



Entrenched slowdown

The slowdown in the housing market is now clearly entrenched, with a persistent deceleration in the growth of house prices. **In July, house price growth continued its downward trend, from 6.5% in June to 6.0% y/y – the lowest since December 2002.** The five-month moving average growth rate decelerated to 10.2% y/y from 12.4% y/y in June. The softening in the housing market corroborates the slowdown in consumer activity reflected in other indicators such as retail and car sales, which is expected to be aggravated by the moderately upward trend in interest rates. House prices are expected to consolidate at their current, elevated levels, which should still imply a reasonable average growth for the year, albeit sharply lower than before.

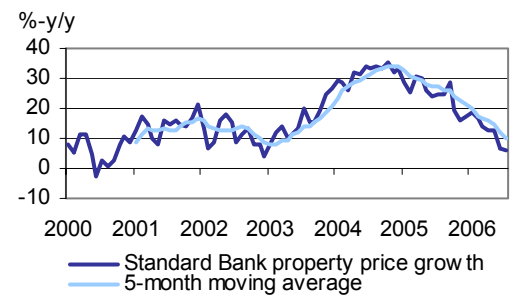
This slowdown was expected in the absence of fresh stimulus, but is aggravated by other factors curtailing households' discretionary spending: petrol prices are rising tonight to an all-time high of R7.04/l; food prices (food being the biggest spending item for most households) continue to rise sharply; and the Reserve Bank is expected to hike interest rates again this week by 0.5 percentage points (see Table 3), followed by an equal hike in October, which renders households' record-high debt burden increasingly expensive. At the same time, investors are losing their appetite for residential property investments as the deceleration in rental growth, combined with high house price growth and rising interest rates, underpins a deterioration in their yields. In other words, owner-occupants' ability to pay higher prices and investors' demand for buy-to-let properties have both declined noticeably.

Within the home loans market, the number of new individuals taking part in the market has declined slightly following the recent hike in interest rates in June. If interest rates are hiked again, as is expected to happen in August and October, activity in the mortgage market may decline further. A decreased level of activity in the housing market may signify a further slowdown in the growth of house prices.

Even though the new house price data for July continue the established downward trend in house price growth, it is important to keep in mind that **the way in which house prices are measured means that it is inherently volatile**, not unlike many other economic indicators. Apart from the challenges that are generally faced when constructing indices, measuring house prices is complicated by the fact that the available data usually stem from the properties sold during a particular period, rather than from a well-designed sample that is representative of all houses. This is aggravated by the heterogeneity of houses. Therefore the data need to be interpreted carefully, as changes in the measured prices may be the result of actual changes in the general price level; changes in the distribution of the houses being sold, for example more sales of luxury houses may push up the measured house prices even without changes in general prices; or the changes may simply be random.

Given these data challenges, **the international best practice is to use the median or middle price, rather than, say, the average house price.** The median is the price such that half of all houses are more expensive and half less expensive than that price. It is substantially less volatile and less sensitive to the typical problems

FIGURE 1: House prices - Standard Bank



Source: Standard Bank Group

TABLE 1: Stats at a glance

Indicator	Period	Data
Median house price	July 06	6% y/y
Median house price	YTD	12.4% y/y
Median house price	5m ma	10.2% y/y
Median house price	July 06	R530 000
Ratio of household debt to income	Q1 06	68.2%
Prime rate	June 06	11%
Mortgage advances	June 06	29.8% y/y

Source: Standard Bank Group

TABLE 2: House price data by province

Province	Median house price
Eastern Cape	R 410 000
Free State	R 410 000
Gauteng	R 550 000
KwaZulu Natal	R 517 500
Limpopo	R 528 500
Mpumalanga	R 485 500
North West	R 480 000
Northern Cape	R 382 500
Western Cape	R 560 000

Source: Standard Bank Group



found in house price data. **Standard Bank's data are therefore based on the median house price of the full spectrum of houses.** Furthermore, national data from the Deeds Office are available only with a relatively long lag of up to nine months, so current indicators of the housing market are usually based on a particular institution's experience. Data from Standard Bank, which has a market share of about 27.7%, and whose data are generally highly correlated with those of the Deeds Office, are a good proxy for the national market. Nevertheless, it should be kept in mind that the data are representative of Standard Bank's client base, and may therefore differ from the data of other institutions.

TABLE 3: Impact of interest rate change on mortgage payments

Loan	Monthly instalment		
	Prime 11%	Prime 11.5%	Change
R100 000	R1 032	R1 066	R34
R200 000	R2 064	R2 133	R68
R300 000	R3 097	R3 199	R103
R400 000	R4 129	R4 266	R137
R500 000	R5 161	R5 332	R171
R750 000	R7 741	R7 998	R257
R1 000 000	R10 322	R10 664	R342
R1 250 000	R12 902	R13 330	R428
R1 500 000	R15 483	R15 996	R514
R1 750 000	R18 063	R18 663	R599
R2 000 000	R20 644	R21 329	R685

Source: Standard Bank Group

Bottom line

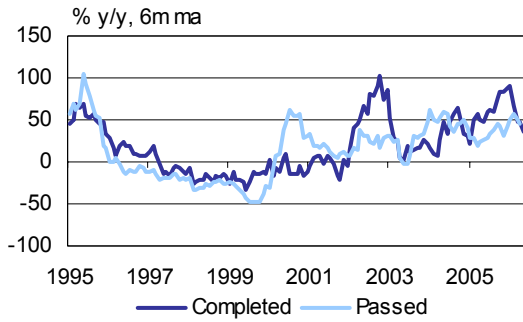
The deterioration in households' financial situations on the back of record-high indebtedness, an all-time low savings rate, record-high petrol prices and rising interest rates will constrain their ability to pay increasingly higher house prices. At the same time, investors' appetite for buy-to-let properties has declined following lower yields. House price growth will therefore be constrained in the short term.

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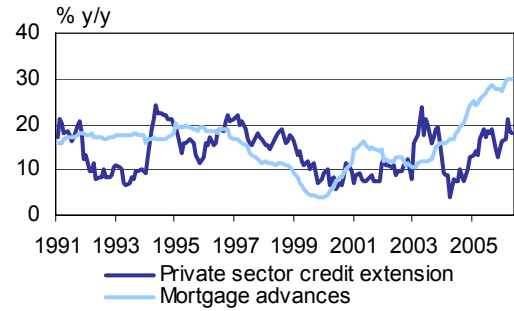
Picture Gallery

Figure 1: Buildings: Flats & townhouses



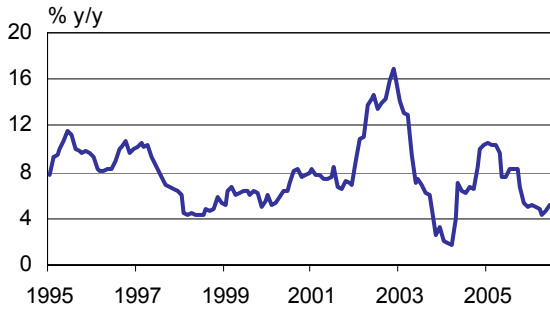
Source: StatsSA

Figure 2: Private sector borrowing



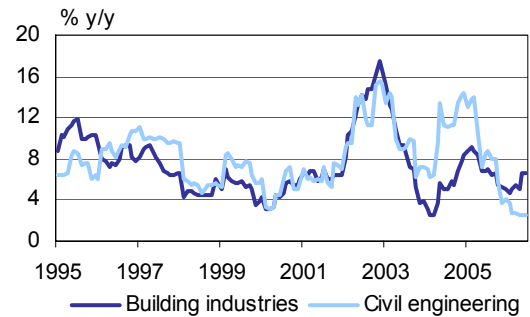
Source: SARB

Figure 3: Building cost: Building and construction



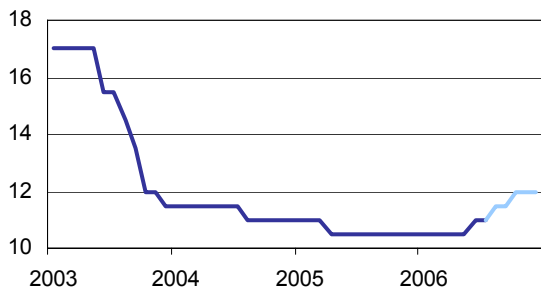
Source: StatsSA

Figure 4: Building cost: Building industries and civil engineering



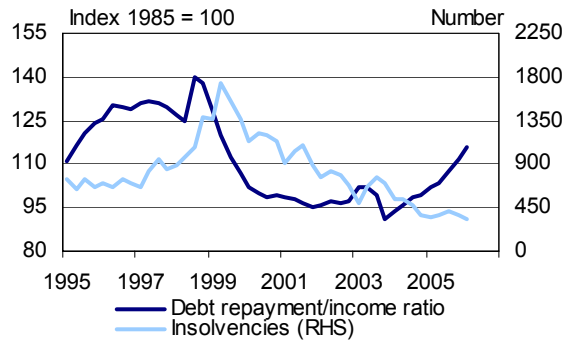
Source: SARB

Figure 5: Prime interest rate



Source: SARB, Standard Bank Group

Figure 6: Debt affordability vs insolvencies



Source: StatsSA, Standard Bank Group



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