

## **FNB House Price Index Improves Further**

The FNB House Price Index showed a second consecutive monthly improvement, rising 2,7% in December from a revised 1,4% (2%) in November. The index registered a -0,9% decline in October.

FNB said in a statement on Monday that the House Price Index average for 2009 showed a decline of -3,9% compared with the average value for the previous year. This is significantly worse than the +6,9% inflation of 2008, and a far cry from the +29,5% average price inflation registered in 2004, which proved to be the best year of last decade.

FNB said in a statement that while it had been a dismal 2009 as a whole, on a monthly basis the index pointed to steadily improving times as the year drew to a close.

On a cumulative basis, the index is 195,4% higher than the July 2000 level, the point at which the FNB House Price Index started at a level of 100. The average house value for the month of December was measured at R772,974.

FNB's property economists said the declining trend in consumer price inflation has almost ground to a halt, with the rate declining only slightly from 5,9% year-on-year (y/y) in October to 5,8% in November. Nevertheless, this slight decline in consumer price inflation, coupled with a more significant rise in nominal house price inflation, means that November saw a further diminishing in the rate of house price deflation in real terms - when house prices are adjusted for consumer inflation.

As at November, real year-on-year (y/y) house price deflation was -4,1%, less than the revised -6,1% rate of decline in the previous month and now far less than the May 2009 low point of a revised figure of -14,7%.

FNB added that when real prime rate is calculated by adjusting prime rate with the consumer price index, one sees a relatively stable real prime rate which measured 4,7% in November, only slightly up from 4,6% in October. This real rate is not overly high by modern day South African standards, and is significantly lower than the average real rate of 6,7% recorded since the beginning of 2002 at which stage official consumer price inflation targeting by the SARB started.

The consumer price-related real prime rate, however, is arguably less relevant to the residential property market's performance than the second measure, where house price levels are used to adjust prime rate into a real prime rate, FNB noted.

This measure is important because there is a group of potential property investors who will compare the prevailing cost of credit with current capital growth on housing in order to estimate their potential returns. Some, who may arguably be labelled as "speculators", seek to realise short-term profit in times when the cost of borrowing money is less than the short-term gains that one can make through owning and selling property. Around 2004/2005, a sharply negative real prime rate made such speculation a very popular pastime.

In December 2009, this second measure of real prime rate declined further from 9,1% in November to 7,8%, but this rate remains very high by comparison to the property boom years, and could hardly be seen as creating a speculator-friendly environment.

Primary residential demand and long-term investment demand should thus for the time being be the overwhelmingly dominant drivers of property demand, they said.