how can we help you?

MORTGAGE BAROMETER – NEW MORTGAGE LENDING

SARB 2nd Quarter 2017 data shows new mortgage lending growth slowing once more after a brief uptick in the 1st quarter of the year. Both Residential and Commercial Mortgages were responsible for the slowing, and the data bodes ill for the Building Construction Sector

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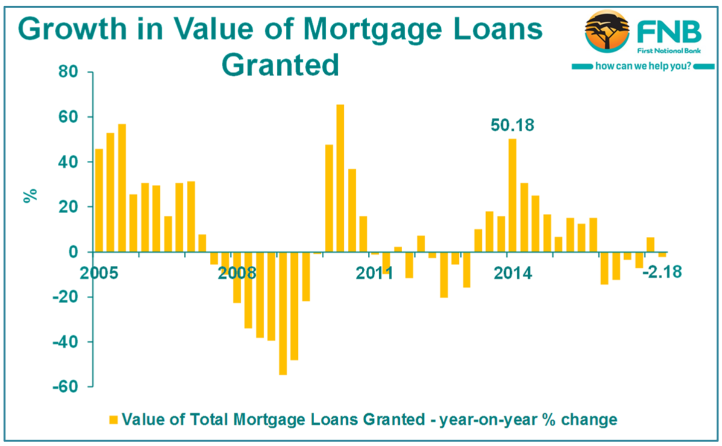
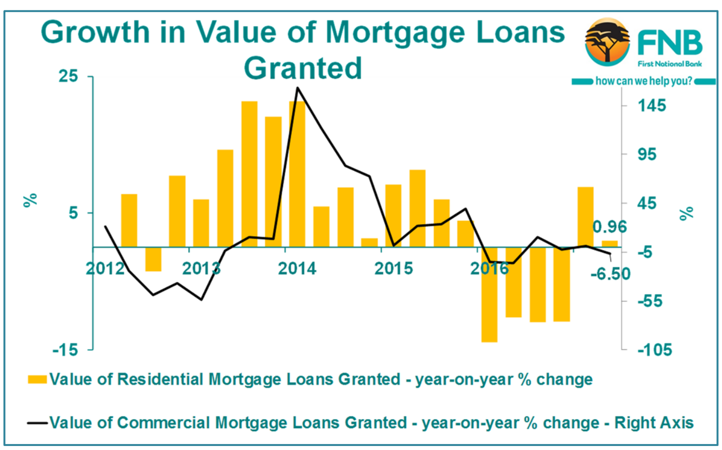
2nd Quarter 2017 SARB New Mortgage Lending data, released in the latest SARB Quarterly Bulletin, showed a renewed slowing in the year-on-year growth rate into negative territory in the 2nd quarter, after a briefly positive growth rate in the 1st quarter of 2017. The slowing can be attributed to slowing growth in Residential, Commercial as well as Farm Mortgages Granted.



The September 2017 SARB (Reserve Bank) Quarterly Bulletin showed the value of new mortgage loans granted (Residential, Commercial and Farms) to have returned to mildly negative year-on-year growth rate in the 2nd quarter of 2017, after 1 quarter of positive growth in the 1st quarter.

The year-on-year rate of change measured a -2.18% decline in the 2nd quarter, compared to a briefly positive rate of +6.49% in the 1st quarter.

These frequent dips in and out of negative territory (the year-on-year rate having been negative for all 4 quarters of 2016) are reflective of the weakness in both Household Sector and Business Confidence levels in a near zero growth economy. The most recent rates remain far below the 50.2% year-on-year growth multi-year high reached in the 1st quarter of 2014.

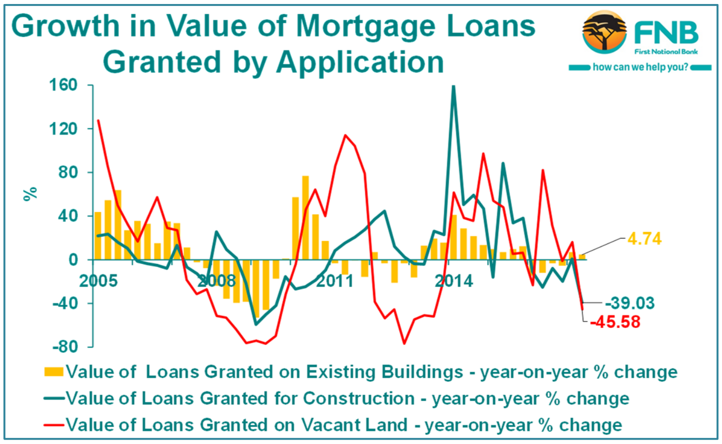


The large Residential sub-component remained in slightly positive growth territory to the tune of 0.96% year-on-year in the 2nd quarter. However, its growth slowdown was significant, from 8.8% in the 1st quarter.

By comparison, the Commercial Mortgage category has seen its growth slowing more significantly, from +1.4% in the 1st quarter to a -6.5% year-on-year decline in the 2nd quarter.

The small Farm Mortgage component saw a big swing (although the segment can typically be quite volatile), from +28.9% year-on-year growth in the 1st quarter of 2017 to -30.5% decline in the 2nd quarter.

The Mortgage Market, and especially the Residential New Mortgage Approvals, is very much a "leading sector" of the economy, and as such can be something of a sign of things to come economically. A renewed growth slowing in new mortgage loans granted growth could thus be a further sign that the recent economic growth acceleration in the 2nd quarter may be short lived, and that return to slower economic growth once again may be near.



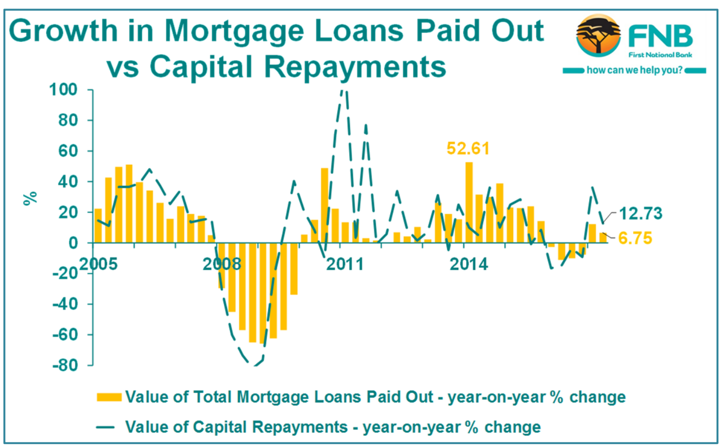
Examining Mortgage Loans Granted "by application", i.e. on Existing Buildings vs Vacant Land and Construction, we see all 3 categories' growth rates slowed in the 2nd quarter.

The weakest growth rate was in the value of Mortgage Loans Granted on Vacant Land, whose value fell sharply by -45.6% year-on-year in the 2nd quarter of 2017.

Not far behind was a -39.03% year-on-year decline in the value of new mortgage loans granted for construction.

These sharp declines bode ill for the Building Construction Sector in the near term, strongly pointing to slowdown in building activity to come.

The less volatile Value of Mortgages Granted for Existing Buildings still showed mildly positive year-on-year growth of 4.74% in the 2nd quarter, although this also represented a slowing growth rate from the 7.03% rate of the 1st quarter.



New Loans Paid Out, too, saw 2nd quarter growth slow, although still in positive territory to the tune of +6.75%. This rate is down from +12.4% in the 1st quarter.

The apparently slower growth in bonded property transaction activity levels in the 2nd quarter (as reflected in slower growth in value of new mortgage loans granted) has also impacted on Capital Repayments growth. The growth in value of Capital Repayments for the 2nd quarter of 2017 slowed to 12.73% year-on-year, from 36.1% in the previous quarter.

This slowing in capital repayments growth is largely explained by a slower rate of properties being bought and sold, which lowers the rate of bond cancellation and loan settlement on selling.

CONCLUSION

The 2nd quarter 2017 rate of increase in new mortgage loans granted represents a return to slowing year-on-year growth (returning to a negative rate) after only 1 prior quarter of positive growth. The slowing was broad-based, across Residential, Commercial and Farming. With no move in interest rates for over a year prior to the recent July 2017 cut, such a quarterly mortgage slowing would probably point to renewed weakening in the economy.

Indeed, it has not only been the New Mortgage Grants numbers hinting at renewed economic slowing. In recent months the SARB Leading Business Cycle Indicator has also declined, so renewed economic growth weakening may be a plausible expectation.

More noticeable, however, is the very sharp decline in the 2nd quarter in Vacant Land and New Construction-related mortgage grants. That bodes ill for the Building Construction Sector in the near term. It also hints at a reluctance of both Households and Commercial Businesses to invest in new space. This is disappointing, but not surprising given a raft of negative economic news involving sovereign rating downgrades in recent times along with widespread speculation of more as policy and political uncertainty seemingly rise, and of course an economy that show little prospect of meaningful growth.

Both the FNB-BER Consumer Confidence Index's negative reading of -9 in the 2nd quarter, a decline from the prior quarter's -5, and the RMBBER Business Confidence Index's 35 (on a scale of 0 to 100) in the 3rd quarter (slightly higher than the 2nd quarter's 29 but still extremely weak), would support the expectation of a lack of appetite for longer term investment in property. And the recent growth weakness in new mortgage lending appears to tie in with this.