



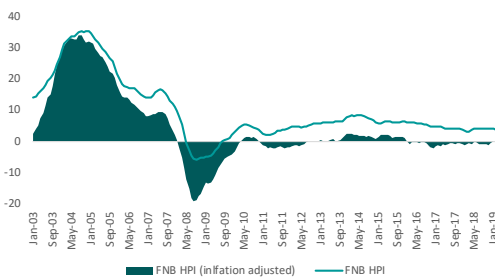
Property Barometer.

3.7%
y/y FNB HPI

0.27%
m/m FNB HPI

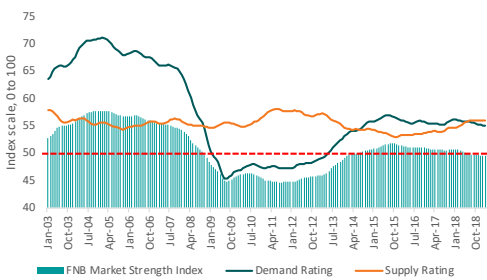
49.51
FNB Valuers' Market Strength Index

Figure 1: FNB HPI



Source: FNB, Stats SA

Figure 2: FNB Market Strength Index



Source: FNB

FNB House Price Index trends lower in February

HPI: More of the same ...

The FNB House Price Index (HPI) kicked off the year on a mildly lower note, averaging 3.7% y/y in February, below the 4% y/y recorded in January and the 3.9% annual average for 2018. This is against our CPI inflation expectation of 4.2% y/y in the same period. Month-to-month, the FNB HPI accelerated to 0.27%, up from 0.15% in January.

As has been the case since February 2016, house prices remain mildly below CPI inflation, although January recorded a better outturn (-0.02% versus -0.38% in December). This slight improvement was, however, solely driven by benign inflation rather than house price appreciation.

FNB valuers perceive the slowing activity to have continued into 2019

FNB's valuers rate current residential housing demand as weakening and supply strengthening. Consequently, the FNB Valuers' Market Strength Index weakened further in February, pointing to deteriorating demand-supply balance. The FNB Residential Demand Rating declined by 1.8% on a y/y basis while the FNB Housing Supply Rating continued its ascent, recording a 2.2% rate as at February 2019. These movements in demand and supply translate into a further decline in the FNB Market Strength Index by 2.2% y/y, to reach a reading of 49.51, keeping it below the 50-mark for the ninth consecutive month. This below-50 reading means that valuers rate residential supply as stronger than demand (explanatory notes at the end of the report).

These trends aptly explain the declining real house prices and suggest that the market remains slightly in favour of buyers. Indeed, the FNB Estate Agents Survey results show that between 2016 and 2018, the proportion of properties sold below asking price averaged 91.6%, compared to an average of 85.2% three years prior (an increase of 6.4 ppt).

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Mortgages upping the pace

Mortgages have been cautiously accelerating for the last 10 months or so, from a pace of 3.1% y/y in March 2018 to 4.0% y/y by December 2018. This acceleration is, however, in contrast to what the FNB Valuers' Market Strength Index is suggesting – declining demand resulting in an index reading of below 50 points in the last nine months. Interestingly, this phenomenon of diverging trends between credit extension and purchasing activity (or measures thereof) is also replicated in the passenger car market. One explanation could be that the upward trend in credit extension (in this case mortgages and instalment sale credit) is driven more by asset refinancing rather than new acquisitions.

Building activity improved markedly in 2018 – but what lies ahead?

Stats SA's Residential Building Statistics point to an all-round rebound in building activity (completions) in 2018 for the first time since 2015. Total number of new units completed in 2018 increased by 3% compared to the 2017 level. Total square metreage of new residential buildings completed is up (14.6%) from 2017 levels, as is the value thereof (8.9%, constant 2015 prices and seasonally adjusted). This is against the backdrop of moderating building costs, averaging R7 322 per square metre in 2018, which is only 2.9% higher than the 2017 average. If, however, building plans approvals (as a forward-looking indicator) is anything to go by, then we might see some softening in building activity in the near term.

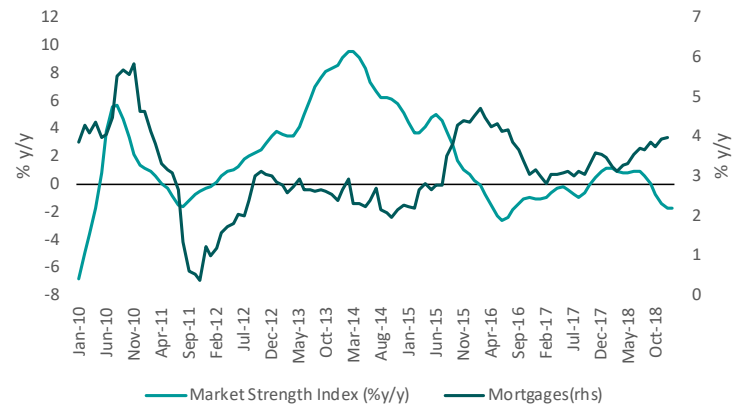
Outlook

The 2019 Budget outcomes were slightly more negative for the consumer than initially anticipated. At worst, however, the proposed tax adjustments (R13.8bn via bracket creep and medical tax credits) pose a moderate downside risk to our (already bearish) forecasts on households' disposable income growth of 1.8% and, consequently, households' consumption expenditure of 1.9% and overall economic growth 1.4% in 2019. To be sure, these tax adjustments are only ~0.45% of nominal households' disposable income of 3Q18 (latest available data point).

Positively for the property market, however, is a R950m injection over the next three years to prop up assistance to first-time buyers in the affordable market segment. This initiative, with measures to improve institutional capacity to administer subsidies effectively, can greatly improve buyer affordability and boost first-time buyer participation. Indeed, the FNB Estate Agents survey shows that the estimated proportion of first-time buyers has declined from 28% in 3Q14 to around 22% in 4Q18. This may be one of the factors limiting the recovery of the housing market.

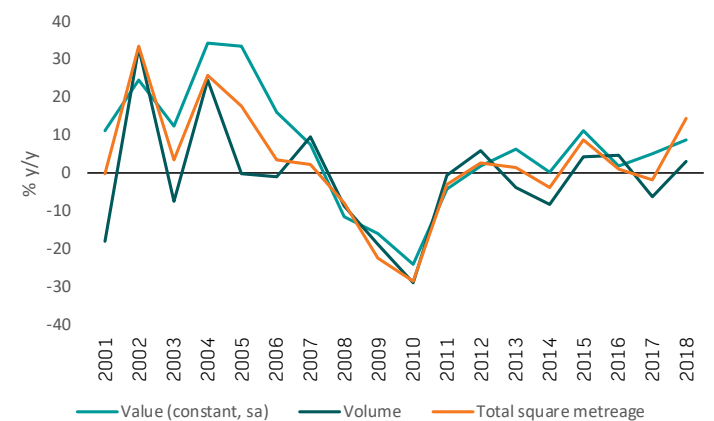
That said, the prevailing macroeconomic fundamentals point to a muted property market in the near term, with house prices confined within the 3.5% to 4.5% range, against our average annual inflation forecast of 4.7% in 2019. Much will hinge on the evolution of the broader economic fundamentals, particularly employment growth, and whether the current consumer reticence lifts after elections.

Figure 3: Market strength vs Mortgages: Diverging trends



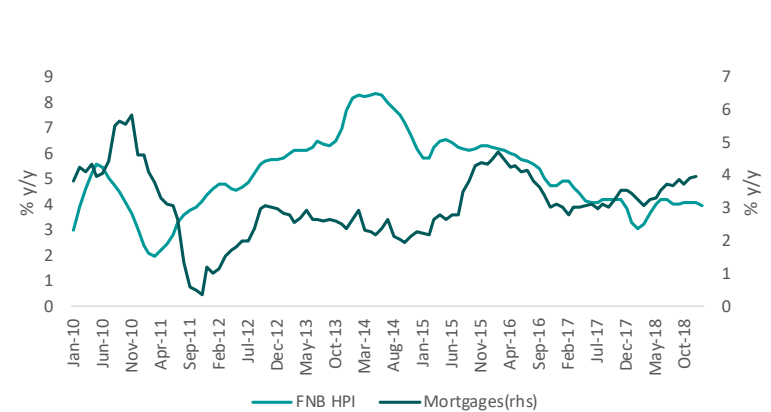
Source: FNB, SARB

Figure 4: Building activity improved in 2018



Source: Stats SA

Figure 5: FNB HPI vs Mortgages



Source: FNB, SARB

Monthly FNB House Price Index

Date	Index	y/y%	Date	Index	y/y%	Date	Index	y/y%	Date	Index	y/y%
Jul-02	118.1	13.6	Sep-06	291.8	15.8	Nov-10	331.6	3.7	Jan-15	422.5	5.8
Aug-02	119.3	13.1	Oct-06	294.8	15.1	Dec-10	332.3	3.1	Feb-15	426.0	5.9
Sep-02	121.0	13.2	Nov-06	297.3	14.4	Jan-11	333.1	2.4	Mar-15	429.6	6.3
Oct-02	122.7	13.5	Dec-06	299.8	14.0	Feb-11	334.3	2.1	Apr-15	432.4	6.5
Nov-02	124.3	13.8	Jan-07	303.1	14.0	Mar-11	335.7	2.0	May-15	434.4	6.6
Dec-02	125.7	13.8	Feb-07	307.3	14.3	Apr-11	337.6	2.2	Jun-15	436.0	6.4
Jan-03	127.2	14.0	Mar-07	312.5	14.9	May-11	339.0	2.5	Jul-15	437.0	6.3
Feb-03	129.1	14.5	Apr-07	318.3	15.7	Jun-11	340.0	2.8	Aug-15	438.1	6.2
Mar-03	131.4	15.3	May-07	323.8	16.3	Jul-11	340.9	3.3	Sep-15	439.4	6.1
Apr-03	133.7	16.2	Jun-07	328.6	16.6	Aug-11	341.8	3.6	Oct-15	441.4	6.2
May-03	136.0	17.1	Jul-07	331.8	16.3	Sep-11	343.0	3.8	Nov-15	443.7	6.3
Jun-03	138.5	18.2	Aug-07	333.5	15.5	Oct-11	344.2	3.9	Dec-15	446.1	6.3
Jul-03	140.8	19.3	Sep-07	334.1	14.5	Nov-11	345.3	4.1	Jan-16	449.0	6.3
Aug-03	143.5	20.3	Oct-07	333.7	13.2	Dec-11	346.8	4.4	Feb-16	452.5	6.2
Sep-03	146.8	21.4	Nov-07	333.0	12.0	Jan-12	348.6	4.7	Mar-16	455.9	6.1
Oct-03	150.8	22.9	Dec-07	332.8	11.0	Feb-12	350.4	4.8	Apr-16	458.5	6.0
Nov-03	155.1	24.7	Jan-08	332.4	9.7	Mar-12	351.9	4.8	May-16	460.3	5.9
Dec-03	159.6	27.0	Feb-08	331.8	8.0	Apr-12	353.3	4.7	Jun-16	461.1	5.8
Jan-04	164.6	29.4	Mar-08	329.6	5.5	May-12	354.5	4.6	Jul-16	462.0	5.7
Feb-04	169.6	31.3	Apr-08	326.1	2.5	Jun-12	355.9	4.7	Aug-16	462.5	5.6
Mar-04	174.0	32.4	May-08	322.4	-0.4	Jul-12	357.5	4.9	Sep-16	463.1	5.4
Apr-04	178.1	33.2	Jun-08	319.2	-2.9	Aug-12	359.7	5.2	Oct-16	463.7	5.1
May-04	181.7	33.7	Jul-08	316.3	-4.7	Sep-12	362.2	5.6	Nov-16	464.8	4.8
Jun-04	185.3	33.9	Aug-08	314.9	-5.6	Oct-12	363.9	5.7	Dec-16	467.3	4.8
Jul-04	189.4	34.5	Sep-08	314.8	-5.8	Nov-12	365.3	5.8	Jan-17	471.2	4.9
Aug-04	193.9	35.1	Oct-08	315.2	-5.6	Dec-12	366.8	5.8	Feb-17	474.9	4.9
Sep-04	198.6	35.3	Nov-08	316.1	-5.1	Jan-13	369.1	5.9	Mar-17	477.3	4.7
Oct-04	203.8	35.2	Dec-08	315.9	-5.1	Feb-13	371.4	6.0	Apr-17	478.8	4.4
Nov-04	209.8	35.3	Jan-09	315.8	-5.0	Mar-13	373.5	6.1	May-17	479.4	4.2
Dec-04	216.1	35.4	Feb-09	315.2	-5.0	Apr-13	374.9	6.1	Jun-17	479.9	4.1
Jan-05	221.9	34.8	Mar-09	314.6	-4.5	May-13	376.3	6.1	Jul-17	480.8	4.1
Feb-05	227.0	33.8	Apr-09	313.8	-3.8	Jun-13	378.3	6.3	Aug-17	481.9	4.2
Mar-05	231.3	32.9	May-09	313.3	-2.8	Jul-13	380.7	6.5	Sep-17	482.7	4.2
Apr-05	234.6	31.8	Jun-09	313.5	-1.8	Aug-13	382.8	6.4	Oct-17	483.4	4.2
May-05	237.4	30.7	Jul-09	314.2	-0.7	Sep-13	384.9	6.3	Nov-17	484.4	4.2
Jun-05	240.4	29.7	Aug-09	315.0	0.0	Oct-13	387.6	6.5	Dec-17	485.3	3.9
Jul-05	243.9	28.8	Sep-09	316.3	0.5	Nov-13	391.0	7.0	Jan-18	486.7	3.3
Aug-05	247.9	27.9	Oct-09	318.0	0.9	Dec-13	395.1	7.7	Feb-18	489.5	3.1
Sep-05	251.9	26.9	Nov-09	319.9	1.2	Jan-14	399.3	8.2	Mar-18	492.8	3.3
Oct-05	256.2	25.7	Dec-09	322.3	2.0	Feb-14	402.3	8.3	Apr-18	496.5	3.7
Nov-05	260.0	23.9	Jan-10	325.3	3.0	Mar-14	404.3	8.2	May-18	498.8	4.1
Dec-05	263.0	21.7	Feb-10	327.5	3.9	Apr-14	406.0	8.3	Jun-18	500.3	4.2
Jan-06	265.9	19.9	Mar-10	329.1	4.6	May-14	407.7	8.4	Jul-18	501.0	4.2
Feb-06	268.9	18.5	Apr-10	330.2	5.2	Jun-14	409.6	8.3	Aug-18	501.3	4.0
Mar-06	272.0	17.6	May-10	330.8	5.6	Jul-14	411.2	8.0	Sep-18	502.1	4.0
Apr-06	275.2	17.3	Jun-10	330.7	5.5	Aug-14	412.5	7.8	Oct-18	503.1	4.1
May-06	278.4	17.3	Jul-10	330.0	5.0	Sep-14	414.0	7.6	Nov-18	504.4	4.1
Jun-06	281.8	17.2	Aug-10	329.9	4.7	Oct-14	415.6	7.2	Dec-18	505.3	4.1
Jul-06	285.2	16.9	Sep-10	330.6	4.5	Nov-14	417.4	6.8	Jan-19	506.1	4.0
Aug-06	288.7	16.5	Oct-10	331.1	4.1	Dec-14	419.6	6.2	Feb-19	507.4	3.7

Forecast

FNB SA Economic Forecast

Economic Indicator	2015	2016	2017	2018f	2019f	2020f
Household consumption expenditure %y/y	1.8	0.7	2.2	1.9	1.9	1.9
Government consumption expenditure %y/y	-0.3	1.9	0.6	1	0.9	1
Gross fixed capital formation %y/y	3.4	-4.1	0.4	-0.2	0.8	1.5
Real GDP %y/y	1.3	0.6	1.3	0.7	1.4	1.6
Total exports %y/y	2.8	1	-0.1	2.4	1.5	1.2
Total imports %y/y	5.4	-3.8	1.6	4	2.2	3.5
Current account (% of GDP)	-4.4	-3.3	-2.3	-3.6	-3.5	-4
CPI (average) %y/y	4.6	6.3	5.3	4.6	5	5.5
CPI (year end) %y/y	5.3	6.7	4.7	4.5	5.5	5.6
Repo rate (year end) %p.a.	6.25	7	6.75	6.75	7	7
Prime (year end) %p.a.	9.75	10.5	10.25	10.25	10.5	10.5
USD/ZAR (average)	12.8	14.7	13.3	13.3	14.2	15

Source: FNB

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 over the past 18 years.

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 from the 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 previous transaction on the same home.
- The index is very lightly smoothed using a Hodrick-Prescott smoothing function with a Lambda of 5.

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.

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