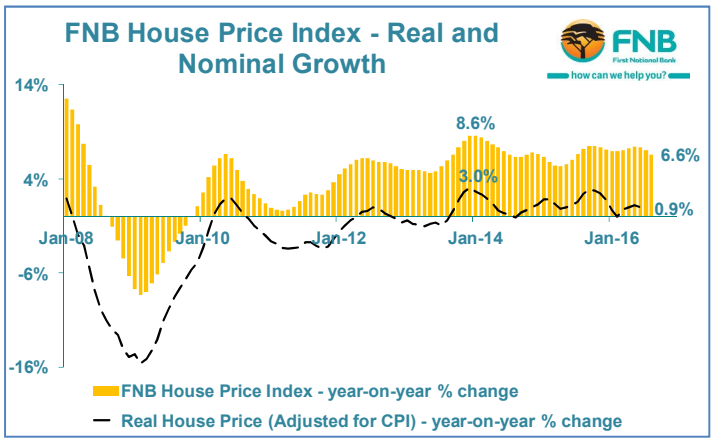
PROPERTY BAROMETER – FNB AUGUST HOUSE PRICE INDEX

House Price inflation slows once more. Is this reflective of another economic growth "soft patch" after what seemed to be a mildly better 2nd quarter?

1 September 2016

The FNB National House Price Index rose by 6.6% year-on-year in August. This represents a slowing in the pace of growth from a revised 7% year-on-year rate in July, and the 3rd consecutive month of slowing since the 7.4% revised 2016 high reached in May.



On a month-on-month seasonally-adjusted basis, the index's rate of inflation has slowed from its 0.71% 2016 high point in May to 0.46% in August. This comes after a prior "mini-surge" in month-on-month house price inflation in the months leading up to May. Month-on-month house price "mini-trends" often broadly track key indicators of economic performance. That recovery in month-on-month house price growth up until May more-or-less co-incided with some noteworthy recovery in the Barclays Manufacturing Purchasing Managers' Index(PMI). This, along with other indicators, pointed to some likely mild improvement in the country's economic performance in the 2nd quarter of 2016 after a dismal contraction in GDP (Gross Domestic Product) in the 1st quarter.

More recently, however, it is possible that the renewed slowing in month-on-month house price growth post-May may hint at, or reflect, renewed "lull" in the economy emerging in the 3rd quarter.

In real terms, adjusting for CPI (Consumer Price Index) inflation, the House Price Index remained in mild positive growth territory to the tune of 0.9% year-on-year in July, with CPI inflation of just above 6%, still below house price inflation of 7% in that month (CPI data for August not yet available).

Our latest Index estimate shows house prices in real terms as being 3.8% up on the post-Financial Crisis low point reached in November 2011, but -20.1% down on the boom time high reached in December 2007.

Taking a long term backward-looking view, in real terms we find the index to still be 66.8% higher than pre-boom levels of January 2001.

In nominal terms (current prices), the index has inflated by 302.1% since January 2001, and 47.1% since the May 2009 post-boom low-point.

The average estimated price for home transactions in August was R1,078,099.

The recent month's house price inflation estimates remain mildly ahead of average rental inflation, as per the StatsSA CPI Rental data. As yet, therefore, there has been no reversal of the gradual rise in the House Price-Rent Ratio since 2013. The rise in this ratio gradually causes home buying to lose some appeal relative to the rental option, and can ultimate weigh on the home buying market.

However, Rental inflation has gradually edged higher from 4.3% year-on-year in mid-2012 to 5.3% by June 2016. And looking forward, we remain of the expectation that average house price inflation will slow into lower single digit territory in the near term, dragged lower by the lagged impact of past interest rate hiking, weak national sentiment in a stagnant growth environment, and mounting speculation over further ratings downgrades for South Africa. This could see a near term end to the rising trend in the Price-Rent Ratio, with the rental market beginning to outperform the home buying market by a small margin in the not too distant future.

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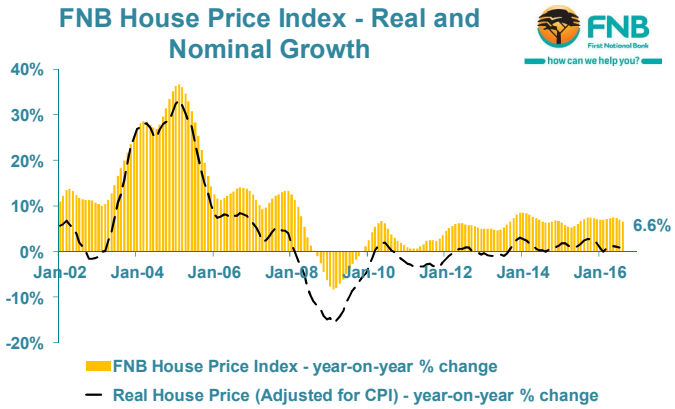
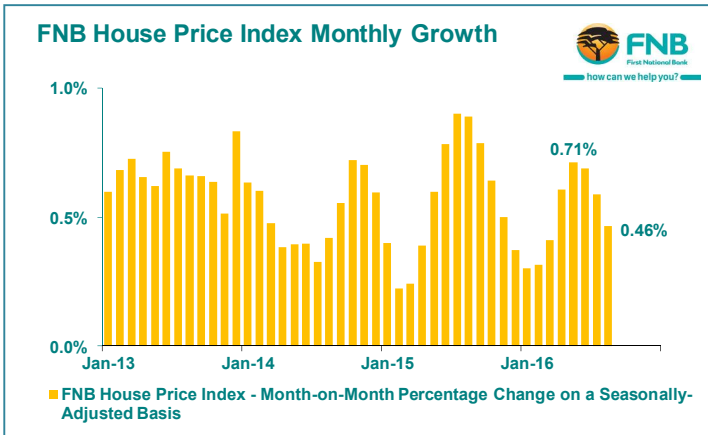
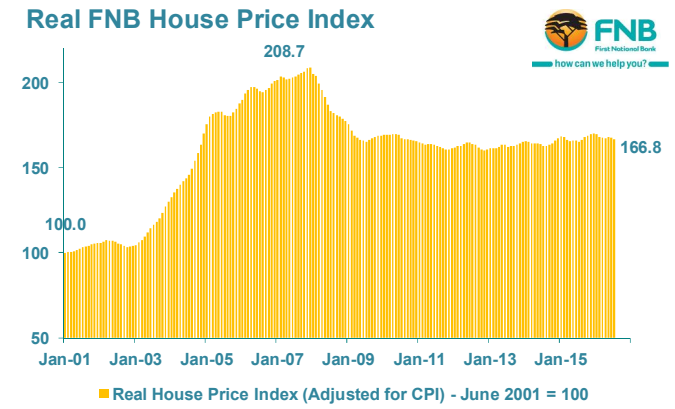
GRAPHICS – HOUSE PRICE PERFORMANCE AND KEY RELATED RATIOS

- **Average House Price Growth Rates**

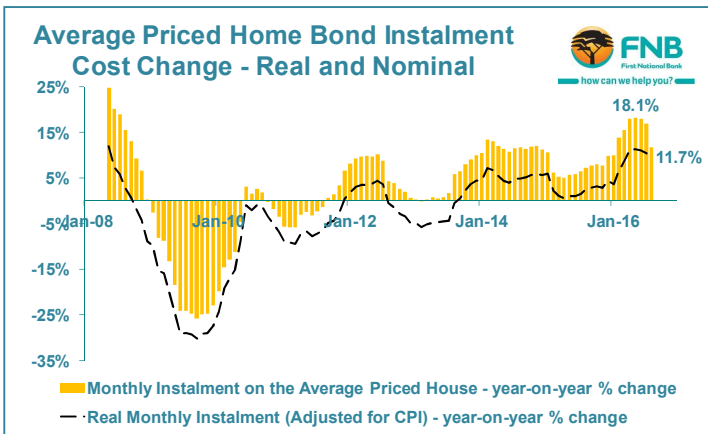




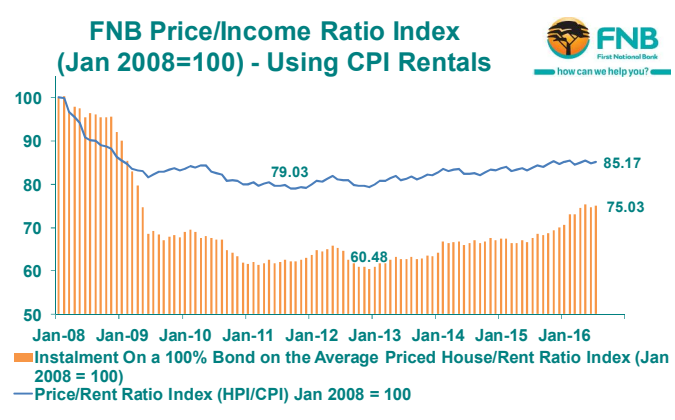
- **Real House Price Levels**



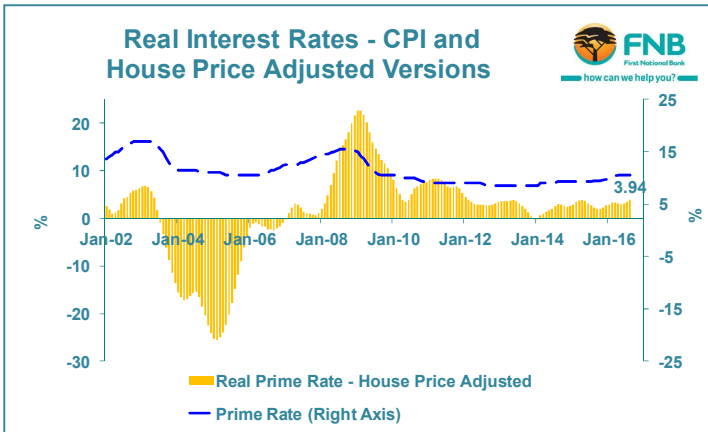
New Bond cost inflation on average priced homes



- **Price-Rent Ratio Index**



Real Prime Rate (House Price Inflation-Adjusted)



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	211.9	36.3%	Jan-09	278.5	-7.7%	Jan-13	315.93	4.9%
Feb-01	100.8		Feb-05	217.9	36.6%	Feb-09	276.2	-8.4%	Feb-13	319.32	4.9%
Mar-01	101.4		Mar-05	222.1	36.0%	Mar-09	275.0	-8.0%	Mar-13	322.87	4.9%
Apr-01	102.4		Apr-05	224.3	34.7%	Apr-09	274.2	-7.1%	Apr-13	325.57	4.8%
May-01	103.7		May-05	224.6	32.8%	May-09	273.4	-6.2%	May-13	327.18	4.7%
Jun-01	104.8		Jun-05	224.3	30.8%	Jun-09	273.9	-5.0%	Jun-13	328.47	4.8%
Jul-01	105.5		Jul-05	223.8	28.3%	Jul-09	275.6	-3.7%	Jul-13	329.79	5.3%
Aug-01	106.0	9.9%	Aug-05	224.0	25.4%	Aug-09	278.0	-2.7%	Aug-13	331.36	5.9%
Sep-01	106.5	9.3%	Sep-05	225.1	22.3%	Sep-09	280.5	-1.9%	Sep-13	333.15	6.6%
Oct-01	107.1	9.1%	Oct-05	227.5	19.5%	Oct-09	282.2	-1.0%	Oct-13	335.08	7.3%
Nov-01	108.0	9.4%	Nov-05	230.3	16.6%	Nov-09	283.3	-0.1%	Nov-13	337.22	8.0%
Dec-01	109.3	10.1%	Dec-05	234.1	14.2%	Dec-09	284.2	1.1%	Dec-13	340.13	8.6%
Jan-02	111.0	11.0%	Jan-06	238.4	12.5%	Jan-10	285.5	2.5%	Jan-14	343.05	8.6%
Feb-02	113.0	12.2%	Feb-06	243.0	11.6%	Feb-10	287.7	4.2%	Feb-14	346.15	8.4%
Mar-02	115.0	13.4%	Mar-06	247.3	11.4%	Mar-10	289.7	5.4%	Mar-14	348.71	8.0%
Apr-02	116.5	13.8%	Apr-06	250.6	11.7%	Apr-10	291.0	6.1%	Apr-14	350.31	7.6%
May-02	117.4	13.3%	May-06	252.1	12.3%	May-10	291.4	6.6%	May-14	351.08	7.3%
Jun-02	117.8	12.3%	Jun-06	252.6	12.6%	Jun-10	290.6	6.1%	Jun-14	351.31	7.0%
Jul-02	118.0	11.8%	Jul-06	253.3	13.2%	Jul-10	289.1	4.9%	Jul-14	351.44	6.6%
Aug-02	118.2	11.5%	Aug-06	254.7	13.7%	Aug-10	288.4	3.7%	Aug-14	352.20	6.3%
Sep-02	118.5	11.2%	Sep-06	256.8	14.1%	Sep-10	288.6	2.9%	Sep-14	354.26	6.3%
Oct-02	119.1	11.2%	Oct-06	259.1	13.9%	Oct-10	289.0	2.4%	Oct-14	357.10	6.6%
Nov-02	119.9	11.1%	Nov-06	261.9	13.7%	Nov-10	288.6	1.9%	Nov-14	360.11	6.8%
Dec-02	121.0	10.7%	Dec-06	265.1	13.3%	Dec-10	288.1	1.4%	Dec-14	362.64	6.6%
Jan-03	122.4	10.3%	Jan-07	268.2	12.5%	Jan-11	288.2	0.9%	Jan-15	364.70	6.3%
Feb-03	124.5	10.1%	Feb-07	270.7	11.4%	Feb-11	289.6	0.7%	Feb-15	366.20	5.8%
Mar-03	127.0	10.4%	Mar-07	272.4	10.2%	Mar-11	291.5	0.6%	Mar-15	367.62	5.4%
Apr-03	129.7	11.3%	Apr-07	274.1	9.4%	Apr-11	293.1	0.7%	Apr-15	369.04	5.3%
May-03	132.2	12.6%	May-07	276.3	9.6%	May-11	294.4	1.0%	May-15	370.59	5.6%
Jun-03	134.8	14.5%	Jun-07	279.5	10.6%	Jun-11	295.2	1.6%	Jun-15	372.43	6.0%
Jul-03	137.5	16.5%	Jul-07	282.7	11.6%	Jul-11	295.7	2.3%	Jul-15	374.71	6.6%
Aug-03	139.8	18.3%	Aug-07	285.8	12.2%	Aug-11	295.8	2.5%	Aug-15	377.36	7.1%
Sep-03	142.1	19.9%	Sep-07	289.0	12.5%	Sep-11	295.6	2.4%	Sep-15	380.82	7.5%
Oct-03	144.8	21.6%	Oct-07	292.6	12.9%	Oct-11	295.6	2.3%	Oct-15	383.86	7.5%
Nov-03	148.0	23.4%	Nov-07	296.8	13.3%	Nov-11	296.5	2.7%	Nov-15	386.36	7.3%
Dec-03	151.7	25.3%	Dec-07	300.2	13.2%	Dec-11	298.4	3.6%	Dec-15	388.31	7.1%
Jan-04	155.4	27.0%	Jan-08	301.7	12.5%	Jan-12	301.1	4.5%	Jan-16	389.95	6.9%
Feb-04	159.5	28.1%	Feb-08	301.4	11.4%	Feb-12	304.3	5.1%	Feb-16	391.62	6.9%
Mar-04	163.3	28.6%	Mar-08	299.0	9.8%	Mar-12	307.7	5.6%	Mar-16	393.53	7.0%
Apr-04	166.5	28.4%	Apr-08	295.2	7.7%	Apr-12	310.7	6.0%	Apr-16	395.83	7.3%
May-04	169.1	27.9%	May-08	291.3	5.4%	May-12	312.6	6.2%	May-16	398.02	7.4%
Jun-04	171.4	27.2%	Jun-08	288.2	3.1%	Jun-12	313.4	6.1%	Jun-16	399.68	7.3%
Jul-04	174.4	26.9%	Jul-08	286.2	1.2%	Jul-12	313.2	5.9%	Jul-16	400.95	7.0%
Aug-04	178.7	27.8%	Aug-08	285.8	0.0%	Aug-12	312.8	5.8%	Aug-16	402.10	6.6%
Sep-04	184.0	29.6%	Sep-08	285.8	-1.1%	Sep-12	312.6	5.8%			
Oct-04	190.4	31.4%	Oct-08	285.2	-2.6%	Oct-12	312.3	5.6%			
Nov-04	197.5	33.4%	Nov-08	283.5	-4.5%	Nov-12	312.2	5.3%			
Dec-04	205.0	35.1%	Dec-08	281.1	-6.3%	Dec-12	313.3	5.0%			