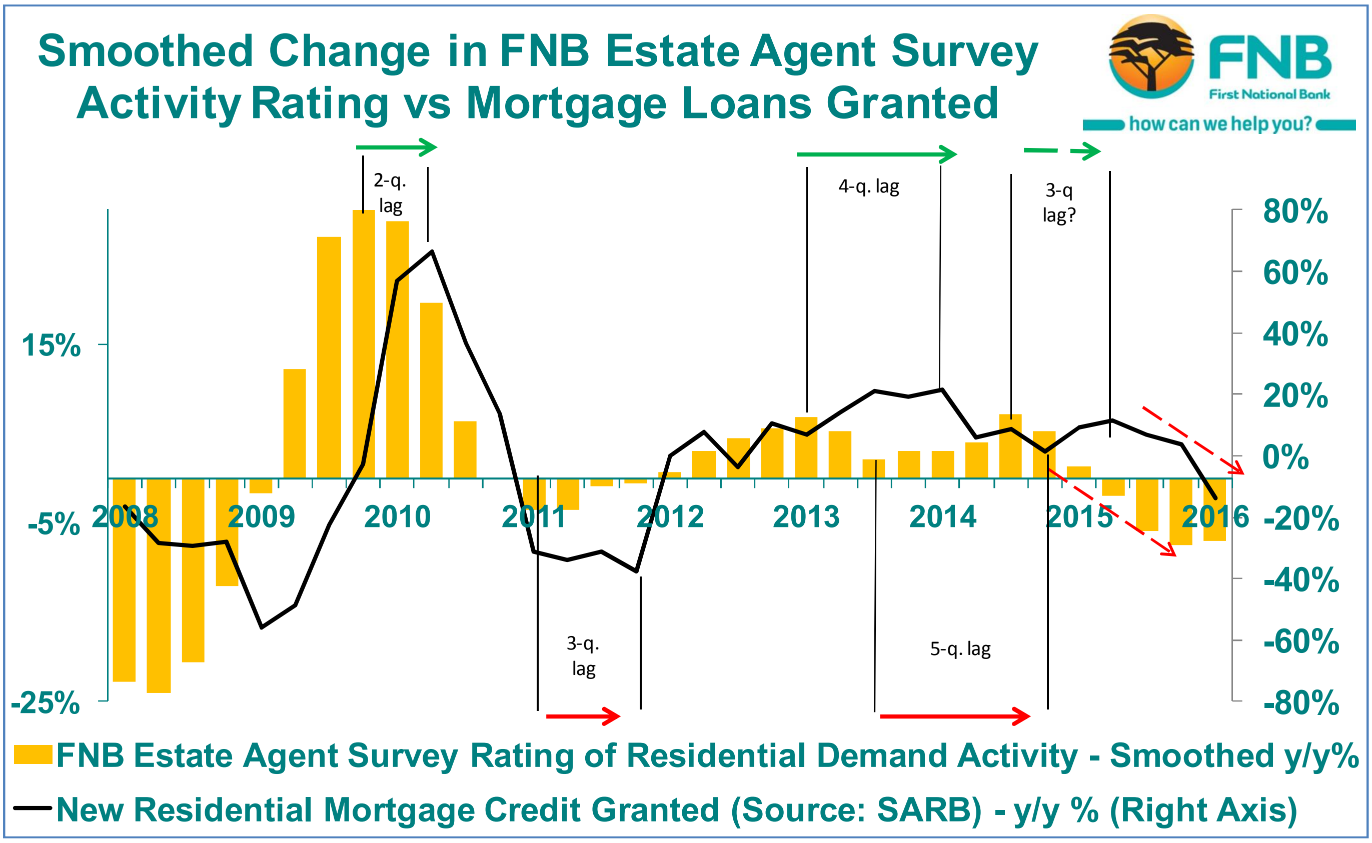
For the Residential Mortgage Lending Sector, the 1st quarter of 2016 was the 3rd consecutive quarter of growth slowdown in the value of mortgage loans granted.

By comparison, the 1st quarter was the 1st quarter of slowing growth in the value of commercial mortgage loans granted slowing after an acceleration in growth in the prior 3 quarters.

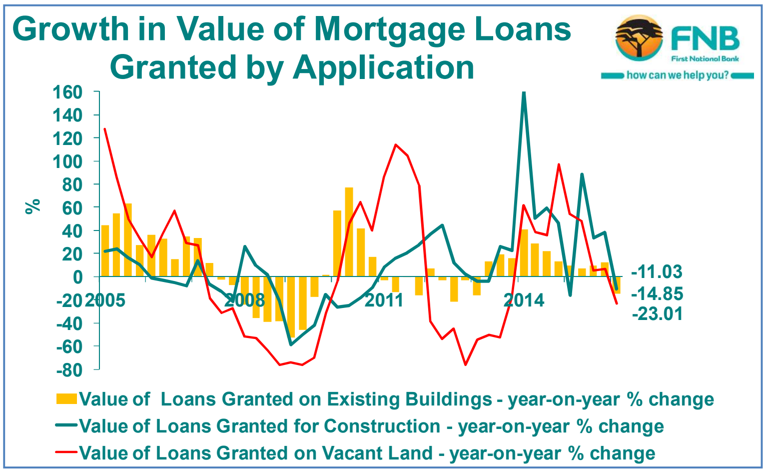
The Residential Market is arguably the more "leading sector", with Home Loans applicants responding more swiftly to any economic or interest rate changes. This market has long since begun to respond to rising interest rates since early-2014, as well as to 4 years of deteriorating economic growth, and slowing growth in new residential loans granted had for a while suggests that Commercial grants would soon follow that trend at a later stage.

The FNB Estate Agent Survey's Residential Activity Rating had been pointing towards such a slowdown in residential mortgage growth for some time. We utilize this Activity Rating as a "leading indicator", with its smoothed year-on-year growth peaks leading new mortgage lending growth peaks by as much as 3 or 4 quarters.

After the Residential Activity Rating's year-on-year growth last peaked in the 3rd quarter of 2014, it steadily slowed into negative growth territory by the 2nd quarter of last year, and has remained in negative territory since. With a 3 quarter lag, the growth in value of new residential mortgage loans granted peaked in the 2nd quarter of 2015, and has since tracked residential market activity lower.

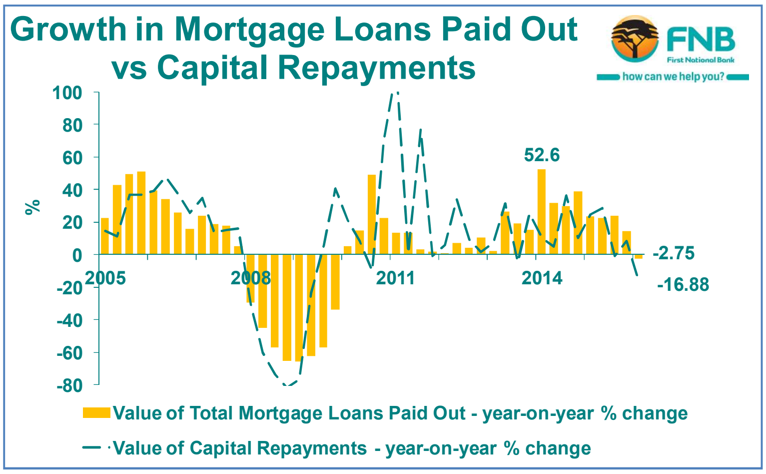


Examining Mortgage Loans Granted "by application", i.e. on Existing Buildings vs Vacant Land and Construction, we see all 3 categories dipping into negative territory in the 1st quarter.



The largest decline was in the Mortgage Loans Granted on Vacant Land category, whose value dropped by -23% year-on-year in the 1st quarter. The vacant land segment of the property market is normally the most cyclical, so this should not be surprising as interest rates rise and the economy shows weakness.

By comparison, the value of Mortgage Loans Granted for Construction and those granted on Existing Buildings declined by a lesser -11% and -14.85% year-on-year respectively.



Whilst new loans granted growth slowed quite sharply, that's not to say that loans paid out would see as severe a slowdown. However, slowdown they did, and in the 1st quarter of 2016 the value of total mortgage loans paid out declined by -2.75% year-on-year, having steadily slowed all the way from strong positive growth of +52.6% back in the 1st quarter of 2014.

The broad slowdown in this growth more-or-less co-incided with the onset of interest rate hiking early in 2014.

The slower growth in property activity volumes recently has also impacted on Capital Repayments growth since 2014. The value of Capital Repayments for the 1st quarter of 2016 declined by -16.9% year-on-year, down from the prior quarter's positive +8.4% growth.

This slowdown in capital repayments growth should also be expected when a slower rate of growth in properties being bought and sold slows the rate of loan settlement on transacting.

CONCLUSION

The 1st quarter 2016 rate of decline in new mortgage loans granted may be slightly "overdone" by an Easter Weekend having shifted to March this year. Nevertheless, many economic, and our own leading property, indicators have long suggested that slowdown should be expected. It is even possible that certain lenders have become tougher on their lending criteria in response to deteriorating economic conditions.

A 1st quarter Real GDP (Gross Domestic Product) contraction, further rise in interest rates during the 1st quarter of 2016, and our FNB Residential Activity rating still firmly in year-on-year decline, suggests to us that further decline in the value of new mortgage lending is likely in the near term,

On the non-residential side, too, almost-recessionary conditions are unlikely to boost demand growth for commercial mortgage loans either.

The Residential Market is often a "Leading Segment" in the overall Mortgage Market, i.e. it can be a leading indicator of trends to come in the Commercial Mortgage Market and thus in the overall market. The Residential Mortgage Segment has already seen slowing new mortgage grants growth for a number of quarters to date, which should suggest further near term weakening for the Non-Residential Mortgage Segment to come.

Examining Mortgage Loan Grants by Application, it is likely to be Mortgage Loans Granted for both Vacant Land and for Construction Purposes that slow more sharply compared to the less cyclical Existing Buildings category.

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