

7 November 2016

Oct HPI slows to 6.8%, as mortgages slow

Moderating growth in house prices as tighter financial conditions persist

- **SBR's HPI slowed to 6.8% y/y** in October from a slightly upwardly revised 6.9% y/y in September (fig 1). Sub-indices show that:
 - Freehold properties accelerated to 8.9% y/y from an upwardly revised 8.3% y/y (originally 8.1% y/y) in September; and
 - Sectional title properties slowed to 8.1% y/y from 8.9% y/y in September (fig 1).
- **The weighted median price per square metre rose 4% m/m** to R4,403, from R4,234 in September (fig 3). **2016 YTD house prices per m² have underperformed by between 8% and 22%** compared with the previous four years (Fig 7).
- **The median price of a freestanding house applied for and approved by Standard Bank was R950,000** in October, down from R970,000 in September 2016. The median price of a flat/townhouse was R800,000, down from R810,000 in September. The weighted median price of the two was R904,184, down from R906,084 in September (fig 2).
- **Growth in house prices has been moderating for the past four months on tougher economic conditions and rising political uncertainty.** MMI/BMR's Consumer Financial Vulnerability Index (CFVI) shows that since Q4:15 debt servicing capabilities has been more of a concern to consumers than their income levels, their ability to save or their ability to consume (fig 8). And, according to the NCR, 40% of credit active consumers had impaired records in Q2:16, up from 35% in Q2:15.
- **Household credit growth slowed** to 1.2% y/y in September from 1.4% y/y in August (fig 5) but, if we adjust the data for African Bank, growth slowed to 2.6% y/y from 2.8% y/y. Within household credit, mortgage advances (60% of total) slowed to 3.7% y/y from 3.9% y/y.
- **Encouragingly, SBR's Financial Conditions Index showed a mild improvement in August (See Standard Bank's FCI improved in August, published on 11 October 2016),** although it still indicated restrictive financial conditions (fig 4). Similarly, the BER/EY's Financial Services Index shows that in Q3:16 retail banks were still applying tight lending criteria when approving loans to households, although this had eased somewhat from Q4:15 (fig 6).
- **Looking ahead,** we expect consumers to remain under pressure into 2017, with household expenditure only recovering in Q3:17 once the SARB starts cutting interest rates. We expect property prices to remain under pressure for the remainder of 2016 and into 2017.

Data Release

South Africa | Macroeconomics

Economists

Siphamandla Mkhwanazi

Siphamandla.Mkhwanazi@standardbank.co.za
+27-11-415-4060

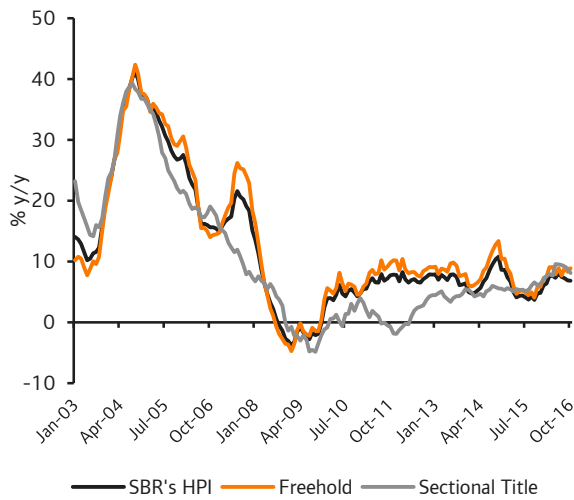
Kim Silberman

Kim.Silberman@standardbank.co.za
+27-11-415-4430

This material is "non-independent research". Non-independent research is a "marketing communication" as defined in the UK FCA Handbook. It has not been prepared in accordance with the full legal requirements designed to promote independence of research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

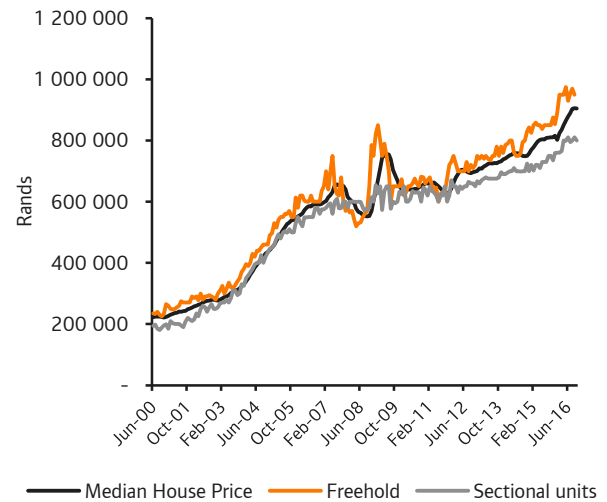
www.standardbank.com/research

Figure 1: SBR's HPI slows to 6.8% y/y, from 6.9% y/y in September



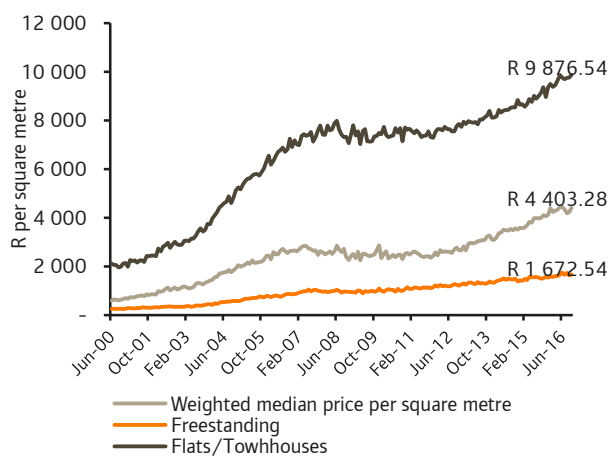
Source: SBR

Figure 2: Median house price in October was R904,184, down from R906,084 in September



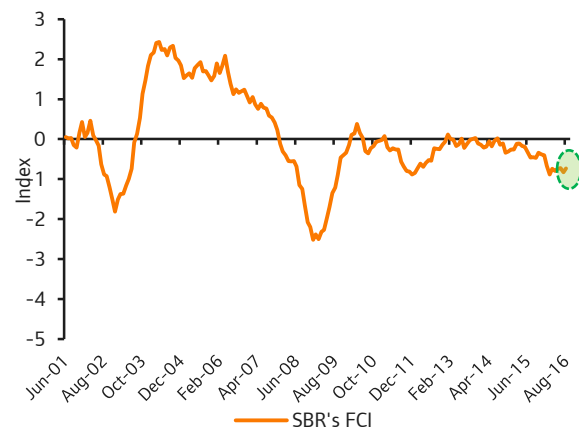
Source: SBR

Figure 3: Median prices per m²



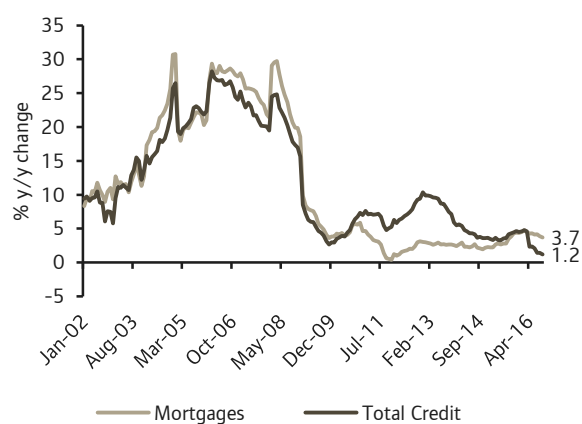
Source: SBR

Figure 4: Slight uptick in the SBR's Financial Conditions Index, although financial conditions remain restrictive



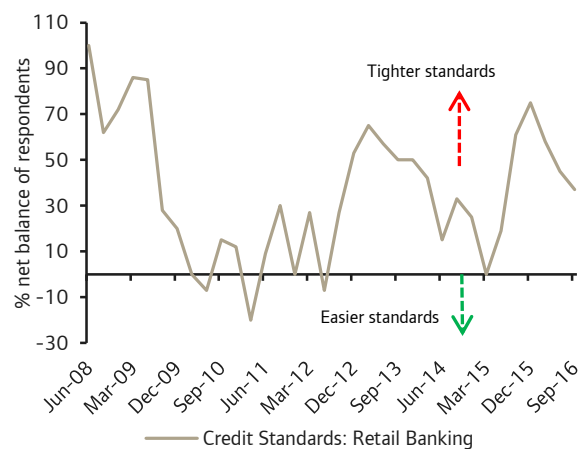
Source: SBR

Figure 5: Mortgage advances continued to moderate, from 3.9% y/y in August to 3.7% y/y in September



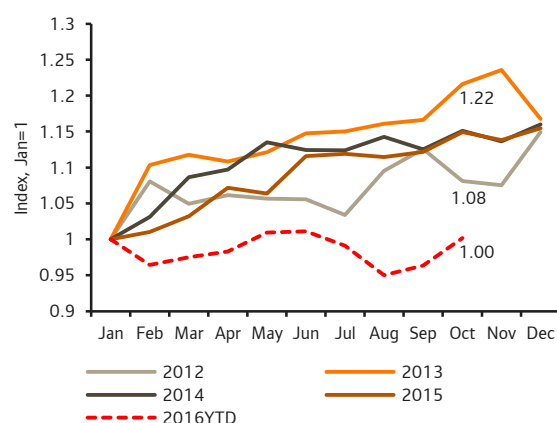
Source: SARB, SBR

Figure 6: Retail banks applied less tighter lending criteria



Source: BER/EY, SBR

Figure 7: YTD house prices have underperformed by 8%-22% compared to each of the previous 4 years



Source: SBR

Figure 8: MMI/BMR's Consumer Financial Vulnerability Index

	Savings	Expenditure	Debt servicing	Income	Overall CFVI
Q1:12	58.80	60.10	56.59	57.58	58.87
Q2:12	47.46	53.79	47.79	44.78	48.60
Q3:12	42.09	54.39	48.12	46.84	47.86
Q4:12	48.69	52.24	52.17	47.19	50.07
Q1:13	49.60	51.02	54.04	49.60	51.07
Q2:13	44.38	52.35	53.82	43.43	46.67
Q3:13	44.78	45.22	51.58	42.11	45.92
Q4:13	49.96	53.53	53.71	51.28	52.03
Q1:14	50.23	52.88	46.60	51.00	50.17
Q2:14	51.73	54.61	48.98	47.71	50.18
Q3:14	51.97	54.27	48.41	50.98	51.41
Q4:14	50.52	53.53	49.57	51.42	51.22
Q1:15	52.69	56.70	49.93	52.09	52.74
Q2:15	51.49	52.48	47.00	52.08	50.76
Q3:15	48.49	54.96	47.77	47.23	45.96
Q4:15	51.67	53.18	48.71	50.23	50.95
Q1:16	52.13	52.62	49.86	50.50	51.28
Q2:16	49.77	52.34	48.18	52.54	50.71

Source: MMI/BMR, SBR

Figure 9: SBR's HPI- % y/y

	2011	2012	2013	2014	2015	2016
January	5.5	6.7	7.9	4.8	7.4	5.3
February	5.5	8.3	7.0	4.9	6.7	5.6
March	6.7	7.0	7.8	5.2	4.9	6.8
April	7.2	6.5	7.4	5.7	4.1	7.0
May	6.6	6.9	6.9	6.7	4.4	6.7
June	6.5	7.1	7.8	7.3	4.4	7.6
July	8.0	6.6	7.9	8.6	4.1	7.6
August	6.9	6.5	7.5	9.5	3.7	7.3
September	7.2	7.1	6.1	10.4	4.2	6.9
October	7.7	7.5	6.2	10.8	3.5	6.8
November	7.8	7.9	6.4	8.6	4.6	
December	7.8	7.9	5.0	8.6	4.6	

Source: SBR

Disclaimer

This material is non-independent research. Non-independent research is a "marketing communication"

This material is "non-independent research". Non-independent research is a "marketing communication" as defined in the UK FCA Handbook. It has not been prepared in accordance with the full legal requirements designed to promote independence of research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

Additional information with respect to any security referred to herein may be made available on request. This material is for the general information of institutional and market professionals' clients of Standard Bank Group (SBG) only. Recipients who are not market professionals or institutional investor customers of SBG should seek advice of their independent financial advisor prior to taking any investment decision based on this communication or for any necessary explanation of its content. It does not take into account the particular investment objectives, financial situation or needs of individual clients. Before acting on any advice or recommendations in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The information, tools and material presented in this marketing communication are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments, nor shall it, or the fact of its distribution, form the basis of, or be relied upon in connection with, any contract relating to such action. This material is based on information that we consider reliable, but SBG does not warrant or represent (expressly or impliedly) that it is accurate, complete, not misleading or as to its fitness for the purpose intended and it should not be relied upon as such. The information and opinions contained in this document were produced by SBG as per the date stated and may be subject to change without prior notification. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update the material in this report on a timely basis, but regulatory compliance or other reasons may prevent us from doing so.

SBG or its employees may from time to time have long or short positions in securities, warrants, futures, options, derivatives or other financial instruments referred to in this material. Where SBG designates NON- INDEPENDENT Research to be a "marketing communication", that term is used in SBG's Research Policy. This policy is available from the Research Compliance Office at SBG. SBG does and seeks to do business with companies covered in its non-independent research reports including Marketing Communications. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

SBG has published a Conflicts of Interest Policy that is available upon request which describes the organisational and administrative arrangements for the prevention and avoidance of conflicts of interest. Further disclosures required under the FCA Conduct of Business Sourcebook and other regulatory bodies are available on request from the Research Compliance Department and or Global Conflicts Control Room, unless otherwise stated, share prices provided within this material are as at the close of business on the day prior to the date of the material. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of SBG. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of SBG or its affiliates.

SBG believes the information and opinions in the Disclosure Appendix of this report are accurate and complete. Information and opinions presented in the other sections of this communication were obtained or derived from sources SBG believes are reliable, but SBG makes no representations as to their accuracy or completeness. Additional information is available upon request. SBG accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to SBG.

The services, securities and investments discussed in this material may not be available to nor suitable for all investors. Investors should make their own investment decisions based upon their own financial objectives and financial resources and it should be noted that investment involves risk, including the risk of capital loss. Past performance is no guide to future performance. In relation to securities denominated in foreign currency, movements in exchange rates will have an effect on the value, either favourable or unfavourable. Some investments discussed in this marketing communication have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment, in such circumstances you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make them investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realize those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed.

This report is issued and distributed in Europe by Standard Advisory London Limited 20 Gresham Street, London EC2V 7JE which is authorised by the Financial Conduct Authority ("FCA"). This report is being distributed in Kenya by Stanbic Bank Kenya ; in Nigeria by Stanbic IBTC; in Angola by Standard Bank de Angola S.A.; into the People's Republic of China from overseas by the Standard Bank Limited; in Botswana by Stanbic Bank Botswana Limited; in Democratic Republic of Congo by Stanbic Bank Congo s.a.r.l.; in Ghana by Stanbic Bank Ghana Limited; in Hong Kong by Standard Advisory Asia Limited; in Isle of Man by Standard Bank Isle of Man Limited; in Jersey by Standard Bank Jersey Limited; in Madagascar by Union Commercial Bank S.A.; in Mozambique by Standard Bank s.a.r.l.; in Malawi by Standard Bank Limited; in Namibia by Standard Bank Namibia Limited; in Mauritius by Standard Bank (Mauritius) Limited; in Tanzania by Stanbic Bank Tanzania Limited; in Swaziland by Standard Bank Swaziland Limited; in Zambia by Stanbic Bank Zambia Limited; in Zimbabwe by Stanbic Bank Zimbabwe Limited; in UAE by The Standard Bank of South Africa Limited (DIFC Branch).

Distribution in the United States: This publication is intended for distribution in the US solely to US institutional investors that qualify as "major institutional investors" as defined in Rule 15a-6 under the U.S. Exchange Act of 1934 as amended, and may not be furnished to any other person in the United States. Each U.S. major institutional investor that receives these materials by its acceptance hereof represents and agrees that it shall not distribute or provide these materials to any other person. Any U.S. recipient of these materials that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this document, must contact and deal directly through a US registered representative affiliated with a broker-dealer registered with the U.S. Securities and Exchange Commission (SEC) and a member of the Financial Industry Regulatory Authority (FINRA). In the US, Standard Bank Group [SBG] has an affiliate, ICBC Standard Securities Inc. located at 520 Madison Avenue, 28th Floor, USA. Telephone +1 (212) 407-5000 which is registered with the SEC and is a member of FINRA and SIPC.

Recipients who no longer wish to receive such research reports should call +27 (11) 415 4272 or email SBGSEquityResearchSupport@sbgsecurities.com.

In jurisdictions where Standard Bank Group is not already registered or licensed to trade in securities, transactions will only be effected in accordance with the applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements.

Standard Bank Group Ltd Reg.No.1969/017128/06) is listed on the JSE Limited. SBSA is an Authorised Financial Services Provider and it also regulated by the South African Reserve Bank.

Copyright 2016 SBG. All rights reserved. This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Standard Bank Group Ltd.