



1 February 2016

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UNIT**

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PROPERTY BAROMETER

FNB Residential Property Monthly

The FNB House Price Index's mini-growth uptick appears to be peaking, with month-on-month growth having lost considerable momentum.

In January 2016, the FNB House Price Index index recorded a 6.8% year-on-year rate of increase, which is very similar to the revised rates of the prior 3 months, suggesting that year-on-year house price inflation is in a peaking phase after prior acceleration. On a month-on-month basis, the inflation rate has been steadily slowing for some months, signaling an imminent slowing in the year-on-year rate.

The FNB Valuers' market perceptions appear to be supportive of the expectation of slowing house price growth to come, having perceived some mild market weakening in the Market Strength Index (MSI) of late. That is over and above a raft of weak economic data in recent times, along with further interest rate hiking early in 2016.

KEY POINTS

- *The FNB House Price Index showed a year-on-year increase of 6.8% in January 2016, slightly higher than a revised 6.7% for the previous month. This rate is very similar to the past 4 months' inflation rates, suggesting that year-on-year price growth is in a peaking phase.*
- *The month-on-month house price inflation rate has been slowing for the past 4 months, from a 0.9% high in September 2015 to 0.4% by January 2016, indicating loss of growth momentum which should translate into lower year-on-year house price inflation in the near term.*
- *FNB's Valuers, as a group, appear to provide support for the expectation of slower house price growth, with the FNB Valuers' Market Strength Index (MSI) having begun to decline mildly in recent months, on the back of slowing residential demand and the start of improving residential supply.*
- *We forecast an average house price inflation rate of 4.8% for 2016, slower than the 6% recorded for 2015.*
- *Our expectation of slower house price growth in 2016 is not only about what FNB's Valuers tell us regarding slowing demand. It also has to do with the expectation that real economic growth will slow further from near 1.5% in 2015 to 0.5% this year. Depressed export commodity markets, along with a severe drought, are key to this slower growth forecast, as are rising interest rates.*
- *We expect further gradual interest rate hiking through 2016, to a level where Prime Rate ultimately peaks at 11.25%, from a current level of 10.25%.*

EXECUTIVE SUMMARY

The FNB House Price Index for January 2016 rose by 6.8% year-on-year. This is marginally higher than the revised 6.7% for December. With the prior months of October and November's revised rates little different at 6.9% and 6.8% respectively, this appears to put year-on-year house price growth in a "peaking" phase, after an earlier mild rise from an April 2015 low of 5%.

In real terms, when adjusting for CPI (Consumer Price Index) inflation, the rate of house price growth slowed to 1.4% in December, from a revised 1.9% in November, the slowing being caused by a rise in CPI inflation, from 4.8% in November to 5.2% in December (January CPI data not yet available).

Examining the longer term real house price trends (house prices adjusted for CPI inflation), the average real price currently remains 70.5% above the January 2001 level, exactly 15 years ago, and a time back just before boom-time price inflation started to accelerate rapidly. We therefore still regard current real price levels as very high.

While the small 2015 year-on-year house price inflation acceleration appears to have more-or-less reached its peak, on a month-on-month seasonally adjusted basis (a better way to look at recent growth momentum), the rate of increase has already been slowing since October 2015, which should translate into slower year-on-year price increases fairly soon.

FNB's valuers, in their FNB Valuers Market Strength Index (MSI), appear to provide support for the expectation of a near term slowing in house price inflation.

The Valuers' Residential Demand Rating was at a level of 54.99 in January (scale 0 to 100), while the Supply Rating was at a lesser 53.27. This translates into an MSI of 50.86, with the level of above 50 implying that residential demand is still stronger than supply. However, the Residential Demand Index has been in decline since July 2015, the Supply Strength Index in positive growth territory since December 2015, translating into an MSI decline since October 2015. In short, the valuers, on average still perceive a well-balanced residential market, but as of late perceive Market Strength to have begun to deteriorate slightly.

Therefore, we expect slower average house price growth in the near term. However, our expectations are based on more than just the recent month-on-month house price inflation slowing or the MSI starting to weaken. It also goes about weak economic fundamentals.

After a Real GDP (Gross Domestic Product) growth rate believed to have been not far from 1.5% in 2015, the FNB forecast is for slower growth of 0.5% in 2016. The further expected slowing in growth is on the back of ongoing global commodity price weakness, gradually rising interest rates, and of course the major drought currently ravaging the Agriculture Sector.

In 2017, slightly better growth of 1.2% is projected on the assumption that the drought passes on and Agriculture output returns to normal. However, this projected growth rate remains very weak.

The current environment of high social tensions and fragile labour relations, which can periodically be disruptive to economic output, but is unpredictable, places a significant downside risk to the growth forecast, however.

CPI inflation is projected to rise from 4.6% average in 2015 to 6.1% average for 2016, on the back of a now weaker Rand, and higher food price inflation as the drought impact is felt. The SARB is expected to continue to lift rates slowly, with Prime Rate peaking at 11.25% in the 1st half of 2017. Much, though, will depend on the Rand's fortunes and its potential inflationary impact.

Under these economic conditions, and their negative impact on household income growth, the forecast is for average house price growth to slow from 6% average in 2015 to a 4.8% average in 2016, and a still slower 3.8% in 2017. While still positive in nominal terms, these projected rates would be below CPI inflation, translating into negative growth in real terms. Such negative real house price growth would reflect both higher interest rates along with ongoing weakness in economic growth, employment and household income growth.

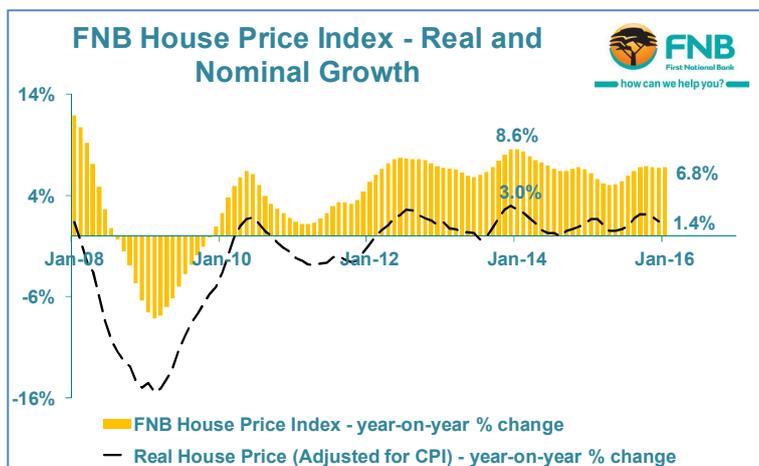
The rental market could begin to mildly outpace the slowing home buying market through the forecast period, in turn leading to rising yields on residential property.

JANUARY FNB HOUSE PRICE INDEX FINDINGS

The FNB House Price Index for January 2016 rose by 6.8% year-on-year. This is marginally higher than the revised 6.7% for December. With the prior months of October and November's revised rates little different at 6.9% and 6.8% respectively, this appears to put year-on-year house price growth in a "peaking" phase, after an earlier mild rise from an April 2015 low of 5%.

In real terms, when adjusting for CPI (Consumer Price Index) inflation, the rate of house price growth slowed to 1.4% in December, from a revised 1.9% in November, the slowing being caused by a rise in CPI inflation, from 4.8% in November to 5.2% in December (January CPI data not yet available).

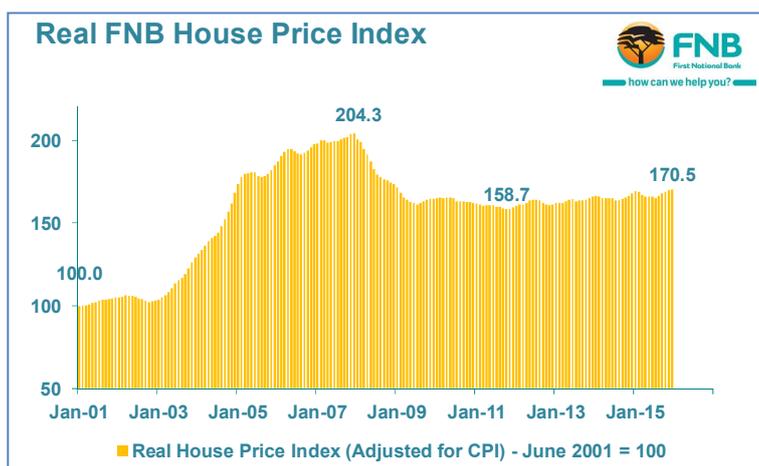
The average price of homes transacted in November was R1,053,944.



REAL HOUSE PRICE LEVELS

Examining the longer term real house price trends (house prices adjusted for CPI inflation), we see that despite some rise in recent years, (+7.5% since the October 2011 low) the average real house price level remains -16.6% below the all time high reached in December 2007 at the back end of the residential boom period.

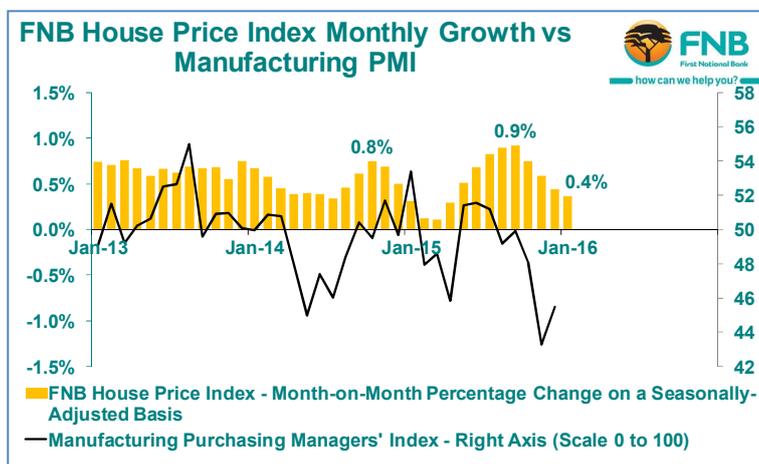
Looking back further though, the average real price currently remains 70.5% above the January 2001 level, exactly 15 years ago, and a time back just before boom-time price inflation started to accelerate rapidly. We therefore still regard current real price levels as very high.



In nominal terms, when not adjusting for CPI inflation, the average house price in January 2016 was 291% above the January 2001 level.

THE MONTH-ON-MONTH HOUSE PRICE RATE OF INFLATION LOSES MOMENTUM, SIGNALLING AN IMMINENT SLOWING IN YEAR-ON-YEAR INFLATION

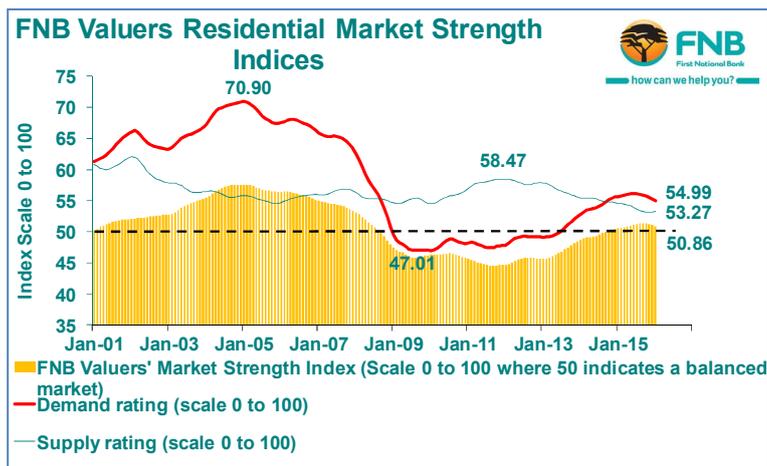
While the small 2015 year-on-year house price inflation acceleration appears to have more-or-less reached its peak, on a month-on-month seasonally adjusted basis (a better way to look at recent growth momentum), the rate of increase has already been slowing since October 2015, appearing to be roughly tracking short term fluctuations in the economy. From a 0.9% revised month-on-month high in September 2015, the rate has declined to 0.4% by January 2016.



The “mini-surge” in house price inflation around mid-2015 broadly co-incident with a slight positive “bump” in the economy around that time. The Manufacturing Sector Purchasing Managers’ Index (PMI), one of the economy’s key indicators, briefly rose to above 50 in May-July, signaling some expansion in this large and cyclical sector, and 3rd quarter GDP (Gross Domestic Product) turned slightly positive on a quarter-on-quarter basis.

More recently, however, the PMI has turned back down to below the critical 50 level, while the Leading Business Cycle Indicators of the SARB and OECD have also turned for the worse, suggesting a return to weaker economic times as we move into 2016. The resumed slowing in month-on-month house price inflation appears to therefore have begun to once again track the economy slower.

FNB’S VALUERS PERCEIVE WEAKENING IN RESIDENTIAL DEMAND



FNB’s valuers, in their FNB Valuers Market Strength Index (MSI) (Explanatory notes on Page 10) have in recent times begun to perceive a weakening in the market in January 2016.

Examining the Demand, Supply and MSI itself, which reflects the difference between Demand and Supply, we see a still very well balanced residential market.

The Valuers’ Residential Demand Rating was at a level of 54.99 in January (scale 0 to 100), while the Supply Rating was at a lesser 53.27. This translates into an MSI of 50.86, with the

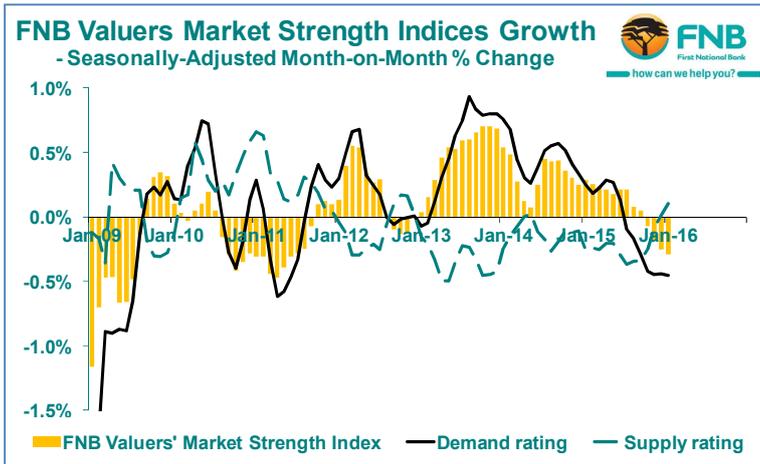
level of above 50 implying that residential demand is still stronger than supply. Recently positive real house price growth under these conditions is not surprising, therefore.

However, the rate of growth or decline in the indices is often insightful too. Examining the 3 indices on a year-on-year percentage change basis, we see that demand growth has been slowing steadily since early-2014, and eventually turned negative in December 2015. From early-to-mid-2015, however, this demand growth moved more or less sideways for a short while, while the Valuers perceived the pace of decline in residential supply to speed up. The net result was a slight rise (strengthening) in the MSI up to about mid-2015. That little rise may explain a slight, and brief, uptick in house price inflation that followed it last year.



The Valuers, however, suggest that the MSI growth strengthening in the 1st half of last year was short lived, and its year-on-year growth quickly began slowing once more, driven lower by slowing Demand growth.

This would suggest that the year-on-year house price growth uptick in the 2nd half of 2015 was likely to be short lived, turning down once more in the near term, in lagged response to a slowing pace of year-on-year strengthening in the Residential Market as per the MSI.



On a month-on-month seasonally-adjusted basis, a better way of identifying recent momentum, the Residential Demand Index has been in decline since July 2015, the Supply Strength Index in positive growth territory since December 2015, and the MSI in decline since October 2015.

In short, the valuers, on average, as of late perceive Market Strength to have begun to deteriorate slightly.

REAL ALTERNATIVE PRIME RATE AND POTENTIAL FOR A SPECULATORS' MARKET

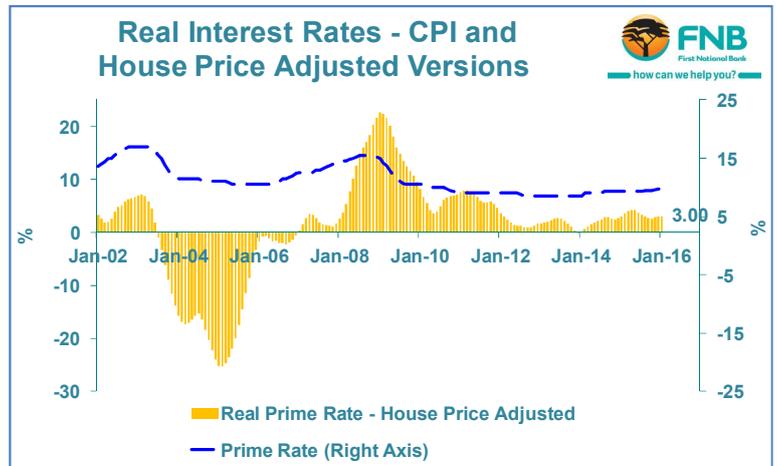
Ongoing interest rate hikes, with the latest one having been a 50 basis point rise in late-January, continue to take the market away from the speculator.

In order to create a "speculator's paradise" in residential property, it is important to have price growth at a percentage significantly faster than the percentage of the annual interest charged on a mortgage loan.

Such an environment would give rise to widespread use of cheap credit to buy and sell properties in a relatively short space of time and make big capital gains. 2004-5 was such a speculators' paradise.

To monitor this, we calculate our very simple "Alternative Real Prime Rate", which adjusts Prime Rate to real terms using average house price inflation instead of the usual CPI inflation rate approach.

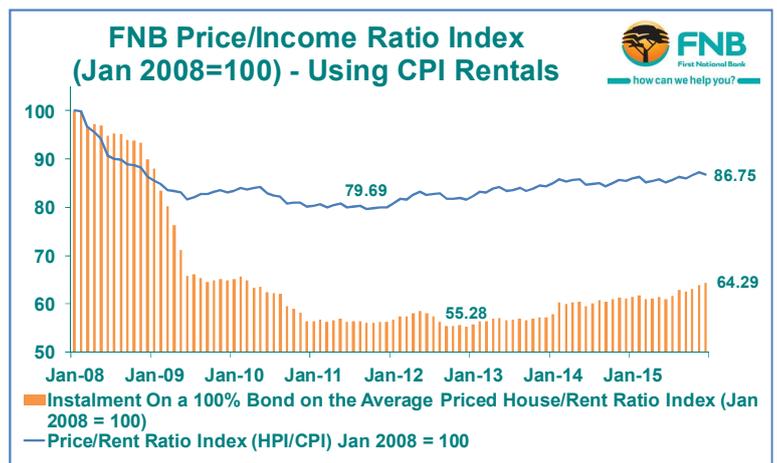
For a healthy market with low levels of speculation, we believe that this real rate should remain positive. Indeed, that was again the case in January, where the Real Alternative Prime Rate was 3%. We thus believe the SARB's monetary policy stance to be appropriate currently from a residential market health point of view.



PRICE-RENT RATIO

The Price-Rent Ratio is one important ratio in determining how costly the home buying option is relative to the competing option, i.e. rental.

Analysts often become concerned when the Price-Rent Ratio is very high, as it can begin to make the rental option very appealing, translating at some stage into a drop in home buying and a fall in house prices.



House price booms typically take this ratio higher.

To this effect, we use the FNB House Price Index and the CPI for Actual rentals. We show it in index form (because the CPI is an index), with January 2008=100.

Given that January 2008 was right at the end of the real house price boom, we believe that it represented an extremely high level in the Price-Rent Ratio. After a drop through 2008/9, and again in 2011, the index began to rise noticeably as the residential market strengthened. The index was at 86.75 in December, up 8.9% from September 2011.

While 86.75 is believed to be a high number, the other important ratio, i.e. the Instalment on a 100% bond on the average-priced house/Rent Ratio Index, is far lower. It has been kept far below January 2008 levels by a sharp drop in interest rates from late-2008. It reached a low of 55.28 as at December 2012. However, the combination of house price inflation broadly out-pacing rental inflation, along with gradual interest rate hiking over the past 2 years, has taken this ratio 16.3% higher by December 2015, to a reading of 64.29.

This remains well-below the January 2008 100 level though, as interest rates are still at relatively low levels, but of course rates are in the process of rising.

CONCLUSION

The slowing month-on-month house price growth rate since October signals an imminent slowing in year-on-year house price growth as per the FNB House Price Index.

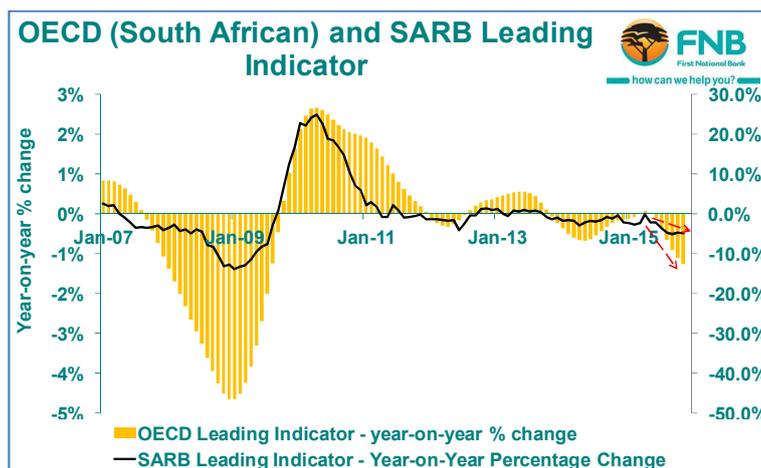
The Valuers' Market Strength Index appears to support such an expectation of slowing house price growth, given that it has recently started to decline, driven lower by a declining Residential Demand rating and more recently a slight rise in the Residential Supply Rating.

But the expectation of slowing house price growth is driven by more than just the FNB Housing market data. There is a host of negative economic data pointing to slower economic growth in 2016, with a high risk of recession. Firstly, there is the drought that has decimated agriculture output as well as raising agriculture prices. This price increase still has to feed through into the CPI inflation rate and is of concern to the Reserve Bank.

The Reserve Bank is furthermore concerned about the weakness of the rand driving higher imported price inflation. These factors assisted in convincing the bank to hike its repo rate by a further 50 basis points in January.

Rising interest rates, weak investor sentiment and consumer confidence, and export commodity prices in the doldrums, adds up to likely further slowing in economic growth in 2016, negatively affecting employment and household income growth.

And so, not surprisingly, the SARB Composite Leading Indicator for November 2015 showed a -5% year-on-year decline, the 26th consecutive month of such decline, while the OECD Leading indicator for South Africa showed -1.3% year-on-year decline, both indices year-on-year decline rates being of bigger magnitude than in the previous month.



THE FORECAST

After a Real GDP (Gross Domestic Product) growth rate believed to have been not far from 1.5% in 2015, the FNB forecast is for slower growth of 0.5% in 2016. The further expected slowing in growth is on the back of ongoing global commodity price weakness, gradually rising interest rates, and of course the major drought currently ravaging the Agriculture Sector.

In 2017, slightly better growth of 1.2% is projected on the assumption that the drought passes on and Agriculture output returns to normal. However, this projected growth rate remains very weak.

The current environment of high social tensions and fragile labour relations, which can periodically be disruptive to economic output, but is unpredictable, places a significant downside risk to the growth forecast, however.

CPI inflation is projected to rise from 4.6% average in 2015 to 6.1% average for 2016, on the back of a now weaker Rand, and higher food price inflation as the drought impact is felt.

The SARB is expected to continue to lift rates slowly, with Prime Rate peaking at 11.25% in the 1st half of 2017. Much, though, will depend on the Rand's fortunes, and the FNB "Base Case" assumes a reasonably well-behaved Rand not far from what is now a very weak level.

Under these economic conditions, the forecast for average house price growth is to slow from 6% average for 2015 as a whole to 4.8% for 2016, and a still slower 3.8% in 2017. While still positive in nominal terms, these projected rates would be below CPI inflation, translating into negative growth in real terms. Such negative real growth would reflect both higher interest rates along with ongoing weakness in economic growth, employment and household income growth.

The rental market could mildly outpace the home buying market through the forecast period, in turn leading to rising yields on residential property.

ECONOMIC, HOUSEHOLD SECTOR AND HOUSING MARKET SUMMARY FORECAST TABLE

(As 4th quarter 2015 economic data has yet to be published, 2015 remains part of the “forecast period”)

MACROECONOMIC SCENARIO SUMMARY	2012	2013	2014	Forecast Period			
				2015	2016	2017	2018
Domestic Economy							
Gross Domestic Product - Real - % change	2.2%	2.2%	1.5%	1.5%	0.5%	1.2%	1.4%
Prices							
Consumer Price Index - % change	5.7%	5.8%	6.1%	4.5%	6.1%	6.4%	5.5%
Interest Rates (%)							
Prime Interest Rate (Annual Average)	8.8	8.5	9.1	9.4	10.4	11.2	11.0
Effective Interest Rate on Household Debt (Annual Average)	10.8	10.8	11.6	12.1	13.0	13.8	13.6
Currency							
US Dollar/Rand Exchange Rate (Annual Average - Rand per \$)	8.21	9.65	10.84	12.77	16.58	16.31	16.80
HOUSEHOLD SECTOR SCENARIO SUMMARY	2012	2013	2014	Forecast Period			
Total Employment Index - % change	1.0%	0.4%	-0.4%	-0.7%	-1.6%	-1.0%	-0.9%
Household Debt (R'm) - % change *	8.9%	7.5%	5.8%	5.5%	4.9%	3.9%	5.5%
Nominal Disposable Income (R'm) - % change	8.8%	8.1%	7.4%	5.7%	5.7%	5.8%	6.9%
Debt to Disposable Income (%)	79.9%	79.5%	78.4%	78.2%	77.6%	76.2%	75.2%
Debt Service Ratio	8.7	8.6	9.1	9.5	10.1	10.5	10.2
Real Disposable Income - % change	2.3%	2.5%	1.4%	1.6%	0.3%	-0.9%	0.3%
RESIDENTIAL MARKET SCENARIO SUMMARY	2012	2013	2014	Forecast Period			
FNB Average House Price - % change	7.1%	6.8%	7.1%	6.0%	4.8%	3.8%	2.6%
FNB Average House Price - Real - % change	1.3%	0.9%	1.0%	1.4%	-1.3%	-2.5%	-2.8%
Residential Gross Yield (Annual Average)	9.3%	8.9%	8.7%	8.7%	9.1%	9.4%	9.7%

**The Household Debt figures used in these forecasts are derived from SARB Debt-to-Disposable Income Ratio data, and differ from the monthly SARB Household Credit data release*



Monthly FNB House Price Index (Jan 2001 = 100)

how can we help you?

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	209.7	36.1%	Jan-09	272.8	-7.6%	Jan-13	317.88	6.7%
Feb-01	100.7		Feb-05	215.4	36.3%	Feb-09	270.7	-8.2%	Feb-13	321.34	6.6%
Mar-01	101.4		Mar-05	219.6	35.6%	Mar-09	269.5	-7.9%	Mar-13	325.00	6.5%
Apr-01	102.4		Apr-05	221.7	34.3%	Apr-09	268.6	-7.1%	Apr-13	327.78	6.3%
May-01	103.6		May-05	222.0	32.5%	May-09	267.5	-6.2%	May-13	329.41	5.9%
Jun-01	104.7		Jun-05	221.7	30.4%	Jun-09	267.8	-5.1%	Jun-13	330.66	5.8%
Jul-01	105.3		Jul-05	221.1	27.9%	Jul-09	269.2	-3.8%	Jul-13	331.90	6.0%
Aug-01	105.6	10.0%	Aug-05	221.3	25.0%	Aug-09	271.4	-2.9%	Aug-13	333.38	6.3%
Sep-01	106.0	9.2%	Sep-05	222.3	21.9%	Sep-09	273.8	-2.0%	Sep-13	335.14	6.8%
Oct-01	106.5	8.9%	Oct-05	224.5	19.1%	Oct-09	275.5	-1.1%	Oct-13	337.06	7.4%
Nov-01	107.3	9.0%	Nov-05	227.3	16.2%	Nov-09	276.6	-0.2%	Nov-13	339.17	8.1%
Dec-01	108.6	9.5%	Dec-05	231.0	13.9%	Dec-09	277.6	0.9%	Dec-13	342.06	8.6%
Jan-02	110.2	10.2%	Jan-06	235.3	12.2%	Jan-10	278.9	2.3%	Jan-14	344.98	8.5%
Feb-02	112.2	11.4%	Feb-06	240.0	11.4%	Feb-10	281.0	3.8%	Feb-14	348.07	8.3%
Mar-02	114.1	12.6%	Mar-06	244.2	11.2%	Mar-10	282.8	4.9%	Mar-14	350.63	7.9%
Apr-02	115.6	12.9%	Apr-06	247.4	11.6%	Apr-10	284.0	5.8%	Apr-14	352.28	7.5%
May-02	116.5	12.4%	May-06	248.9	12.1%	May-10	284.5	6.4%	May-14	353.20	7.2%
Jun-02	116.8	11.6%	Jun-06	249.3	12.5%	Jun-10	284.0	6.1%	Jun-14	353.54	6.9%
Jul-02	117.0	11.2%	Jul-06	249.9	13.0%	Jul-10	282.7	5.0%	Jul-14	353.81	6.6%
Aug-02	117.2	10.9%	Aug-06	251.1	13.5%	Aug-10	282.1	3.9%	Aug-14	354.62	6.4%
Sep-02	117.4	10.7%	Sep-06	252.9	13.8%	Sep-10	282.4	3.2%	Sep-14	356.61	6.4%
Oct-02	117.9	10.7%	Oct-06	255.1	13.6%	Oct-10	282.9	2.7%	Oct-14	359.32	6.6%
Nov-02	118.7	10.6%	Nov-06	257.7	13.4%	Nov-10	282.8	2.2%	Nov-14	362.14	6.8%
Dec-02	119.8	10.3%	Dec-06	260.8	12.9%	Dec-10	282.6	1.8%	Dec-14	364.47	6.6%
Jan-03	121.1	9.9%	Jan-07	263.9	12.1%	Jan-11	282.8	1.4%	Jan-15	366.28	6.2%
Feb-03	123.2	9.8%	Feb-07	266.3	11.0%	Feb-11	284.2	1.2%	Feb-15	367.56	5.6%
Mar-03	125.7	10.2%	Mar-07	268.1	9.8%	Mar-11	286.1	1.2%	Mar-15	368.75	5.2%
Apr-03	128.5	11.1%	Apr-07	269.7	9.0%	Apr-11	287.8	1.3%	Apr-15	369.91	5.0%
May-03	131.1	12.5%	May-07	271.9	9.2%	May-11	289.3	1.7%	May-15	371.17	5.1%
Jun-03	133.6	14.4%	Jun-07	274.8	10.2%	Jun-11	290.3	2.2%	Jun-15	372.72	5.4%
Jul-03	136.3	16.5%	Jul-07	277.7	11.1%	Jul-11	291.0	3.0%	Jul-15	374.80	5.9%
Aug-03	138.6	18.3%	Aug-07	280.6	11.8%	Aug-11	291.5	3.3%	Aug-15	377.41	6.4%
Sep-03	140.9	20.0%	Sep-07	283.6	12.1%	Sep-11	291.7	3.3%	Sep-15	380.92	6.8%
Oct-03	143.6	21.8%	Oct-07	287.0	12.5%	Oct-11	291.9	3.2%	Oct-15	384.02	6.9%
Nov-03	146.8	23.6%	Nov-07	290.8	12.9%	Nov-11	292.9	3.6%	Nov-15	386.67	6.8%
Dec-03	150.4	25.5%	Dec-07	293.9	12.7%	Dec-11	294.9	4.4%	Dec-15	388.93	6.7%
Jan-04	154.1	27.2%	Jan-08	295.3	11.9%	Jan-12	297.8	5.3%	Jan-16	391.01	6.8%
Feb-04	158.1	28.3%	Feb-08	294.9	10.7%	Feb-12	301.3	6.0%			
Mar-04	161.9	28.8%	Mar-08	292.6	9.1%	Mar-12	305.1	6.6%			
Apr-04	165.1	28.5%	Apr-08	289.0	7.1%	Apr-12	308.5	7.2%			
May-04	167.6	27.9%	May-08	285.2	4.9%	May-12	311.0	7.5%			
Jun-04	169.9	27.2%	Jun-08	282.0	2.6%	Jun-12	312.6	7.7%			
Jul-04	172.8	26.8%	Jul-08	279.9	0.8%	Jul-12	313.2	7.6%			
Aug-04	177.0	27.7%	Aug-08	279.4	-0.4%	Aug-12	313.5	7.6%			
Sep-04	182.3	29.4%	Sep-08	279.3	-1.5%	Sep-12	313.8	7.6%			
Oct-04	188.5	31.3%	Oct-08	278.6	-2.9%	Oct-12	313.7	7.5%			
Nov-04	195.6	33.3%	Nov-08	277.1	-4.7%	Nov-12	313.9	7.2%			
Dec-04	202.9	34.9%	Dec-08	275.1	-6.4%	Dec-12	315.1	6.9%			

ADDENDUM - NOTES:

Note on The FNB Average House Price Index: Although also working on the average price principle (as opposed to median or repeat sales), the FNB House Price Index differs from a simple average house price index in that it could probably be termed a “fixed weight” average house price index.

One of the practical problems we have found with house price indices is that relative short term activity shifts up and down the price ladder can lead to an average or median price index rising or declining where there was not necessarily “genuine” capital growth on homes. For example, if “Full Title 3 Bedroom volumes remain unchanged from one month to the next, but Sectional Title 1 Bedroom and Less (the cheapest segment on average) transaction volumes hypothetically double, the overall national average price could conceivably decline due to this relative activity shift.

This challenge of activity shifts between segments is faced by all constructors of house price indices. In an attempt to reduce this effect, we decided to fix the weightings of the FNB House Price Index’s sub-segments in the overall national index. This, at best, can only be a partial solution, as activity shifts can still take place between smaller segments within the sub-segments. However, it does improve the situation.

With our 2013 re-weighting exercise, we have begun to segment not only according to room number, but also to segment according to building size within the normal segments by room number, in order to further reduce the impact of activity shifts on average price estimates.

The FNB House Price Index’s main segments are now as follows:

- The weightings of the sub-segments are determined by their relative transaction volumes over the past 5 years, and will now change very slowly over time by applying a 5-year moving average to each new price data point. The sub-segments are:

- Sectional Title:

- Less than 2 bedroom – Large
- Less than 2 bedroom – Medium
- Less than 2 bedroom – Small

- 2 Bedroom – Large
- 2 bedroom – Medium
- 2 bedroom – Small

- 3 Bedroom and More - Large
- 3 Bedroom and More - Medium
- 3 Bedroom and More - Small

- Full Title:

- 2 Bedrooms and Less - Large
- 2 Bedrooms and Less - Medium
- 2 Bedrooms and Less - Small

- 3 Bedroom - Large
- 3 Bedroom - Medium
- 3 Bedroom - Small

- 4 Bedrooms and More - Large
- 4 Bedrooms and More - Medium
- 4 Bedrooms and More – Small

The size cut-offs for “small”, “medium” and “large” differ per room number sub-segment. “Large” would refer to the largest one-third of homes within a particular room number segment over the past 5 year period, “Medium” to the middle one-third, and “Small” to the smallest one-third of homes within that segment.

- *The Index is constructed using transaction price data from homes financed by FNB.*
- *The minimum size cut-off for full title stands is 200 square metres, and the maximum size is 4000 square metres*
- *The maximum price cut-off is R10m, and the lower price cut-off is R20,000 (largely to eliminate major outliers and glaring inputting errors).*
- *The index is very lightly smoothed using a Hodrick-Prescott smoothing function with a Lambda of 5.*

ADDENDUM - NOTES:

Note on the FNB Valuers' Market Strength Index: **When an FNB valuer values a property, he/she is required to provide a rating of demand as well as supply for property in the specific area. The demand and supply rating categories are a simple "good (100)", "average (50)", and "weak (0)". From all of these ratings we compile an aggregate demand and an aggregate supply rating, which are expressed on a scale of 0 to 100. After aggregating the individual demand and supply ratings, we subtract the aggregate supply rating from the demand rating, add 100 to the difference, and divide by 2, so that the FNB Valuers' Residential Market Strength Index is also depicted on a scale of 0 to 100 with 50 being the point where supply and demand are equal.*

Property and Mortgage Market Summary

END OF PERIOD	2013	2014	2015	Q1-2015	Q2-2015	Q3-2015	Q4-2015	Oct-15	Nov-15	Dec-15	Jan-16
Residential Property Prices											
FNB National Average House Price (Rand)	891 925	955 464	1 012 849	990 656	1 000 743	1 018 096	1 041 900	1 035 118	1 042 248	1 048 333	1 053 944
<i>y/y % change</i>	6.8	7.1	6.0	5.6	5.2	6.4	6.8	6.9	6.8	6.7	6.8
<i>m/m seasonally-adjusted % change</i>								0.75	0.58	0.44	0.36
FNB Valuers Demand Strength Index	50.38	54.15	55.83	55.76	56.06	55.98	55.53	55.75	55.54	55.29	54.99
<i>y/y % change</i>	3.0	7.5	3.1	4.9	4.4	2.9	0.3	1.1	0.3	-0.5	-1.2
<i>m/m % change</i>								-0.28	-0.36	-0.46	-0.54
FNB Valuers Supply Strength Index	56.71	55.1	53.8	54.49	54.13	53.43	53.15	53.143	53.131	53.177	53.267
<i>y/y % change</i>	-2.1	-2.8	-2.4	-1.7	-2.2	-2.7	-2.9	-3.0	-2.9	-2.8	-2.4
<i>m/m % change</i>								-0.18	-0.02	0.09	0.17
FNB Valuers Market Strength Index	46.84	49.53	51.02	50.64	50.97	51.28	51.19	51.3	51.21	51.06	50.86
<i>y/y % change</i>	3.0	5.7	3.0	3.6	3.7	3.0	1.7	2.2	1.74	1.24	0.65
<i>m/m % change</i>								-0.06	-0.19	-0.30	-0.38
Major Metro Areas Average House Price (Rand)	1 076 988	1 161 186		1 210 612	1 224 764	1 236 312					
<i>y/y % change</i>	6.6	7.8		7.4	6.5	5.4					
- Upper Income Area Average House Price (Rand)	2 278 903	2 499 587		2 622 926	2 648 110	2 668 838					
<i>y/y % change</i>	7.9	9.7		8.9	7.2	5.3					
- Middle Income Area Average House Price (Rand)	1 240 519	1 343 771		1 409 780	1 435 578	1 458 588					
<i>y/y % change</i>	6.4	8.3		8.4	8.0	7.3					
- Lower Income Area Average House Price (Rand)	787 123	835 970		864 580	873 116	879 469					
<i>y/y % change</i>	5.7	6.2		5.8	5.2	4.4					
- Affordable Area Average House Price (Rand)	410 638	441 440		457 173	459 901	461 072					
<i>y/y % change</i>	6.4	7.5		6.4	5.1	3.5					
- Major 3 Provinces' Former Black Township Average House Price (Rand)	273 697	296 202		319 298	327 260	331 826					
<i>y/y % change</i>	7.5	8.2		12.0	12.3	10.7					
- Holiday Towns Average House Price (Rand)	829 404	899 698		956 638	970 754	979 115					
<i>y/y % change</i>	1.4	8.5		11.3	9.5	7.2					
FNB Estate Agent Survey											
Level of Residential Demand Activity (Scale 1 to 10)	6.27	6.58	6.31	6.73	6.33	6.14	6.02				
<i>y/y % change</i>	4.8	4.9	-4.1	-0.4	0.0	-7.4	-8.9				
First time buyers as a percentage of total buyers (%)	22.5	26.5	24.3	25.0	21.0	25.0	26.0				
Buy-to-let as a percentage of total buyers (%)	7.8	9.3	8.8	9.0	9.0	8.0	9.0				
Average time of properties on the market (Weeks and Days)	16.0	12.2	12.0	12.5	12.1	11.1	12.1				
Percentage of properties sold at less than asking price (%)	88.0	81.5	86.0	83.0	87.0	87.0	87.0				
Percentage of properties on the market for 3 months or more (%)	74.5	56.0	49.0	48.0	46.0	47.0	55.0				
Residential Building Sector											
Number of units' plans passed	50 447	56 809		12 536	16 660	16 835		4 871	4 722		
<i>y/y % change</i>	1.3	12.6		-10.5	17.9	10.9		-5.5	-6.0		
Square metres' worth of plans passed	6 647 115	7 467 385		1 785 726	2 020 328	2 092 735		636 141	647 141		
<i>y/y % change</i>	6.4	12.3		4.0	11.9	1.2		-18.0	0.7		
Average size of units' plans passed (square metres)	131.8	131.4		142.4	121.3	124.3		131	137		
Number of units completed	41 485	38 043		8 482	10 592	9 791		2 957	4 509		
<i>y/y % change</i>	-3.5	-8.3		-7.7	31.5	2.3		-23.2	16.8		
Square metres' worth of buildings completed	4885830.0	4707294.0		1 092 448	1 325 713	1 323 386		414 713	522 022		
<i>y/y % change</i>	1.5	-3.7		4.7	28.8	7.4		-13.0	4.0		
Average size of units' completed (square metres)	117.8	123.7		128.8	125.2	135.2		140.25	115.77		

Property and Mortgage Market Summary



END OF PERIOD	2013	2014	2015	Q1-2015	Q2-2015	Q3-2015	Q4-2015	Oct-15	Nov-15	Dec-15	Jan-16
Mortgage Market											
New residential loans and re-advances granted (R'm)	196 144	213 318		55 954	58 201	60 250					
<i>y/y % change</i>	15.6	8.8		9.1	11.3	7.0					
Residential re-advances granted (R'm)	10 452	11 911		3 476	4 262	3 386					
<i>y/y % change</i>	26.06	13.96		18.5	50.3	7.0					
Total residential mortgage loans outstanding - Banks (R'm)	837 817 308	854 418 677		862 453 853	868 135 474	875 775 279		880 064 005	884 525 882		
<i>y/y % change</i>	1.3	2.		2.4	2.5	2.7		3.1	3.6		
Key Economic Indicators											
Real Gross Domestic Product (R'm at 2000 prices)	2 963 390	3 009 283		3 051 621	3 041 689	3 046 807					
<i>y/y % change</i>	2.2	1.5		2.2	1.3	1.0					
Real Residential Fixed Investment (R'm)	46 676	43 975		43 135	42 816	42 968					
<i>y/y % change</i>	-7.1	-5.8		-11.6	0.8	1.6					
Prime Rate (%)	8.5	9.1	9.4	9.3	9.3	9.5	9.5	9.5	9.5833	9.75	9.8
Yields on Government Bonds 10 years and Longer (%)	7.7	8.3	8.0	7.6	8.1	8.3	8.3	8.3	8.5	9.3	9.6
Currencies - USDZAR	9.66	10.85	12.78	11.754	12.107	12.996	14.212	13.49	14.14	15.	16.37
Currencies - EURZAR	12.82	14.39	14.17	13.222	13.376	14.444	15.558	15.16	15.17	16.32	17.77
<i>CPI - y/y % change</i>	5.8	6.1	4.6	4.1	4.6	4.7		4.7	4.8	5.2	
<i>Gauteng pump price y/y%</i>				-22.0	-8.7	-6.5	-5.8	-8.4	-6.9	-1.6	9.7
FNBBER Consumer Confidence Index	-5.3	-0.8	-9.5	-4.0	-15.0	-5.0	-14.0				
RMBBER Business Confidence Index	46	45	42	49.0	43.0	38.0	36.0				
SARB Composite Leading Business Cycle Indicator	99.4	97.8		95.9	95.8	93.2		93.6	93.67		
<i>y/y % change</i>	0.1	-1.7		-2.5	-1.5	-4.5		-4.70	-4.99		
<i>m/m % change</i>								0.43	0.07		
Real Retail Sales (2008 Prices) - R'm	723 291	738 224		177 213	181 640	184 556		63 161	68 143		
<i>y/y % change</i>	2.7	2.1		2.8	3.1	3.4		3.4	3.9		
Manufacturing - Volume of Production (Index 2005=100)	106.53	106.6		101.5	102.5	110.5		118.5	117.4		
<i>y/y % change</i>	1.4	0.1		0.6	-1.6	2.0		-2.1	-1.0		
Mining - Volume of Production (Index 2005=100)	99.49	98.14		97.8	102.9	102.4		101.0	104.7		
<i>y/y % change</i>	3.7	-1.4		9.3	5.9	0.9		-4.7	-0.8		
Vehicle Sales - Total (NAAMSA)	565 999	571 501	555 397	142 587	129 142	143 510	140 158	48 438	46 703	45 017	
<i>y/y % change</i>	5.0	1.0	-2.8	1.0	-1.9	-6.8	-3.1	-8.6	2.7	-2.6	
Passenger Vehicle Sales - Total (NAAMSA)	379 673	377 507	359 603	92 630	83 067	94 117	89 789	31 197	29 156	29 436	
<i>y/y % change</i>	4.1	-0.6	-4.7	-1.0	-2.6	-9.1	-5.6	-11.5	2.3	-6.0	