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Explanatory notes:

The Absa house price indices, available back to 1966, are based on the total purchase price of homes in the 80m²-400m² size category, priced at R4,4 million or less in 2016 (including improvements), in respect of which mortgage loan applications were received and approved by Absa. Prices are seasonally adjusted and smoothed in an attempt to exclude the distorting effect of seasonal factors and outliers in the data. As a result, the most recent index values and price data may differ from previously published figures.

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House price indices

8 July 2016

Slowing price growth in middle-segment housing

Macroeconomic trends, impacting the household sector, are weighing on the South African housing market, with year-on-year growth in the average nominal value of middle-segment homes slowing down further in June 2016. On a month-on-month basis, nominal price growth has been on a declining trend over the past six months, coming to almost zero in June. In real terms, i.e. after adjustment for the effect of consumer price inflation, some house price deflation was recorded on a year-on-year and month-on-month basis during the first five months of the year. In May this year the average price of a middle-segment home was in real terms 11,3% lower compared with the peak in August 2007. The abovementioned trends in home values are according to the Absa house price indices, which are based on applications for mortgage finance received and approved by the bank in respect of middle-segment small, medium-sized and large homes (see explanatory notes).

Year-on-year nominal price growth of 4,9% was recorded in middle-segment housing in June, declining gradually from a level of 6% in February and driven by increasingly challenging economic conditions affecting household finances and consumer confidence. Year-to-date price growth up to June came to 5,7% y/y. Some real price deflation of 0,5% year-on-year (y/y) occurred in May on the back of a consumer price inflation rate of 6,1% y/y in the month.

The average nominal value of homes in each of the middle-segment categories was as follows in June 2016:

- Small homes (80m²-140m²): R933 000
- Medium-sized homes (141m²-220 m²): R1 289 000
- Large homes (221m²-400m²): R1 988 000

The main driving factors of the residential property market are largely macroeconomic and household sector related. The economy contracted by a real 1,2% quarter-on-quarter and 0,2% y/y, measured by production, in the first quarter of the year, and a full-year contraction in real gross domestic product of 0,2% is currently projected. The South African Reserve Bank's leading business cycle indicator, which is a reflection of the expected direction of economic activity 6 – 9 months into the future, remained on a downward trend into the second quarter of the year. Seasonally adjusted, annualised growth in real household disposable income dropped to only 0,4% in the first quarter of the year, with household consumption expenditure contracting by a real 1,3% in the quarter from the preceding quarter. Rising consumer price inflation and higher interest rates are forecast for the second half of the year, which will continue to erode consumers' purchasing power and lead to increased levels of financial strain. Against this background consumer confidence remained around its lowest level in many years in the second quarter of the year, with little prospect of a major improvement in the near future.

Based on the abovementioned trends and prospects, nominal house price growth is forecast at between 4% and 4,5% for the full year, with some real price deflation of between 2% and 2,5% expected this year.

Absa house price indices (nominal, 2000=100)

Houses of 80m²-400m², up to R4.4 million in 2016

Month	Small houses 80m²-140 m²			Medium-sized houses 141m²-220 m²			Large houses 221m²-400 m²		
	2014	2015	2016	2014	2015	2016	2014	2015	2016
	January	391.1	431.6	460.3	447.8	478.6	502.4	480.0	504.9
February	396.6	428.6	465.7	452.1	480.0	504.2	483.5	506.8	545.4
March	403.0	425.7	468.9	455.5	481.1	507.2	487.4	509.2	546.8
April	408.9	424.9	469.9	457.8	482.2	510.3	491.8	512.5	547.3
May	413.2	426.7	469.8	459.5	483.8	513.4	496.0	517.3	546.8
June	415.7	430.2	468.6	461.8	485.6	515.8	499.0	523.3	545.8
July	417.3	434.3		465.3	487.6		500.7	529.5	
August	419.3	438.0		469.5	490.3		501.5	534.2	
September	422.9	440.9		473.3	493.5		502.6	536.9	
October	427.6	443.7		475.8	496.6		503.6	538.5	
November	431.5	447.9		477.1	499.1		504.0	540.0	
December	433.0	453.8		477.8	500.9		504.1	541.9	
Average	415.0	435.5	467.2	464.5	488.3	508.9	496.2	524.6	546.0

Absa house price indices

Houses of 80m²-400m², up to R4.4 million in 2016

Category of housing	Nominal year-on-year % change			Real year-on-year % change		
	May	June	Year-to-date	April	May	Year-to-date
	2016	2016	2016	2015	2016	2016
Small (80m²-140m²)	10.1	8.9	9.2	4.1	3.8	2.7
Medium (141m²-220m²)	6.1	6.2	5.6	-0.4	0.0	-0.8
Large (221m²-400m²)	5.7	4.3	6.6	0.5	-0.4	0.6

Absa house price index

Houses of 80-400m², up to R4.4 million in 2016, Index 2000=100





