BetterBond

PROPERTY BRIEF

MAY 2023

HIGHLIGHTS

45.3%

Share of approved bonds (April 2023) for homes costing less than R1 million

4.7%

Increase in average home price in SA for the 12 months to April 2023

12.5%

Average annual increase in value of building plans passed in larger metros of the Eastern Cape (2013-2022)

30%

Decline in average PPI between Q3 2022 and Q1 2023, signalling a drop in consumer inflation

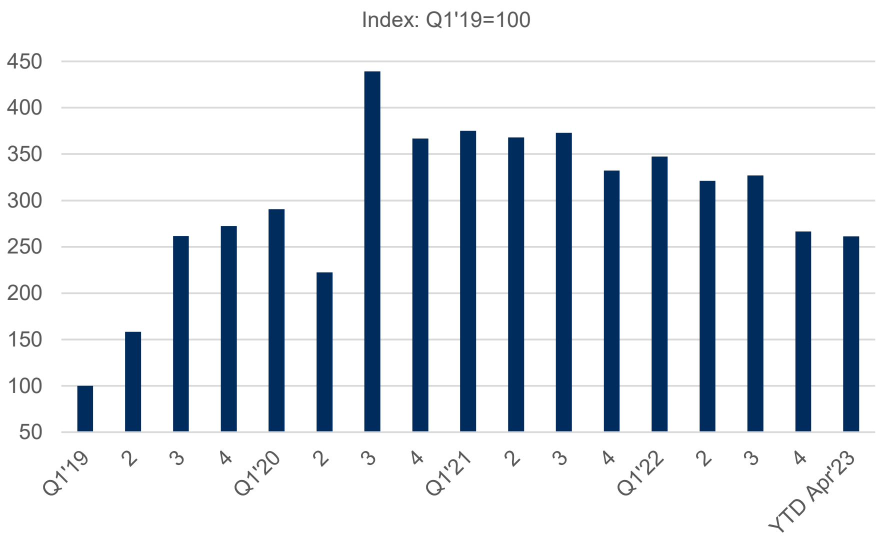
1 Total bond applications submitted

The first four months of 2023 saw a marginal improvement in the number of new home loan applications. However, the property market is likely to remain subdued until interest rates stabilise and start going down again.

The pandemic-induced dip in bond applications in Q2 2020 is plain to see on the graph below **(figure 1)**. So too, the spike that occurred immediately afterwards, due to pent-up demand and the initial easing of lockdown restrictions.

After that, the upward trend in home loan applications continued for another four quarters until a modest decline set in when the Reserve Bank started raising interest rates.

FIGURE 1

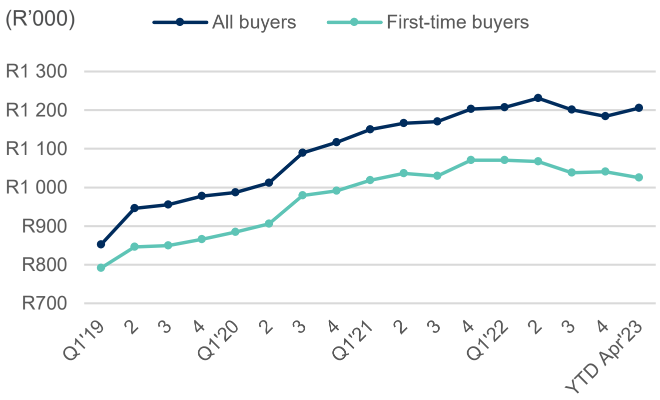


2 Average approved home loan value

The value of approved home loans staged a slight recovery during the first four months of this year with an increase of 1.8% over Q4 2022 **(figure 2, next page)**. Although modest, this rise demonstrates the resilience of homebuyers in South Africa, when viewed against the backdrop of a 60% increase in the prime lending rate during the current rate-hiking cycle of the Reserve Bank, which commenced in November 2021.

It is not entirely surprising, however, when considered along with figures showing the increase in formal sector employment that occurred in 2022, totalling more than 1.2 million jobs. **(Next page)**

FIGURE 2



Top 6 sectors for employment creation in 2022

	Thousands
Community & Social Services	462
Trade & Catering	402
Manufacturing	340
Finance & Real Estate	79
Construction	79
Mining	66

Source: StatsSA

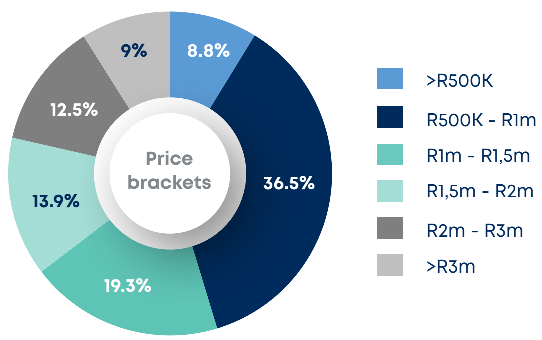
3 Percentage of formal home loans granted, per price bracket

The share of formal home loan grants in the three price brackets below R1.5 million declined during the 12 months ending April 2021, and during the 12 months ending April 2023, while the share of formal grants for homes above R1.5 million all increased. **(Figure 3)**

Higher income groups tend to be less sensitive to interest-rate rises and less dependent on home finance, thanks to alternate income sources, such as dividends, interest and capital gains on investments.

First-time homebuyers, conversely, are more sensitive to interest-rate rises and therefore the rising costs of home finance, which helps explain the declining trend in the value of home loan approvals for first-time buyers.

FIGURE 3

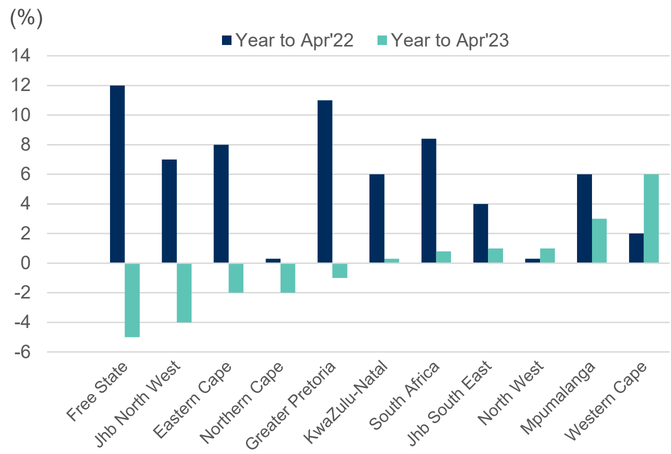


4 YOY change in regional average approved home loans

The 12-month period ending April 2022 saw vibrant activity in the residential property market, with every BetterBond region in the country recording positive YOY growth in average approved home loan values. **(Figure 4)**

On the back of an interest-rate hiking cycle that commenced in November 2021, this trend was not sustained during the 12 months that followed. A modest increase was, however, recorded for the country as a whole, and five BetterBond regions also managed positive YOY growth.

FIGURE 4



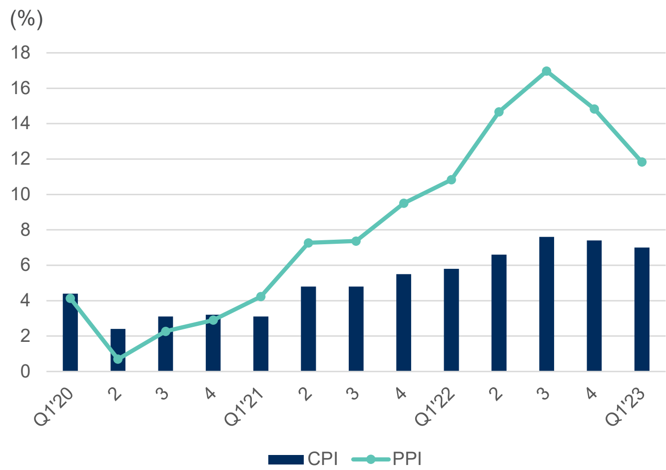
5 YOY change in quarterly average PPI and CPI

From the perspective of the residential property market, the latest reading of the Producer Price Index (PPI) is good news.

PPI is a leading indicator of consumer prices, as production travels along various value chains (logistics, wholesale, retail and other service industries), eventually to become part of household consumption.

In March, the PPI was 41% lower than in July 2022 **(figure 5)**, a clear indication that the CPI will continue on its downward trajectory, and hopefully signal the end of interest-rate hikes.

FIGURE 5



Source: StatsSA

Eastern Cape

The Eastern Cape is one of three coastal provinces – along with KZN and the Western Cape – benefiting from semigration in the residential property market.

As SA's second-largest province after the Northern Cape, the Eastern Cape is known for diverse wildlife and natural beauty, agriculture, manufacturing, and exports and imports.

Trade data from the Observatory of Economic Complexity shows Gqeberha exported more than R100 billion in goods last year – mainly motor vehicles, manganese and iron ores, catalytic converters and wool – and East London R50 billion.

Gqeberha is a key manufacturing hub, with multinationals including Coca-Cola, Anheuser-Busch InBev, Volkswagen, Ford, Continental and Goodyear having invested in local production facilities.

The city's Nelson Mandela University has more than 22,000 students enrolled.

Tsitsikamma National Park is home to the popular **Otter Hiking Trail**.

The **tallest flag** in South Africa towers 60m above a hill in Gqeberha.

Hole in the Wall is roughly midway between Port Edward and East London.

Addo Elephant National Park is SA's third largest, after Kruger and Kgalagadi.

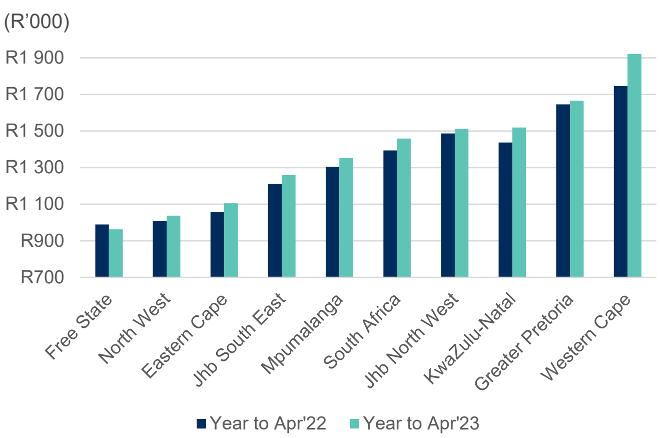
6 Average home purchase prices

In the 12 months ending April 2023, home prices rose in all regions with large metros **(figure 6)**.

The Eastern Cape recorded an impressive third place in nominal growth rate of home prices, benefiting from semigration.

Countrywide, the increase was 3.7% YOY – positive in the current environment of low economic growth and high interest rates.

FIGURE 6



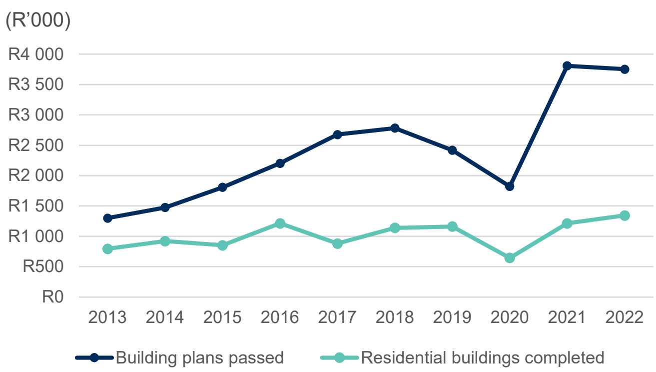
7 Eastern Cape value of residential building plans passed & completed

Building plans passed – an indicator of future properties coming to market – has doubled in value since the Covid-19 pandemic, and nearly trebled since 2013.

The value of residential building plans passed and residential buildings completed in larger municipalities of the Eastern Cape, both rose in the past three years (figure 7).

It is encouraging that the pre-pandemic slump in new residential construction, recovered to record highs in nominal terms, during 2022.

FIGURE 7



Economist's notes

Dr Roelof Botha
Economist

Affiliated with the Gordon Institute of Business Science (GIBS), Dr Botha is a seasoned commentator on economic issues, long-time advisor to the Optimum Investment Group and Currencies Direct, and former advisor to the National Treasury.

Inflation

Extraordinary circumstances have led to higher domestic and global inflation over the past 18 months.

- These factors make a compelling argument for the temporary lifting of the Reserve Bank target range, and lowering of interest rates.
- There is no sign of demand inflation – evident from lethargic GDP growth and real retail trade sales recording negative YOY growth for seven of the past 14 months.
- Declining real values of residential properties indicate absence of demand-led inflationary pressure. This market is in a sixth year of zero or negative real price growth.
- Total household credit extension has not recovered from pre-pandemic high real interest rates. In real terms, it remains below levels of a decade ago. Total value of outstanding home loan advances has declined more than 10% in real terms since 1998.
- Capacity utilisation in manufacturing remains below pre-pandemic levels. Unutilised capacity has risen above 20%. Factory owners attribute this to lack of demand. By hiking interest rates that lead to increased production costs, the Reserve Bank is arguably contributing to higher inflation.

Causes of inflation

1 Surge in shipping freight costs

Ongoing supply chain disruptions caused by the pandemic and exacerbated by the Russian invasion of Ukraine have shown the strategic economic importance of maritime container trade.

Our oceans carry more than 80% of traded goods by volume and 70% by value, globally.

Too few ships and explosive post-pandemic demand sent freight costs into orbit. The Statista Freight Rate Index shows costs soaring from $1,262 per container in Q3 2019 to $10,361 in Q3 2021, an increase of 721%.

These have now started normalising – declining by 83% from the 2021 peak, to below $2,000.

2 Currency depreciation

The rise in the value of the US dollar has taken its toll on many key currencies, including emerging markets. The South African Rand lost 23% in value between Q2 2021 and Q2 2023.

A currency cannot be weak on its own. The weakening Rand is related to dollar strength, mainly from the Federal Reserve hiking rates from close to zero to above 5%.

Comments in the recent announcement of a 25-basis-point increase in the US, suggest a turning point in its upward cycle.

Geopolitical risk will continue weighing on the performance of emerging market currencies like our Rand.

3 Energy prices

Pandemics and wars are not conducive to energy-market stability.

In just 17 months, Brent Crude Oil rose more than 50%. European natural gas prices increased nearly tenfold.

Since Q3 2022, energy prices started dropping: Brent Crude (25%), coal (52%), natural gas (81%).

Higher energy costs play out in inflation rates of most countries. Indirect effects may still be felt for months. In South Africa, we have the added cost of supplementing power supply.

Inflationary pressures easing, globally

The International Monetary Fund says global median inflation is coming down.

After its post-Covid-lockdown level of around 2% in early 2021, US inflation surged to more than 9% in June 2022, prompting the most restrictive monetary policy since 2007. Now, it has dropped for nine successive months to 5%, with good prospects for further normalisation.

SA has followed suit, and the Consumer Price Index is bound to move within the Reserve Bank target range by Q3 2023. With lower inflation on the cards, this should translate into lower interest rates later in this year.

Economist
Dr Roelof Botha

Contact us
Franki Robinson | BetterBond Marketing Manager | franki.robinson@betterbond.co.za

www.betterbond.co.za