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**MARKET ANALYTICS AND  
SCENARIO FORECASTING  
UNIT**

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## PROPERTY BAROMETER FNB House Price Index

*2015 average house price growth was slightly slower than that of 2014 as a whole.*

*In December 2015, the FNB House Price Index inflation rate continued its mild year-on-year growth uptick of recent months. However, this mini-uptick appears to be peaking, with month-on-month house price growth already slowing.*

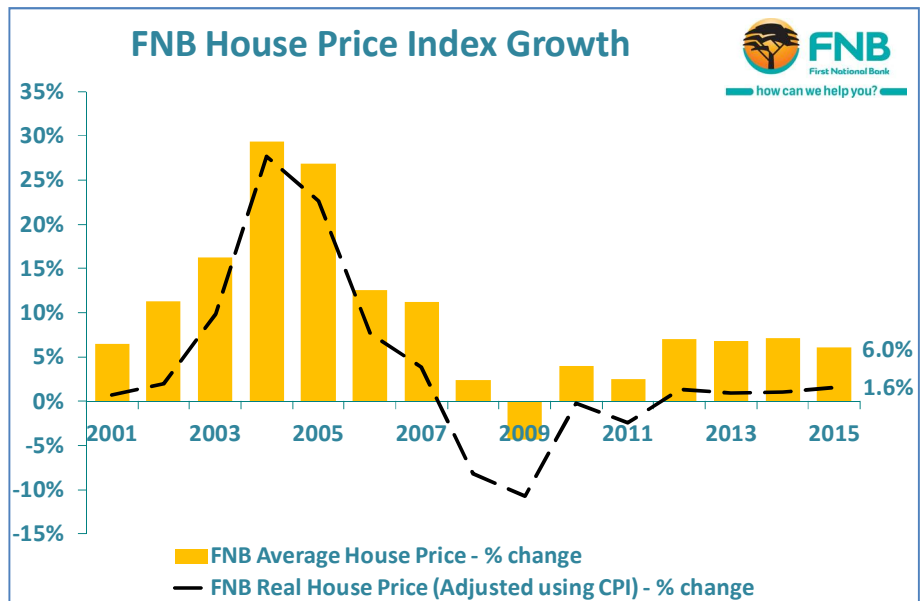
*Despite this recent “mini-uptick”, we believe that the broader trend is one of slowing house price growth, and that this is reflected in the slowing in the annual average house price growth rate from 7.1% in 2014 to 6% in 2015. 2016 is once again expected to see a move to a lower average growth rate.*

### 2015 FNB HOUSE PRICE INDEX FINDINGS

*The FNB House Price Index for 2015 as a whole, showed average growth of 6%. This represents a slight slowing on the 2014 average rate of 7.1%.*

*It is debatable as to whether this represents a genuine slowing in market strengthening for 2015 as a whole, because in real terms, adjusting for CPI (Consumer Price Index) inflation, the 2015 average growth rate was 1.6%, slightly higher than the 1.0% recorded in 2014.*

*However, the higher real house price growth was largely due to a major drop in global oil prices, which lowered CPI inflation from an average of 6.1% in 2014 to around a 4.5% average in 2015 (based on the 1<sup>st</sup> 11 months' CPI data)*



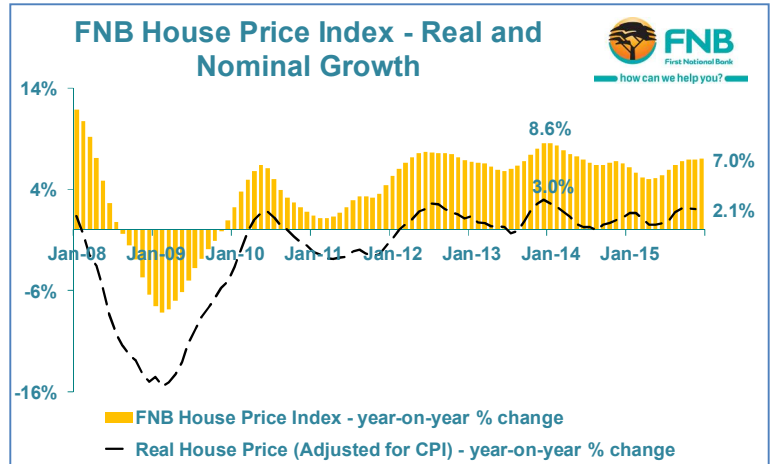
## DECEMBER 2015 FNB HOUSE PRICE INDEX FINDINGS

Despite a slower house price inflation rate for 2015 as a whole, compared to 2014, examining the monthly data we saw a mild strengthening in year-on-year house price growth towards the 2<sup>nd</sup> half of 2015 after a lull early last year.

The FNB House Price Index for December 2015 rose by 7.0% year-on-year. This is slightly up from a revised 6.9% for November, continuing the mild short term accelerating year-on-year price growth rate. The pace of year-on-year house price growth thus ended the year stronger than the 6.2% rate on which it started 2015.

In real terms, when adjusting for CPI (Consumer Price Index) inflation, the rate of house price growth measured 2.1% in November 2015, unchanged from the previous month, and still being able to grow positively in real terms due to a benign CPI inflation rate of 4.8%.

The average price of homes transacted in December 2015 was R1,051, 653.



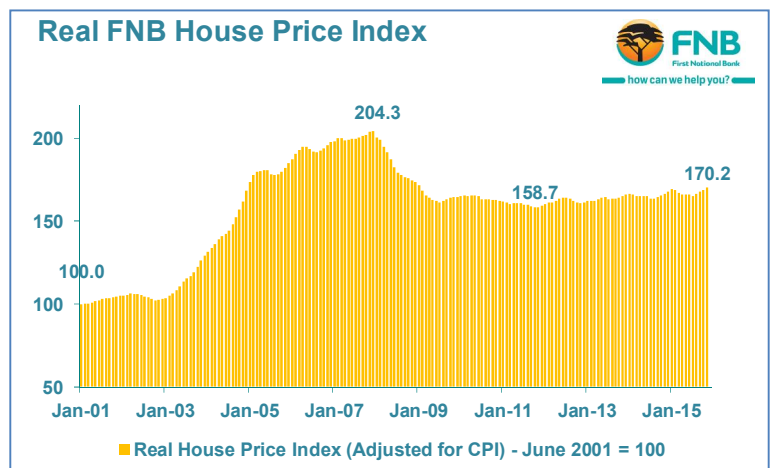
## REAL HOUSE PRICE LEVELS

Examining the longer term real house price trend (house prices adjusted for CPI inflation), we see that despite some rise in recent years, (+7.3% since the October 2011 low) the average real house price level remains -16.7% 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 70.2% above the January 2001 level, back in the early years of the index before boom time price surge really kicked in.

Real house price levels thus remain not far from “boom time” peak levels in our view, despite having lost some ground since the end of 2007.

In nominal terms, when not adjusting for CPI inflation, the average house price in December 2015 was 290.2% above the January 2001 level.



## MONTH-ON-MONTH HOUSE PRICE INFLATION LOSES MOMENTUM

While the year-on-year house price inflation surge appears to be approaching its “mini-peak”, on a month-on-month seasonally adjusted basis (a better way to look at recent growth momentum), the growth rate has already been slowing noticeably through the final quarter of 2015.

From a 1.0% month-on-month revised high in September 2015, the rate has declined to 0.6% by December.

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

More recently, however, the PMI has turned back down to below the critical 50 level, while the SARB’s Leading Business Cycle Indicator has continued to decline, suggesting weaker economic times ahead. The resumed slowing in month-on-month house price inflation may therefore merely be beginning to once again track the economy slower, and the year-on-year rate should track it to lower levels in the coming months.

### CONCLUSION

We remain of the belief that the mild recent uptick in year-on-year house price growth late in 2015 will be short lived, and 3 months of slowing month-on-month house price growth, already, suggests that this will probably be the case.

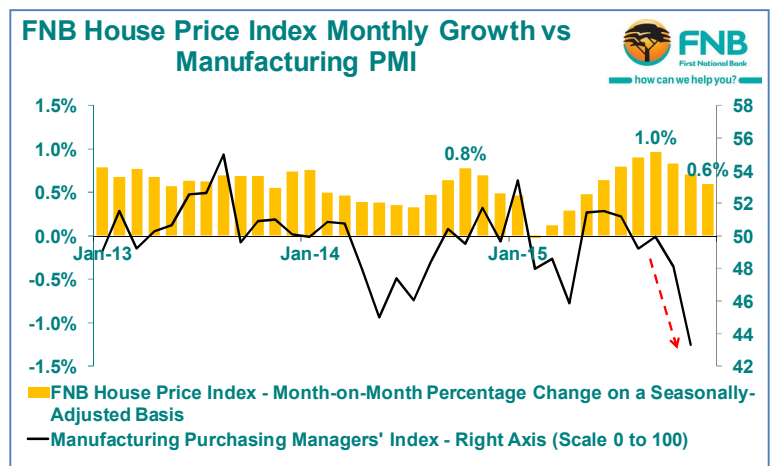
Rather, we believe that the slower overall average house price growth rate in 2015, compared to 2014, was the start of a broader trend towards low single-digit house price growth in the near future, and that the 2<sup>nd</sup> half of 2015 “bump” in house price growth was temporary.

Economic prospects don’t appear overly-positive as we head into 2016. While oil prices remain well-behaved, a positive from a CPI inflation point of view, a weak rand and drought-driven rise in food prices is expected to lift CPI inflation moderately, causing the SARB to continue to hike interest rates gradually further through 2016.

Rising interest rates, along with depressed export commodity prices, is expected to lead to still further slowing in real economic growth from an already stagnant rate of around 1.5% last year.

The SARB Leading Business Cycle Indicator continued its consistent year-on-year decline late in 2015, pointing to such near term economic weakness continuing.

With the risk of recession significant, and slow positive growth appearing to be the best scenario, there appears little to support average house price growth at recently positive real rates as we enter 2016. We therefore see a move slower in year-on-year house price inflation towards the 4-5% range later in 2016.



# 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	368.74	5.2%
Apr-03	128.5	11.1%	Apr-07	269.7	9.0%	Apr-11	287.8	1.3%	Apr-15	369.90	5.0%
May-03	131.1	12.5%	May-07	271.9	9.2%	May-11	289.3	1.7%	May-15	371.14	5.1%
Jun-03	133.6	14.4%	Jun-07	274.8	10.2%	Jun-11	290.3	2.2%	Jun-15	372.65	5.4%
Jul-03	136.3	16.5%	Jul-07	277.7	11.1%	Jul-11	291.0	3.0%	Jul-15	374.69	5.9%
Aug-03	138.6	18.3%	Aug-07	280.6	11.8%	Aug-11	291.5	3.3%	Aug-15	377.29	6.4%
Sep-03	140.9	20.0%	Sep-07	283.6	12.1%	Sep-11	291.7	3.3%	Sep-15	380.86	6.8%
Oct-03	143.6	21.8%	Oct-07	287.0	12.5%	Oct-11	291.9	3.2%	Oct-15	384.16	6.9%
Nov-03	146.8	23.6%	Nov-07	290.8	12.9%	Nov-11	292.9	3.6%	Nov-15	387.22	6.9%
Dec-03	150.4	25.5%	Dec-07	293.9	12.7%	Dec-11	294.9	4.4%	Dec-15	390.16	7.0%
Jan-04	154.1	27.2%	Jan-08	295.3	11.9%	Jan-12	297.8	5.3%			
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.*