

2 February 2017

# HPI slips to 5.1% y/y in Jan

## Slower building activity as demand continues to taper off

- **The Standard Bank House Price Index started 2017 lower, recording a modest 5.1% y/y nominal growth in January, from 5.3% y/y in December.** With our expectation of above 6% inflation in January, and 6.8% y/y actual inflation in December, this means that real house price growth is still stuck in negative territory. Sub-indices show that freehold properties slowed to 6.9% y/y, from 7.3% y/y in December; and sectional title properties slowed to 6.0% y/y, from 6.9% y/y in December (fig 1).
- The median price of a freestanding house applied for and approved by Standard Bank rose to R1,032,000 in January from R980,000 in December. The median price of a flat/townhouse edged up to R820,000 from R800,000 in December. The weighted median price of the two increased to R925,000 from R906,000 (fig 2).
- **From a supply perspective, monthly residential buildings statistics show subdued building activity in November 2016 (latest data point available).** In the planning phase, the volume of residential building plans approved by larger municipalities contracted by 3.6% y/y, or 171 units, while in the construction phase the number of new housing units completed recorded a whopping 22.4% y/y decline, or 1 027 units (figs 3 & 4). The decline in the number of building plans approved was mainly driven by the two segments of houses, i.e. small houses (<80 square metres) and large houses (>= 80 square metres) which showed a combined contraction of 33% y/y, or 1 165 units, to 2 339 units in November. The segment of flats and townhouses, however, recorded growth of 82.7% y/y, indicating improved supply in the pipeline. In the construction phase, all three segments showed a decline; small houses declining by 19.1%, or 370 units; large houses declining by 16.3%, or 140 units; and flats and townhouses by 35.6%, or 517 units.
- **We do not see capacity for strong supply of new housing units under current market conditions, where affordability is deteriorating and liquidity is low.** Household credit growth was unchanged at a meagre 0.7% y/y in December, similar to November. In real terms (i.e. nominal household credit growth minus spot inflation rate), therefore, **growth in household credit remained in contraction, indicating (-6.1% y/y) very tight domestic credit conditions** (See: [Dec PSCE grew 5.1% y/y](#)). Using Standard Bank's mortgage applications data, we estimate that the ratio of median *income-to-deposit* required of a prospective buyer was 2.4 in Q4:16, and has been rising since the beginning of the downward phase of the business cycle in December 2013. By comparison, this ratio stood at 1.6 in Q4:13 (fig 7). This means that on average, a prospective buyer now needs to save almost two and a half months' worth of income in order to fund a deposit, up from approximately one and a half months' worth of income three years earlier. This deterioration in affordability is as a result of a median deposit requirement growing faster than median income in the past three years.
- **Looking ahead: We have revised our inflation forecast** from an average of 5.6% to 5.9%, for 2017 because of sticky food prices. We had anticipated inflation to return to the target band in Q1:17 but now foresee Q4:17. We therefore expect no rate cut this year (See: [Inflation outlook 2017](#)).

### Economists

**Siphamandla Mkhwanazi**

Siphamandla.Mkhwanazi@standardbank.co.za  
+27-11-415-4060

**Kim Silberman**

Kim.Silberman@standardbank.co.za  
+27-11-415-4430

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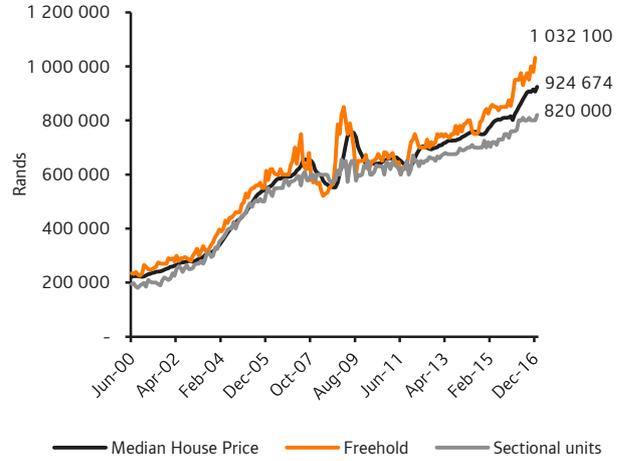
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**Figure 1: HPI starts 2017 on a moderate note, falling from 5.3% y/y in December to 5.1% y/y in January**



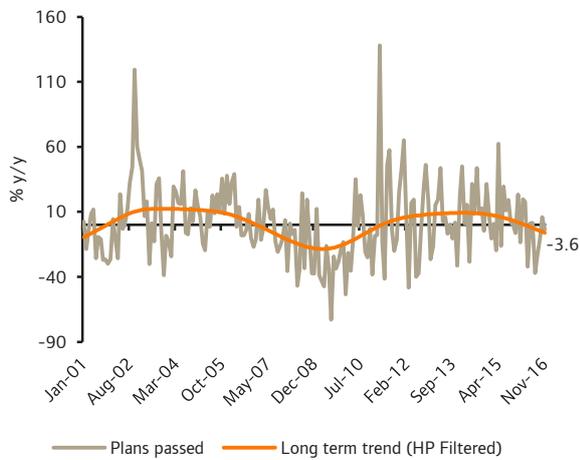
Source: SBR

**Figure 2: Weighted average price of a house applied for and approved by Standard Bank edged up in January, from R980,000 to R1,032,000**



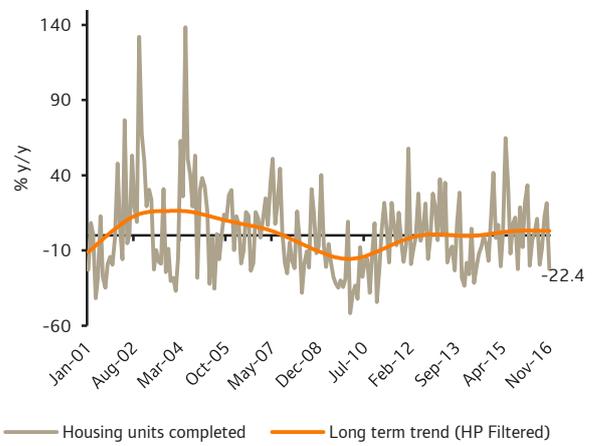
Source: SBR

**Figure 3: Housing units in the planning phase contracted in November**



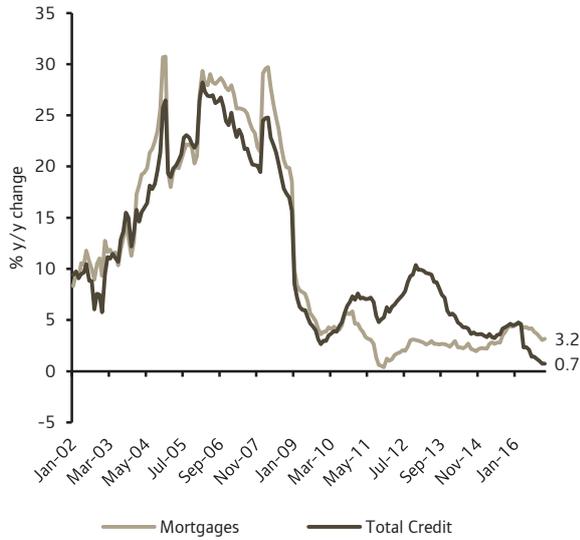
Source: StatsSA, SBR

**Figure 4: Housing units in the construction phase plummeted in November**



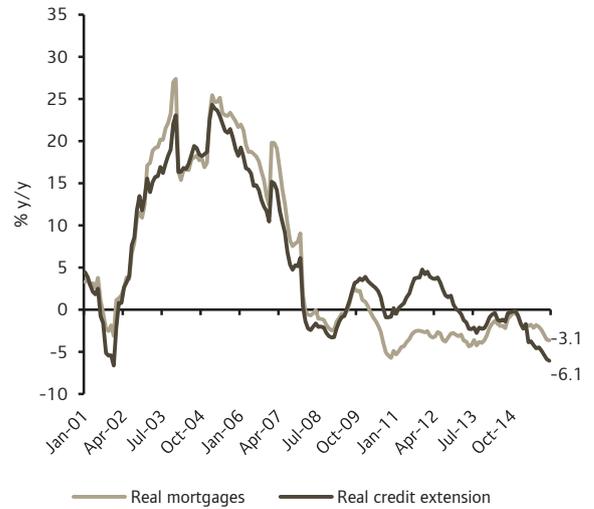
Source: StatsSA, SBR

**Figure 5: Credit conditions remain tight**



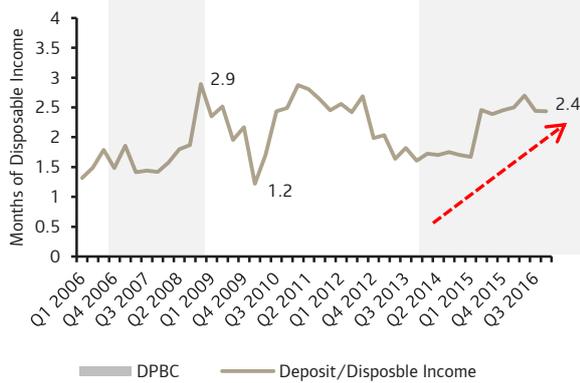
Source: SARB, SBR

**Figure 6: In real terms, credit extension, including mortgages, remains in contraction**



Source: SARB, StatsSA, SBR

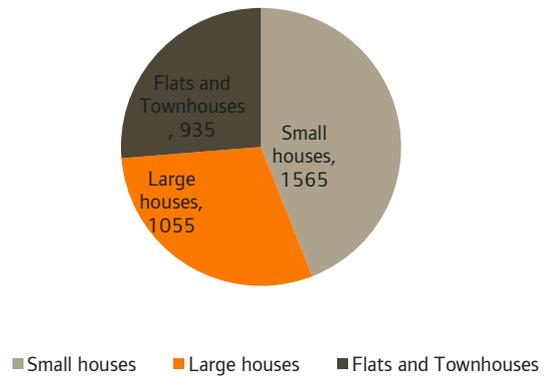
**Figure 7: Prospective buyers need to save about two and a half months' worth of income to fund a deposit**



Source: SBR, SARB

DPBC=Downward Phases of Business Cycles, as estimated by the SARB

**Figure 8: Residential buildings completed in November totalled 3,555**



Source: StatsSA, SBR

**Figure 9: SBR's HPI**

	2012	2013	2014	2015	2016	2017
January	6.7	7.9	4.8	7.4	5.3	5.1
February	8.3	7.0	4.9	6.7	5.6	
March	7.0	7.8	5.2	4.9	6.8	
April	6.5	7.4	5.7	4.1	7.0	
May	6.9	6.9	6.7	4.4	6.7	
June	7.1	7.8	7.3	4.4	7.6	
July	6.6	7.9	8.6	4.1	7.6	
August	6.5	7.5	9.5	3.7	7.3	
September	7.1	6.1	10.4	4.2	6.9	
October	7.5	6.2	10.8	3.5	6.8	
November	7.9	6.4	8.6	4.6	6.3	
December	7.9	5.0	8.6	4.6	5.3	

Source: SBR

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