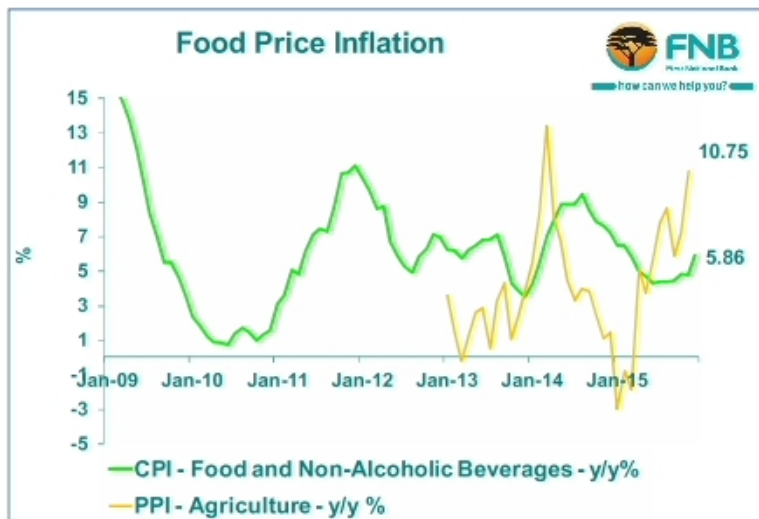


PROPERTY BAROMETER – DECEMBER CPI AND PROPERTY

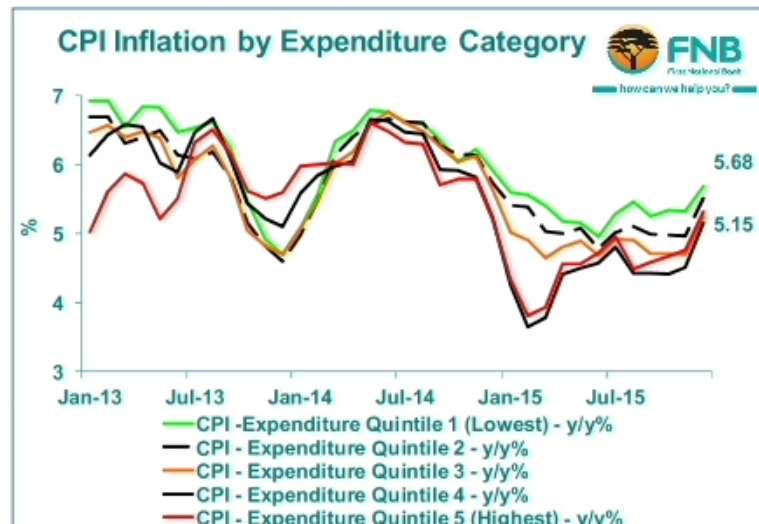
While the implication of the December CPI inflation data on interest rates is probably the most talked about, its implications for the housing market are broader than that.

21 January 2016

Yesterday's release of the December Consumer Price Index (CPI) inflation rate had, as always, implications for the housing market. The widely publicized year-on-year Headline CPI inflation rate rose from a previous month's 4.8% to 5.2% in December. Whilst this rise is not extreme yet, it keeps us expecting that the Reserve Bank will continue to gradually raise interest rates, and a further 25 basis point rise in its policy Repo Rate is anticipated at next weeks' Monetary Policy Committee (MPC) Meeting, to lift the Repo Rate to 6.5% and Prime Rate to 10%. That is the most obvious implication for the highly credit-driven housing market, and is expected to further cool growth in residential buying demand.

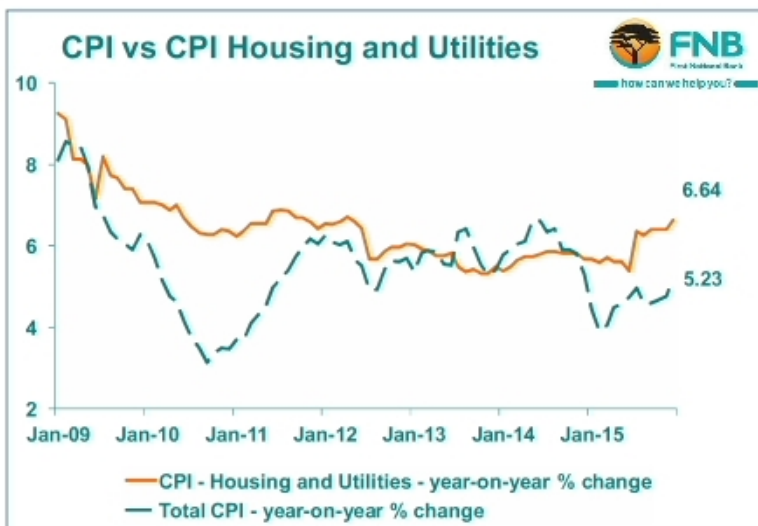


The less obvious implications regard the key drivers of the rise in CPI inflation. The widely expected rise in the Food component of the CPI inflation rate was in evidence, with the widespread national drought a key driver. From a previous month's 4.8%, the CPI for Food and Non-Alcoholic Beverages saw its year-on-year inflation accelerate to 5.9%. This is a sizeable jump, and given that the Producer Price Index (PPI) for Agriculture has already hit double digits, further acceleration in the CPI Food inflation rate is expected in the near term. Given the largely essential nature of food, and how it eats into disposable income, this can also negatively impact on the future ability of an aspirant home buyer's ability to acquire and service a mortgage loan, given the importance of both income and expenditure commitments in determining people's ability to service debt.



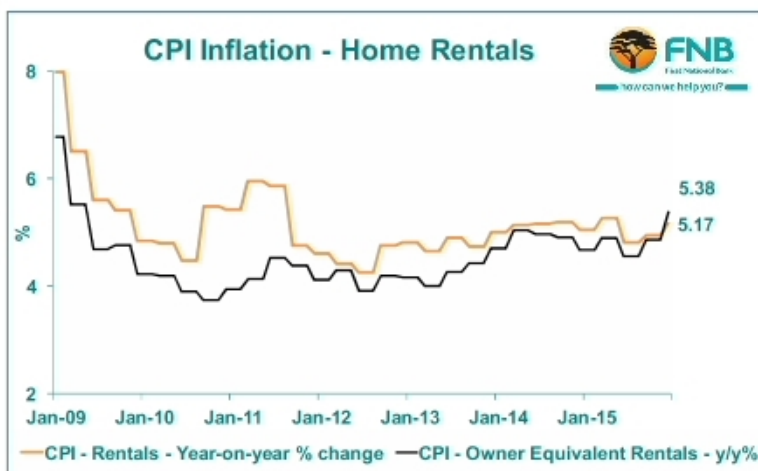
The more indirect impact of accelerating food price inflation can arise from the fact that it impacts more negatively on the lower income groups' CPI inflation rates at an economic time when these groups face already-high unemployment and income insecurity. With social tensions already elevated in South Africa, sharp rises in costs of essential items can be potentially "explosive", driving more aggressive wage demands and potentially being disruptive to an already-weak economy. All of these risks pose indirect risks to the economy-dependent housing market.

While all of the 5 Expenditure Quintiles (a good proxy for income groups) have seen their inflation rates rise recently, the Lowest Expenditure Quintile (i.e. the lowest 20% of spenders, which by and large should be those with the lowest incomes) still had the highest CPI inflation rate of all 5 quintiles, to the tune of 5.7%



But while much is being made of the acceleration in food price inflation, for the time being it remains the Housing CPI which is the most “troublesome” in terms of its contribution to the overall CPI inflation rate. The Housing CPI has the largest weighting in the headline CPI, and its inflation rate is higher than that of the Food and Non-Alcoholic Beverages CPI, measuring 6.6% in December, up from a previous month’s 6.4%. It thus contributed 1.6 percentage points to the overall 5.2% CPI inflation rate compared to the Food and Non-Alcoholic Beverages CPI’s 0.9 of a percentage point.

The Housing CPI’s main “culprits” are the Municipal Rates and Utilities’ Tariffs components, most notably electricity inflation. But those components were not surveyed in December. What is perhaps more interesting is that it was an acceleration in the CPI for Actual Rentals’ inflation rate, from a previous 4.9% to 5.2% in December, and the CPI for Owners’ Equivalent Rent, which saw an inflation rise from 4.9% to 5.4%.



The Residential Rentals Market thus caused the acceleration in the Housing CPI inflation rate in December, with rises in the inflation rates of the Houses and Townhouses sub-components. Is this finally some sign of strengthening in the rental market that we have been waiting for? We have expected some mild strengthening for a while, given that rising interest rates can conceivably cause a portion of aspirant home buyers to delay their purchase and go for the rental option instead, which in turn strengthens rental demand. It is early days, and this is only a small acceleration which is inconclusive to date. But further mild acceleration in the CPI Rental inflation rate in 2016 is possible. Should this play out, along with expected slowing home buying

growth and thus house price growth, this could lead to the start of some rise in Residential Property rental yields, which would raise the attractiveness of buying to let in future.

The “odd man out” in the Housing CPI was the Home Maintenance and Repairs CPI, whose inflation rate slowed even further from 1.6% previous to 1.2% in December. This may point to a possible weakening in the levels of home maintenance and repairs, or at least the growth therein, as economic times get tougher, reducing the pricing power of the Maintenance and Repairs Sector.

In short, the CPI picture at present is mildly negative for the Residential Buying Market, but may be pointing to small signs of improvement in the Residential Rental market.

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Consumer Inflation - Key Components

	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15
Key CPI Inflation Measures						
CPI - All Urban Areas	116.1	116.1	116.1	116.4	116.5	116.8
<i>Y-o-Y % Change</i>	5.0	4.6	4.6	4.7	4.8	5.2
CPI - All Goods	114.8	114.9	114.3	114.7	114.8	114.9
<i>Y-o-Y % Change</i>	4.1	3.6	3.6	3.7	3.8	4.6
CPI - All Services	117.3	117.3	117.9	118.0	118.2	118.6
<i>Y-o-Y % Change</i>	5.7	5.6	5.6	5.6	5.7	5.7
CPI - Very low expenditure group	115.4	115.9	116.1	116.4	116.8	117.2
<i>Y-o-Y % Change</i>	5.3	5.5	5.3	5.3	5.3	5.7
CPI - Low expenditure group	115.0	115.4	115.6	115.9	116.2	116.7
<i>Y-o-Y % Change</i>	5.0	5.1	5.0	5.0	5.0	5.5
CPI - Middle expenditure group	115.1	115.4	115.5	115.7	116.0	116.4
<i>Y-o-Y % Change</i>	4.9	4.9	4.7	4.7	4.7	5.2
CPI - High expenditure group	115.6	115.6	115.6	115.8	115.9	116.3
<i>Y-o-Y % Change</i>	4.8	4.4	4.4	4.4	4.5	5.2
CPI - Very High expenditure group	116.4	116.3	116.3	116.6	116.7	117.0
<i>Y-o-Y % Change</i>	5.0	4.5	4.6	4.7	4.8	5.3

Consumer Inflation - Housing - Related Components

	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15
Key CPI Housing and Related Measures						
CPI - Housing and Utilities	117.0	117.0	118.0	118.0	118.0	118.9
<i>Y-o-Y % Change</i>	6.4	6.3	6.4	6.4	6.4	6.6
CPI - Actual housing rentals	113.2	113.2	114.7	114.7	114.7	116.0
<i>Y-o-Y % Change</i>	4.8	4.8	4.9	4.9	4.9	5.2
- Houses	112.1	112.1	113.6	113.6	113.6	114.9
<i>Y-o-Y % Change</i>	4.4	4.4	4.6	4.6	4.6	5.0
- Townhouses	114.1	114.1	115.7	115.7	115.7	117.1
<i>Y-o-Y % Change</i>	4.8	4.8	5.3	5.3	5.3	5.6
- Flats	114.8	114.8	116.5	116.5	116.5	117.4
<i>Y-o-Y % Change</i>	5.6	5.6	5.5	5.5	5.5	5.2
CPI - Owner occupied housing rentals	112.5	112.5	114.1	114.1	114.1	115.5
<i>Y-o-Y % Change</i>	4.6	4.6	4.9	4.9	4.9	5.4
- Houses	112.3	112.3	113.9	113.9	113.9	115.3
<i>Y-o-Y % Change</i>	4.6	4.6	4.8	4.8	4.8	5.4
- Townhouses	114.4	114.4	116.1	116.1	116.1	117.6
<i>Y-o-Y % Change</i>	4.8	4.8	5.4	5.4	5.4	5.8
- Flats	115.0	115.0	116.3	116.3	116.3	117.4
<i>Y-o-Y % Change</i>	5.2	5.2	5.1	5.1	5.1	4.8
CPI - Home Maintenance and Repairs	110.9	110.8	111.1	110.8	110.7	110.4
<i>Y-o-Y % Change</i>	2.3	1.9	1.8	1.9	1.6	1.2
CPI - Housing - Water and other services	128.7	128.7	128.7	128.7	128.7	128.7
<i>Y-o-Y % Change</i>	10.0	9.8	9.8	9.8	9.8	9.8
CPI - Housing - Electricity and other fuels	127.7	127.7	127.7	127.7	127.7	127.7
<i>Y-o-Y % Change</i>	11.3	11.1	11.1	11.1	11.1	11.1

Consumer Inflation - Key Product and Service Categories

	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15
Key CPI Product and Service Categories						
CPI - Housing and Utilities	117.0	117.0	118.0	118.0	118.0	118.9
<i>Y-o-Y % Change</i>	6.4	6.3	6.4	6.4	6.4	6.6
CPI - Food and Non-Alcoholic Beverages	114.5	115.4	115.5	116.1	116.8	117.5
<i>Y-o-Y % Change</i>	4.4	4.3	4.4	4.8	4.8	5.9
CPI - Alcoholic Beverages and Tobacco	122.6	122.8	122.9	123.1	123.3	122.8
<i>Y-o-Y % Change</i>	8.9	8.8	8.7	7.4	7.0	6.6
CPI - Clothing and Footwear	112.6	113.2	113.6	113.9	114.4	114.7
<i>Y-o-Y % Change</i>	5.6	5.3	5.0	4.6	4.5	4.5
CPI - Household Contents and Equipment	108.1	108.4	108.8	108.9	108.9	109.4
<i>Y-o-Y % Change</i>	2.3	2.7	2.7	3.0	3.1	3.5
CPI - Health	116.7	116.7	116.8	117.4	117.2	117.3
<i>Y-o-Y % Change</i>	5.9	6.2	5.9	5.9	5.7	6.3
CPI - Transport	113.1	111.8	110.0	110.5	109.9	110.1
<i>Y-o-Y % Change</i>	0.8	-0.7	-0.8	-0.6	0.0	1.9
CPI - Communication	99.6	99.7	99.7	99.6	99.6	99.6
<i>Y-o-Y % Change</i>	-0.7	-0.8	-0.7	-0.7	-0.7	0.2
CPI - Recreation and Culture	107.7	108.1	108.0	108.7	109.2	108.8
<i>Y-o-Y % Change</i>	2.2	2.4	2.3	2.9	3.1	2.6
CPI - Education	129.5	129.5	129.5	129.5	129.5	129.5
<i>Y-o-Y % Change</i>	9.3	9.3	9.3	9.3	9.3	9.3
CPI - Restaurants and Hotels	119.0	119.6	120.1	120.8	122.1	122.2
<i>Y-o-Y % Change</i>	5.9	5.5	5.0	5.2	5.2	5.0
CPI - Miscellaneous	122.3	122.4	122.3	122.4	122.3	122.3
<i>Y-o-Y % Change</i>	7.0	7.0	7.0	7.0	6.8	6.7