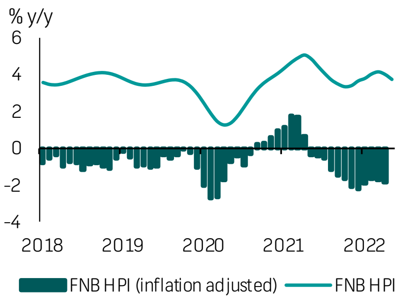
June 2022

Property Barometer.

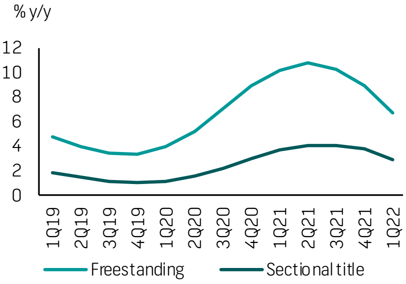
3.7%	50.36	7 weeks & 6 days
y/y FNB HPI	Market strength index	Time on market

Figure 1: FNB HPI



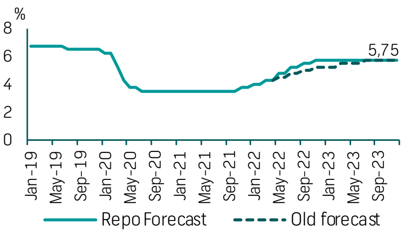
Source: FNB Economics

Figure 2: Freestanding outpacing Sectional title properties



Source: FNB Economics

Figure 3: Interest rate outlook



Source: FNB Economics

Key themes:

- Despite a slowing momentum, market volumes are still running above pre-pandemic levels. Bar the sentiment shock from the ongoing geopolitical tensions and devastating floods in some parts of the country, internal market strength indicators suggest relatively resilient market activity in the near term.
- We expect interest rates to increase by a further 100bps in 2H22, on the back of a fast-deteriorating inflation outlook.This suggests a less supportive medium-term environment for home buying activity.
- However, employment intentions indices continue to suggest a recovery in headcount in certain industries, after a prolonged period of declining headcount relative to payroll. This, combined with the ongoing shifts in housing needs and banks' appetite for quality lending, should continue to mitigate the impact of the less supportive environment.

Annual house price growth moved lower in May

The FNB House Price Index growth moved slightly lower in May, averaging 3.7%y/y from 4.0% in April (revised up from 3.8%) (Figure 1). Downward pressure on price is coming from the lower and middle-priced segments, while pricier segments continue on a recovery . Data up to March[1] shows that free standing properties are faring better than sectional title properties - consistent with the ongoing changes in housing needs (Figure 2).

Last month, the SARB increased interest rates by 50bps, against our expectation of a 25bps increase. Given this; our upwardly revised inflation forecast, stronger economic growth, as well as the tighter-than-initially-anticipated global monetary conditions, we now think that the SARB will be more inclined to frontload interest rate increases. As such, we expect a cumulative 100bps further increases in 2H22, although our terminal rate of 5.75% remains unchanged (Figure 3).

Despite the rising borrowing costs, market activity and credit availability remain intact. Mortgage credit extension averaged 6.8% year to date, versus average house price growth of 4.0% in the same period (Jan to April). As shown previously, the market-wide loan to price ratio, derived from Deeds data, has increased to 94.9% in 1Q22 - the highest level in approximately 14 years (since 2Q08). Volumes have also held higher than pre-pandemic levels. Given a gradual shift in buying activity towards higher price points, funding has followed suit (Figure 4). In turn, this continues to lend support to price growth in higher-priced segments, which have been under pressure in the last few years[2]. Generally, these buyers have stronger balance sheets and are less sensitive to interest rates hikes. The impact of the ongoing Russia-Ukraine

[1] Data from Deed Office generally comes with an approximately three-month lag.
[2] Factors contributing to weak performance in higher-priced segments in the last few years include low demand, and high emigration rates.

Economists

Siphamandla Mkhwanazi
Koketso Mano

Statistician
Mandisa Zokufa

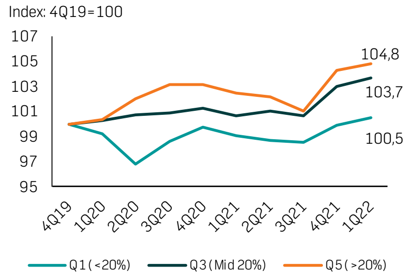
Contact us:

Website: www.fnb.co.za/economics-commentary
Email: Siphamandla.Mkhwanazi@fnb.co.za
Tel: 087 312 3280

war and the devastating floods in KwaZulu-Natal on sentiment and the economic recovery poses a downside risk to this view.

We are encouraged by a modest improvement in employment outcomes in 1Q22 (which, as stated previously, were already signalled by surveyed employment intentions), and the upside surprise to GDP growth. The economy created a net 370 000 jobs between 4Q21 and 1Q22, which saw the unemployment rate receding marginally to 34.5% from 35.3% in the previous quarter. The total wage bill, on the other hand, was up by 5.5% y/y in 1Q22. However, these gains were offset by higher inflation, which averaged 5.8% y/y in the same period, suggesting a decline in real wages during the period. Nevertheless, the constructive employment intentions indices in certain industries are a reason to be cautiously optimistic of a continued recovery in the labour market. GDP outcome also exceeded expectations, growing by 1.9% q/q, against our expectation of 1.1%. This result means that GDP has recovered to pre-pandemic levels sooner than initially envisaged. The first quarter growth outcomes suggest that annual GDP growth will likely come out stronger than initially anticipated, and as such, we have revised our expectations higher, from 1.7% to 1.9% growth in 2022.

Figure 4: Loan to price ratio has increased the most in pricier segments



Source: FNB Economics from Deeds Office

*Note: Q1 denotes Quintile 1, which represents bottom 20% of the purchase price and Q5 represents top 20%

Monthly FNB House Price Index (% y/y)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2001		-1,7	-0,7	-0,4	-0,5	0,7	3,0	5,9	8,6	10,6	11,6	11,8
2002	11,6	12,0	12,8	13,8	14,2	14,0	13,6	13,1	13,2	13,5	13,8	13,8
2003	14,0	14,5	15,3	16,2	17,1	18,2	19,3	20,3	21,4	22,9	24,7	27,0
2004	29,4	31,3	32,4	33,2	33,7	33,9	34,5	35,1	35,3	35,2	35,3	35,4
2005	34,8	33,8	32,9	31,8	30,7	29,7	28,8	27,9	26,9	25,7	23,9	21,7
2006	19,9	18,5	17,6	17,3	17,3	17,2	16,9	16,5	15,8	15,1	14,4	14,0
2007	14,0	14,3	14,9	15,7	16,3	16,6	16,3	15,5	14,5	13,2	12,0	11,0
2008	9,7	8,0	5,5	2,5	-0,4	-2,9	-4,7	-5,6	-5,8	-5,6	-5,1	-5,1
2009	-5,0	-5,0	-4,5	-3,8	-2,8	-1,8	-0,7	0,0	0,5	0,9	1,2	2,0
2010	3,0	3,9	4,6	5,2	5,6	5,5	5,0	4,7	4,5	4,1	3,7	3,1
2011	2,4	2,1	2,0	2,2	2,5	2,8	3,3	3,6	3,8	3,9	4,1	4,4
2012	4,7	4,8	4,8	4,7	4,6	4,7	4,9	5,2	5,6	5,7	5,8	5,8
2013	5,9	6,0	6,1	6,1	6,1	6,3	6,5	6,4	6,3	6,5	7,0	7,7
2014	8,2	8,3	8,2	8,3	8,4	8,3	8,0	7,8	7,6	7,2	6,8	6,2
2015	5,8	5,9	6,3	6,5	6,6	6,4	6,3	6,2	6,1	6,2	6,3	6,3
2016	6,3	6,2	6,1	6,0	5,9	5,8	5,7	5,6	5,4	5,1	4,8	4,8
2017	4,7	4,6	4,5	4,3	4,2	4,1	4,1	4,2	4,2	4,2	4,0	3,8
2018	3,5	3,3	3,4	3,5	3,7	3,8	3,9	4,0	4,1	4,2	4,1	4,0
2019	3,8	3,6	3,4	3,4	3,4	3,5	3,6	3,7	3,8	3,7	3,5	3,0
2020	2,4	1,9	1,4	1,3	1,4	1,7	2,3	2,8	3,2	3,6	3,8	4,1
2021	4,4	4,7	4,9	5,1	4,9	4,5	4,1	3,7	3,5	3,3	3,4	3,7
2022	3,8	4,0	4,1	4,0	3,7							

ADDENDUM - NOTES:

Note on The FNB House Price Index:

The FNB Repeat Sales House Price Index has been one of our repertoire of national house price indices for some years, and is based on the well-known Case-Shiller methodology which is used to compile the Standard & Poor's Case-Shiller Home Price Indices in the United States.

This "repeat sales approach" is based on measuring the rate of change in the prices of individual houses between 2 points in time, based on when the individual homes are transacted. This means that each house price in any month's sample is compared with its own previous transaction value. The various price inflation rates of individual homes are then utilized to compile the average price inflation rate of the index over time.

The index is compiled from FNB's own valuations database, thus based on the residential properties financed by FNB.

We apply certain "filters" and cut-offs to eliminate "outliers" in the data. They main ones are as follows:

- The maximum price cut-off is R15m, and the lower price cut-off is R20 000.
- The top 5% of repeat sales price growth rates, and the bottom 5% of growth rates are excluded fromthe data set.
- Repeat transactions that took place longer than 10 years after the previous transaction on the same home are excluded, as are repeat transactions that took place less than 6 months after the previoustransaction on the same home.
- The index is very lightly smoothed using Central Moving Average smoothing technique.

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.