



JULY 2023

HIGHLIGHTS

R1.48 million

Average approved home loan in the Western Cape

41%

The Johannesburg share of home loans granted to first-time buyers, nationally

8%

Increase in share of home loans granted for purchase prices below R500,000

60%

Decline in producer prices since July 2022 peak

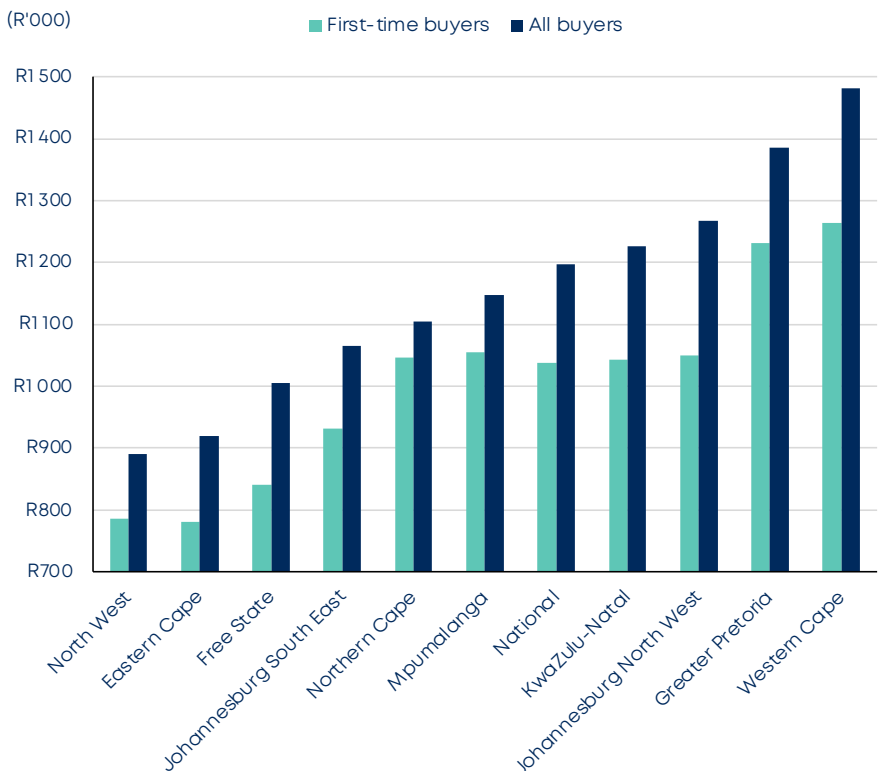
1 Average home loan value, per region (12 months to June 2023)

Despite home loan application volumes coming down during the current Reserve Bank rate-hiking cycle, average home loan values have held their own. Compared to the previous 12-month cycle, the average home loan granted for all buyers was unchanged, and for first-time homebuyers declined only marginally (by 2%).

The average home loan for all buyers is currently just below R1.2 million, and for first-time buyers marginally above R1 million. This means the latter group of homebuyers is maximising the government's increased transfer duty threshold, which was moved up to R1.1 million in February 2023.

When we compare BetterBond regions across the country, average home loan values are 67% higher for all buyers and 61% higher for first-time buyers in the top-performing Western Cape, versus the North West province, at the bottom of the list (figure 1).

FIGURE 1



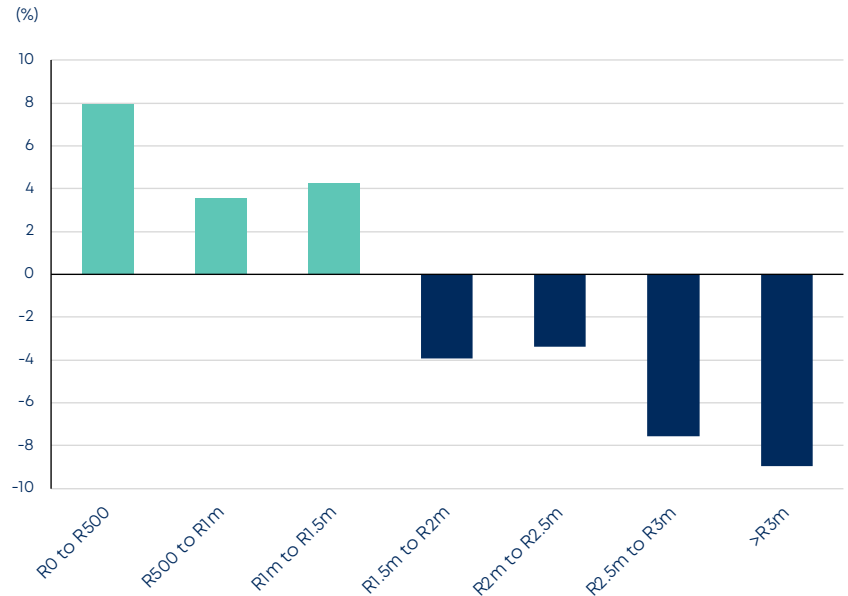
2 Month-on-month % change in share of home loan grants per price bracket (May 2023 to June 2023)

With interest rates at their highest levels in 15 years, it is not surprising that property market activity has become more subdued.

Apart from an expected dip in the rate at which new home loan applications are being submitted, another predictable trend has been higher levels of homebuying activity in the lower price brackets.

Between May and June this year (figure 2), the share of home loans granted for properties costing less than R1.5 million has increased, while buying in all price brackets above R1.5 million has decreased. The biggest drop has been for homes priced above R3 million.

FIGURE 2



3 Home loans granted, per region (12 months to June 2023)

During the 12 months to June 2023, Gauteng continued to dominate home loan financed buying, with BetterBond's Greater Pretoria and two Johannesburg regions accounting for more than 50% of all home loans granted, to all buyers (figure 3) and first-time buyers (figure 4).

In terms of both groups of homebuyers, the Western Cape and KwaZulu-Natal recorded the next best levels of activity, respectively.

In the current macroeconomic environment of subdued growth and higher debt-servicing costs, the property market is likely to remain somewhat constrained. However, the sharp decline in the Producer Price Index (PPI) is bound to filter through to the Consumer Price Index (CPI), which may lead to lower interest rates later this year or early in 2024.

FIGURE 3

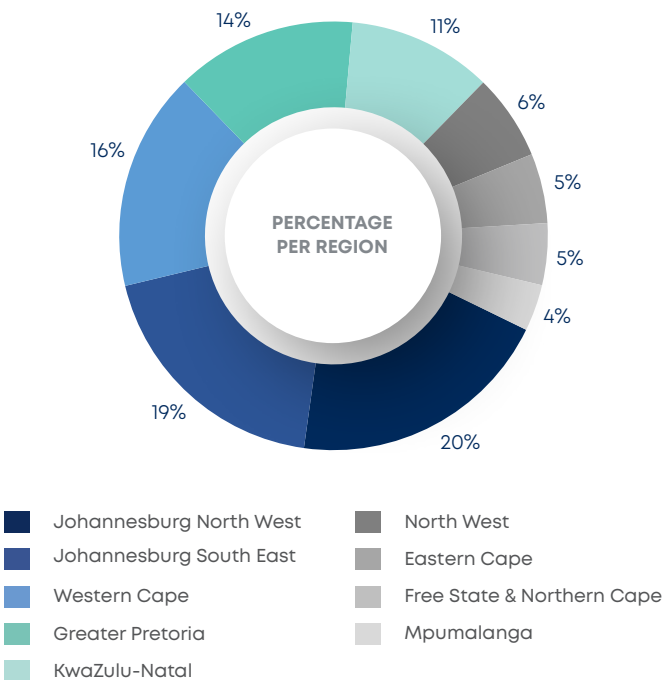
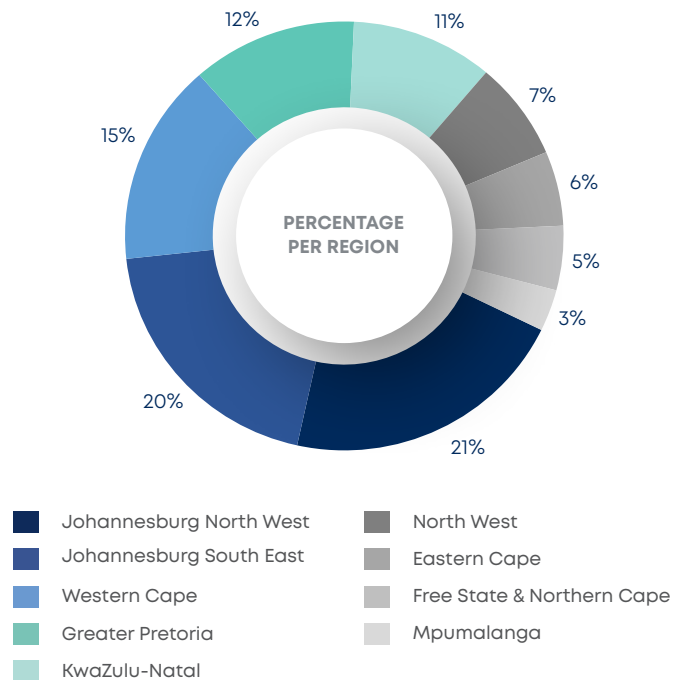


FIGURE 4

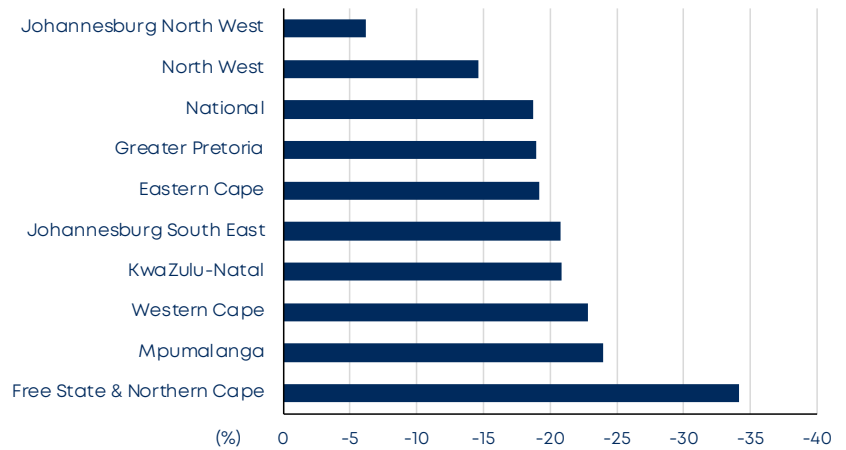


4 % change in number of home loan applications by first-time buyers, per region (12 months to June 2023)

Higher interest rates lead to subdued property markets and this is true for South Africa too, where a downward trend in new home loan applications has kicked in.

On a regional basis, the declining trend in home loan applications from first-time buyers shows a fairly large divergence. BetterBond's Johannesburg North West region is still doing quite well (figure 5) and improving the national average.

FIGURE 5



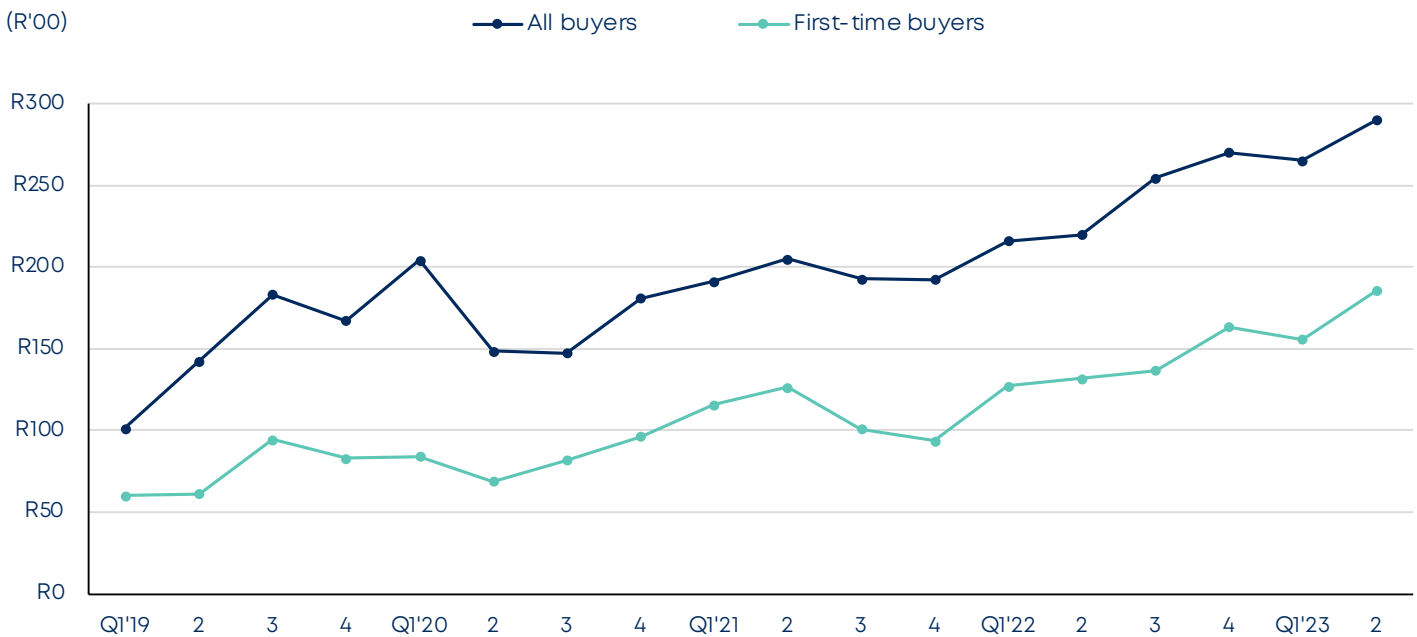
5 Average deposit amount for home purchases

When the cost of servicing debt increases at the pace at which it has been over the past 18 months, banks understandably become more cautious about borrowers' ability to repay their debt.

That is why we have seen a predictable increase in the average deposit required to purchase a home – especially for first-time buyers, who are younger, on average, than all buyers, and often do not command the same levels of income.

For first-time buyers, the average deposit required has virtually doubled to a level of R155,000 over the past six quarters (figure 6).

FIGURE 6



% increase in deposit required for homebuyers prior to, and after, interest rate hikes

	All buyers	First-time buyers
Q4 2019 – Q4 2021	15%	13%
Q4 2021 – Q2 2023	51%	98%

Free State & Northern Cape

This month, our focus is on the provinces of the Free State and the Northern Cape. For reporting and operational purposes, BetterBond groups these two into one region.

Free State

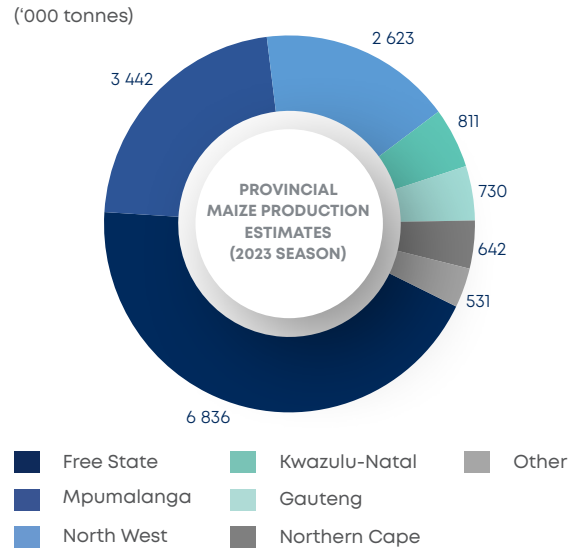
Two of the Free State's outstanding characteristics are its unrivalled contribution to South Africa's staple food production and its location, sharing boundaries with six other provinces and the Kingdom of Lesotho.

The Free State provides access for contractors to the vast Lesotho Highlands Water Project, which captures, stores and releases water into the Vaal River system, supplying the industrial heartland of Gauteng.

With a sharp decline in rail transport, the province has become a crucial hub for road freight – especially the Harrismith node on the N3, and the N8 corridor.

Agriculture

In the current harvest season, the Free State is forecast to supply 48% of national maize production. Its contributions to the national sunflower seed (57%) and soya bean (47%) harvests are also significant. South Africa is a net exporter of maize, thanks to this province.



SOURCE: DEPARTMENT OF AGRICULTURE, FORESTRY AND FISHERIES



Northern Cape

Astronomers the world over know exactly where the Northern Cape is! To them, this sparsely populated province is home to the MeerKAT (aka the Karoo Array Telescope), 90km outside Carnarvon in an area with few interfering radio emissions.

This location allows for minimum interference when picking up radio waves from stars, galaxies and other celestial objects, to help form a picture of our universe. The MeerKAT is South African designed. In its final phase, its 197 dish antennae will be 100 times more sensitive than any radio telescope in existence today.

Mining

The Minerals Council of South Africa reports that the Northern Cape produces 95% of our country's diamonds, 84% of its iron ore and possesses 80% of the world's manganese resources. Several rare earth minerals have also been discovered at Zandkopsdrift, which has attracted the interest of investors.

Agriculture

- An estimated 45,000 people are employed in agriculture in this province.
- Production occurs along defined corridors, especially in the Orange River Valley and the Vaalharts Irrigation Scheme around Hartswater and Jan Kempdorp.

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.

From the perspective of the economy and electricity, June was a considerably better month than May. On top of the predictable recovery of the rand exchange rate, the power-cut reprieve during most of June was a welcome bonus.

The sharp decline in the occurrence of electricity rationing was due to a fortuitous combination of lower demand and higher supply. South Africans appear to be using energy more efficiently, and progress with a switch to renewable energy is gaining momentum.

Although it will take several years to fix the energy challenges caused by state capture and corruption, several initiatives have recently been undertaken to improve the availability of electricity. This includes the announcement of a public-private partnership model to accelerate the building of grid infrastructure valued at R210 billion.

Inflationary pressures easing, globally

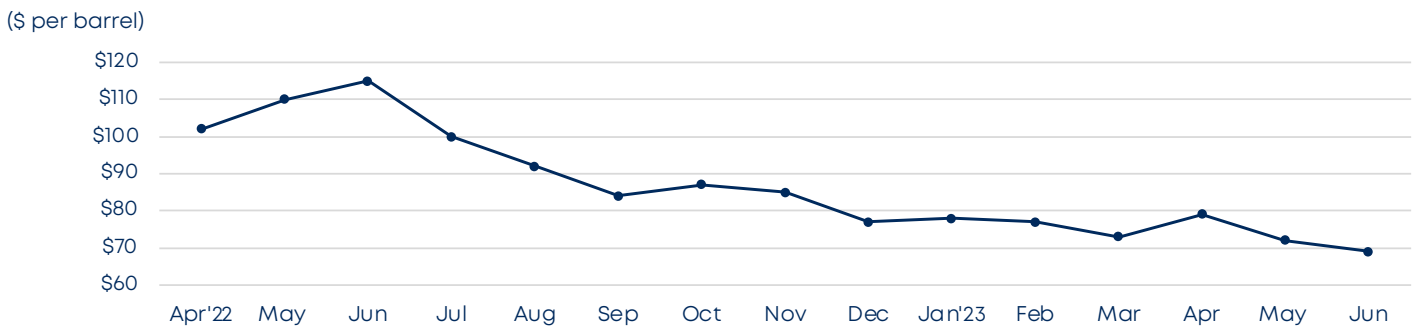
From the perspective of consumers who are feeling the brunt of the Reserve Bank's unyielding focus on an unrealistic inflation target range, the best news was the further drop in the rate of both Consumer Price Index (CPI) and Producer Price Index (PPI).

Prospects for an end to the current rate-hiking cycle by the hawkish Reserve Bank Monetary Policy Committee received a further boost with the decline in May of PPI, to a level of 7.3%. Producer prices feed into the CPI and the PPI is now almost 60% lower than at its peak of July 2022.

Oil price continues to drop

The consistent decline in oil prices is one of the main reasons for lower domestic and global inflation. Despite Saudi Arabia's best intentions to curb this downward trend via reductions in output, lethargic world growth and stagnant manufacturing activity in China have conspired to place significant downward pressure on oil prices. Over the past 12 months, the price of West Texas Intermediate oil has declined by 40% (figure 7), which is exceptionally good news for South Africa, which relies heavily on imported oil.

FIGURE 7



SOURCE: WORLD BANK, TRADING ECONOMICS

Positive GDP growth

More good news, was the announcement by Statistics SA of a positive GDP growth rate for Q1 2023, albeit only marginal. Two key sectors of the economy have provided a mainstay against sluggish economic growth, namely wholesale trade and manufacturing, both of which are steaming ahead. With a bit of luck, the property market will start to benefit from lower interest rates before year end.

Economist
Dr Roelof Botha

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