



APRIL 2024

HIGHLIGHTS



QOQ increase in home loan applications



Average home purchase price for first-time buyers



Average national home loan for first-time buyers



YOY increase in the average home purchase price in the Eastern Cape

1 BetterBond index of home loan applications

The first quarter of 2024 was characterised by a further consolidation of home loan activity, following a consistent decline that kicked in when the Reserve Bank’s Monetary Policy Committee (MPC) decided to start raising interest rates at the end of 2021. At 11.75%, the prime overdraft rate remains at its highest level in 14 years, despite the absence of demand inflation. This overly restrictive monetary policy stance continues to hamper the residential property market. Despite a YOY decline of 8% in the BetterBond Index of home loan applications during the first quarter of the year, the QOQ reading (**figure 1**) saw a welcome increase of 7.8% – a sign that the market may be on the verge of a comeback, in anticipation of lower interest rates.

FIGURE 1



2 Average home purchase price

Home prices continued to recover during the first quarter of the year, with the YOY growth rates for both first-time buyers and repeat buyers reaching their highest levels since Q4 of 2021 (**figure 2**). With growth of 7.2%, the average home price for all buyers was significantly higher than inflation during Q1 of 2024. It was also the second successive quarter that average home prices have increased in real terms – suggesting that a more robust growth phase is around the corner. All that is required for this to happen is a relaxation of monetary policy, which may occur in May.

FIGURE 2



3 Regional composition of average bond value – all buyers and FTBs (12 months to Mar 2024)

During the 12 months ended March 2024, average home loan values managed to increase in four of the nine regions covered by BetterBond (figure 3), with the national average also increasing, albeit marginally. These trends are indicative of a bottoming out of the slowdown in the residential property market ever since interest rates started to increase at the end of 2021. The largest regional differential between home loans for first-time buyers and all buyers occurred in the Eastern Cape (26.3%) and the lowest differential was in Johannesburg North West (9.4%). The highest average home loan for first-time buyers was in the Western Cape (R1.32 million), which was 83% higher than for the Eastern Cape (R719,000).

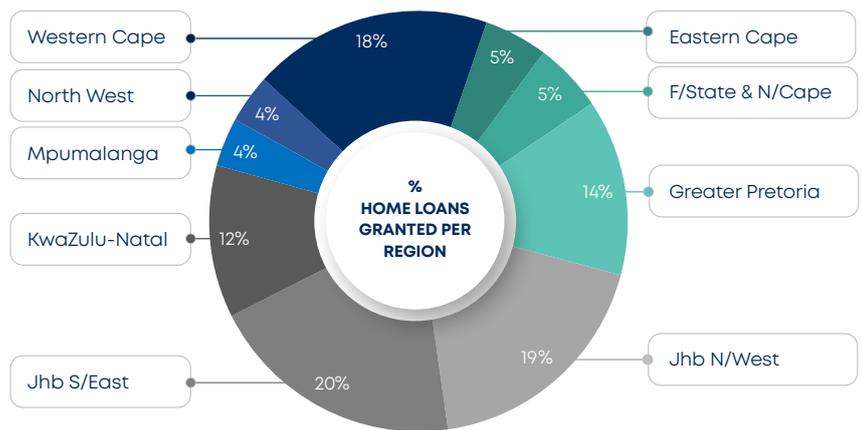
FIGURE 3



4 Regional composition of home loans granted – all buyers (12 months to Mar 2024)

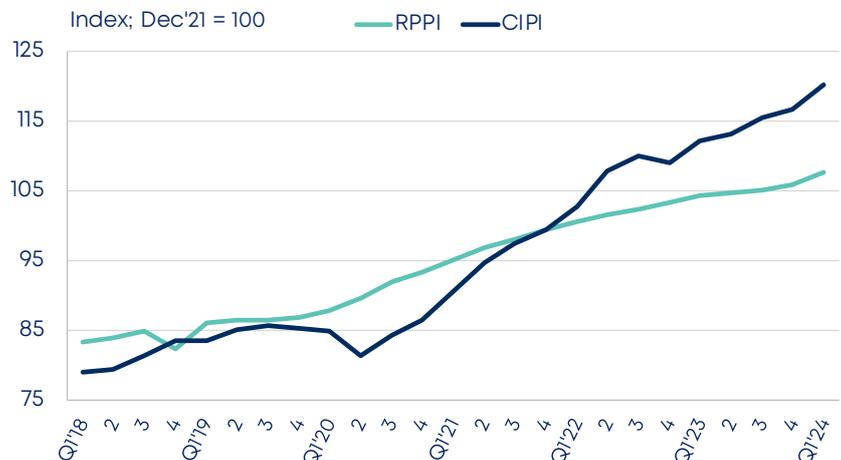
Johannesburg's two regions, combined with the Western Cape, continue to boast the lion's share of home loan activity, with 57% of all home loans granted during the 12 months to March 2024 (figure 4). The YTD figure recorded in March was marginally higher than in February (0.5%), providing further proof of a bottoming out of the residential property market, in anticipation of lower interest rates. In line with the trend for average home loan values, four of the regions covered by BetterBond, as well as the national total, experienced QOQ increases in the number of home loans granted for the 12 months ended March 2024, while a further four regions only recorded declines of less than 1%.

FIGURE 4



5 Residential property price index (RPPI) and construction input price index (CIPI)

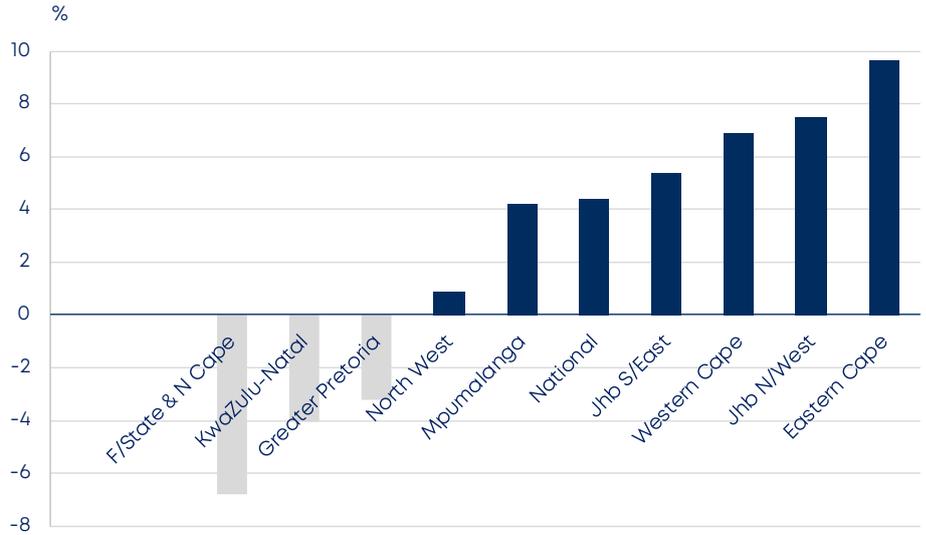
During the first quarter of 2024, the increase in the CIPI, published by Statistics SA, continued to outpace the RPPI by a wide margin (figure 5), indicating a deepening of the current buyers' market. Looking ahead, the consistent decline in the producer price index (PPI) to a level of below 5% bodes well for an eventual decline in the CIPI. It is also encouraging to note that the QOQ increase of 1.8% in the RPPI is the highest since Q2 of 2021. Any further increases of this magnitude could be indicative of a turnaround in the residential property market.



6 Percentage change in average home prices by region (12 months to Mar 2023 & 2024)

During the 12 months to March 2024, average home prices in three regions managed to outperform the consumer price index (CPI), with the Eastern Cape the stand-out region at a YOY growth rate of 9.6% (figure 6). The national average increase in home prices for all buyers was 4.4%, marginally below the current inflation rate of 5.6%. Although the Greater Pretoria region has been experiencing home price declines, it remains the second priciest region, with an average home price of R1.64 million, just above Johannesburg North West at R1.62 million. The Western Cape still leads the pack by a considerable margin at an average home price of R2.05 million.

FIGURE 6



7 Percentage home loans granted per home price bracket

Since the Reserve Bank's MPC decided to lift South Africa's prime rate (via the so-called repo rate) from 7% towards the end of 2021 to the current level of 11.75%, residential property market activity has been relatively subdued. This phenomenon is particularly evident for prospective homebuyers in the price range below R1 million (figure 7) – a clear indication that restrictive monetary policy is having a more pronounced negative impact on lower income groups. Since Q1 of 2022, the share of home loans granted for homes under R1 million has declined by 12.1%, compared to an increase of 16.8% in the share for homes priced at more than R2 million.

FIGURE 7



Economist's notes



Dr Roelof Botha | Economist

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5.9%

Annualised increase in the food price index



3.4%

Strengthening of the rand/\$ exchange rate between 27 Feb - 8 Apr 2024

Further decline in food price index

Although the consumer price index (CPI) crept up marginally from 5.3% in January to 5.6% in February, it is still within the Reserve Bank's target range for inflation and is way below the 7% recorded in February last year (figure 8).

FIGURE 8 Food & beverages consumer price index



Prospects for inflation resuming its downward trend have improved considerably, due to the exceptionally good news relating to the price levels for food (including non-alcoholic beverages) and alcoholic beverages. An analysis of the February CPI data over the past 18 months shows a consistent decline in the food price index. The latter has a significant impact on the overall price level as food and beverages comprise more than 21% of the weighting of the CPI basket.

The producer price index (PPI) also dropped exactly on the mid-point of the Reserve Bank's inflation target (4.5%) and any further downward movement in the PPI and the food price index will almost certainly serve to pull back the overall CPI again. With a bit of luck, interest rates will start to drop at the MPC's next meeting (in May).

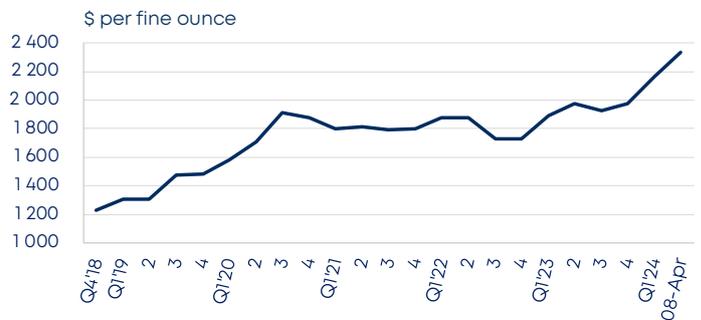
Gold price surges to new record

The year 2024 has witnessed a relentless rise in the gold price, with the precious metal breaking new records on a regular basis to reach an all-time high of \$2,300 per fine ounce on 8 April (figure 9). Traditionally, an inverse relationship exists between US interest rates and the gold price, which is at play again, with the yield on 10-year US government bonds having dropped by 67 basis points since mid-October last year.

Of late, however, this yield has recovered marginally, which makes the continued rise in the gold price even more impressive. Other reasons for the surge in the gold price include the heightened geopolitical tensions in various parts of the world, the sluggishness of the Eurozone economy, and the sharp increase in global central bank purchases of gold, as these institutions start diversifying away from forex assets.

The implications for South Africa of the higher gold price are profound and should not be underestimated. It comes at a time when the country's other three key mining sector export earners are battling with lower prices and logistics challenges emanating from Transnet.

FIGURE 9 Gold price (quarterly average)



In addition to boosting mining sector profits and easing the pressure on the public finances, a higher gold price is more often than not associated with domestic currency strength, which will go a long way towards a further lowering of inflation, and ultimately also lead to a lowering of interest rates.

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