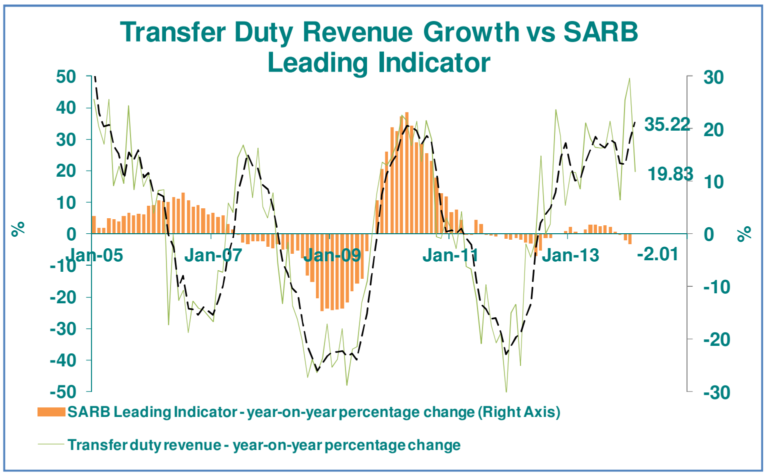
HOUSEHOLD SECTOR – FEBRUARY TRANSFER DUTY AND PERSONAL TAX REVENUE

February transfer duty revenue growth slows markedly, but data volatility means that it is too early to tell whether this reflects the start of a slowing property transaction and price growth trend

31 March 2014



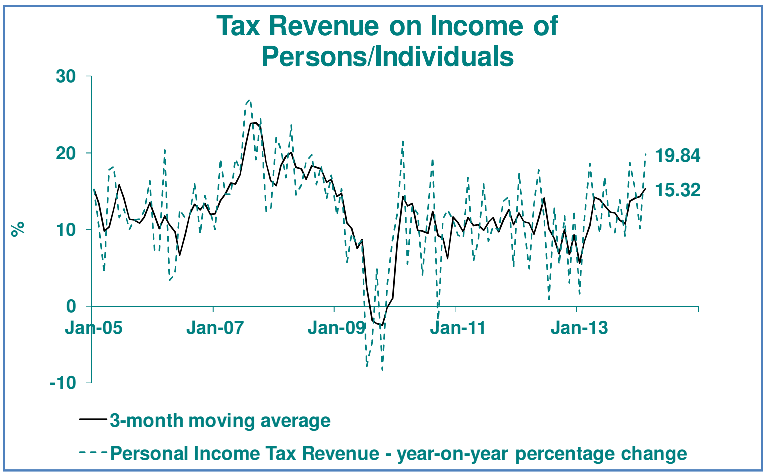
February SARS (South African Revenue Services) revenue data showed markedly slower growth in transfer duty revenue in February. There was a slowing in the monthly year-on-year growth rate of transfer duty revenue from 49.4% year-on-year in January to 19.8%. It is possible that this is a sign that the growth in property transaction volumes and values is slowing, but the monthly figures are known to be volatile, so it is too early to tell. Rather, we like to smooth out the number with a 3-month moving average, and for the 3-months to February we still saw massive growth of 35% year-on-year, painting a very strong picture.

Weak economic fundamentals in the form of a slow growth economy last year, and a multi-year slowing trend in household disposable income growth (important given that residential property transactions are a big part of the market), suggest that we should see some slowing growth in residential volumes and values soon, not to mention that interest rates have started to rise.

A further year-on-year decline of -2% in the SARB Leading Business Cycle Indicator in January, an indicator whose growth direction correlates reasonably well with transfer duty growth, suggests that such a growth slowdown may come in the near term, and certainly this is what we expect, with further interest rate hiking projected following on the late-January increase.

Also important to note is that there is some impact from transfer duty bracket creep, as property values inflate transactions into higher transfer duty brackets.

However, while the February transfer duty growth number is markedly slower, we will need to wait for another few months' worth of data to see whether or not property market transaction volume growth is starting to slow as we believe economic fundamentals dictate that it should.



In the mean time, tax revenue on the income of persons/individuals continues to reflect a gradually rising effective tax rate for households. While the national wage bill growth rate is well-down in single-digit figures, income tax growth continues to steam along at strong double-digit year-on-year rates, reaching 19.8% in February (15.3% on a 3-month moving average basis).

This month, the release of 2013 annual SARB data confirmed the further rise in the "effective" tax rate on the income and wealth of households. The value of these sources of tax revenue expressed as a percentage of household income (Gross balance of primary income) rose further in 2013 to 14.2%, higher than 2012's 13.8%, and now substantially up from 11.4% in 2007, the result of Treasury not providing full inflation bracket creep adjustments.

Therefore, fiscal policy remains mildly constraining on residential property purchasing power via both transfer duty and income tax bracket creep

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