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# HUMAN SETTLEMENTS ENVIRONMENTAL SCANNING AND ANALYSIS

DEVELOPMENTS IN THE ECONOMY AND THEIR IMPACT ON  
HOUSING DEVELOPMENT

Volume 2

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# **ENVIRONMENTAL SCANNING: DEVELOPMENTS IN THE GLOBAL AND LOCAL ECONOMY AND THEIR IMPACT ON HOUSING DEVELOPMENT**

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## **1. INTRODUCTION**

The human settlements environmental scanning report is a quarterly publication focusing on developments in the global and local economy, building sector as well as residential property market and their potential impact on housing development. This report is compiled by Governance Frameworks, Research Directorate of the Department of Human Settlements using various sources that comprise Statistics South Africa, Bureau for Economic Research, building material retailers, document analysis, surveys and interviews with key players in the construction industry. The publication is intended for practitioners and stakeholders in the human settlements sector. It provides an analysis of trends relating to developments in the global and local economy, the state of the building industry, the residential property market and how these affect the mandate of the Department of Human Settlements.

The impact of global economic developments in South Africa is analysed using variables such as GDP growth, inflation, interest rates, access to credit, credit defaults and rate of unemployment. Analysis of developments in the building industry includes comparative analysis of the cost of building materials, building plans passed, etc. An analysis of developments in the residential property market is also discussed focusing mainly on the affordable market.

Furthermore business and consumer confidence indices are utilised to determine future developments in the economy and construction industry. Implications are drawn on how these could weaken or strengthen the implementation of policies and programmes of the Department of Human Settlements.

## **2. GLOBAL ECONOMIC DEVELOPMENTS**

According to the International Monetary Fund's (IMF), the first months of 2015 have been increasingly challenging for the global economy, leading to some significant adjustments in The Conference Board Global Economic Outlook. The changes are to a large extent the result of greater volatility and uncertainty, and they present a higher risk for the global

economy in 2015. The rapid decline in oil prices and quick adjustments in exchange are examples of the economic factors at play. In addition, there is increased geopolitical uncertainty related to the Russia-Ukraine and Middle East conflicts, as well as increased concern about the economic and political future of the Euro Area and European Union.

As a result of these factors, significant adjustments to the global economic outlook for 2015 released in November had to be made. While the overall global real GDP growth average is projected to be 3.3%, the global average reflects a combination of upsides and downsides. Downward revisions are primarily due to a major GDP decline in Russia (from +0.8 to -3.5%) and moderate declines in the Euro Area (1.6 to 1.4%), Japan (1.1 to 0.6%), and Brazil (1.5 to 0.5 %). Upward revisions include the United States (2.6 to 2.9 percent), Mexico (2.8 to 3.5 percent), and India (5.5 to 5.9 percent). The adjustments to India, however, do not reflect the recent substantial statistical upward revisions in India's GDP growth measures, the reliability of which is still debated.

The United States will continue to register stronger growth than its peers, but the expansionary phase will show signs of maturing, causing a moderation in profitability and a variety of cost pressures. European economies have more scope to recover, and the recently announced Quantitative Easing (QE) <sup>1</sup> program may help improve business and consumer confidence, and the weakened euro could help offset negative effects from slower exports to emerging markets.

However, Europe's dysfunctional policy environment to accelerate growth through investment and reforms could make the recovery look moderate compared to the United States. China will continue its "soft fall" growth trajectory, as already limited government stimuli will have less effect despite recent monetary easing, and expose the weakening of China's creditworthiness more clearly. Other major emerging markets will continue to grow,

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<sup>1</sup> **Quantitative Easing (QE)** is an unconventional form of monetary policy where a Central Bank creates new money electronically to buy financial assets, like government bonds. This process aims to directly increase private sector spending in the economy and return inflation to target.

but their pace will vary depending on the net impact of declining oil prices and exchange rate depreciations, as well as progress of their own reform agendas. New geographies for growth, such as Africa and parts of Asia, offer opportunities to build sustainable growth models but they also bring challenges on economic, legal, and institutional fronts.

Relative to the base scenario for the outlook, downsides to the global outlook could come from possible intensified political and economic risks. Upsides relate to the ability of policy and business to invest in people, raise productivity, and rebuild trust and confidence, but they may need significantly more time than the current year to materialize (The Conference Board Global Economic Outlook, 2015).

### **3. SOUTH AFRICAN ECONOMIC OUTLOOK**

#### **3.1 Economic Performance**

According to Statistics South Africa, the annualised South Africa's economy grew real gross domestic product at market prices increased by 1,3% quarter-on-quarter (q/q). The mining and quarrying industry contributed 0,8% based on growth of 10,2%. The positive growth in mining and quarrying was due to higher production in the mining of coal and mining of 'other' metal ores (including platinum). Finance, real estate and business services contributed 0,7% based on growth of 3,8%. This positive growth was due to increased activities in banking from financial intermediation services and equity, bond and other financial markets in auxiliary activities.

The wholesale, retail and motor trade, catering and accommodation industry contributed 0,2% based on growth of 1,2%. The growth was due to increases in turnover in the wholesale and retail trade divisions. Economic activity in the manufacturing industry reflected negative growth of 2,4% due to lower production in petroleum, chemical products, rubber and plastic products; radio, television and communication apparatus and professional equipment; and wood and wood products, paper, publishing and printing (STATSSA, 2015).

### **3.2 Developments in energy prices**

The energy prices and in particular petrol price in South Africa is linked to the price of crude oil in international markets and is quoted in US dollars (US\$) per barrel. Crude oil prices combined with the Rand/Dollar exchange rate therefore have a major impact on petrol prices. In order for a refinery to make a profit, the price for the product manufactured from crude oil has to be higher than that of the crude oil price. Therefore, if crude oil prices increase, the petrol price has to increase so that crude oil refineries are able to cover their costs.

Brent Crude oil price was recorded at \$62.01 at the end of June 2015. A lower price for any commodity or service knocks out the least efficient producers. In oil, efficiency is not just a matter of hard work and economies of scale. Some sources of oil are cheaper than others and available infrastructure plays a key role in making certain oil fields economically viable. Consequently US fracked wells were deemed to be among the most vulnerable producers to be squeezed out of the market. Fracking operates in remote areas of the US, which makes start-up more expensive and delivery costly (Oil-price.net, 2015).

The average international product prices of Petrol, Diesel and Illuminating Paraffin increased during the period under review. The Rand strengthened against the US Dollar, on average, when compared to the previous period. The average Rand/US Dollar exchange rate for the period 30 April 2015 to 28 May 2015 was 11.9454 compared to 12.0459 during the previous period. The strengthening of the Rand against the US Dollar decreased the contribution to the Basic Fuels Price on petrol, diesel and illuminating paraffin by 5.58 c/l, 5.39 c/l and 5.25 c/l respectively (Department of Energy, 2015).

### **3.3 Inflation<sup>2</sup> movements and its impact**

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<sup>2</sup> Inflation is the rate at which prices are increasing



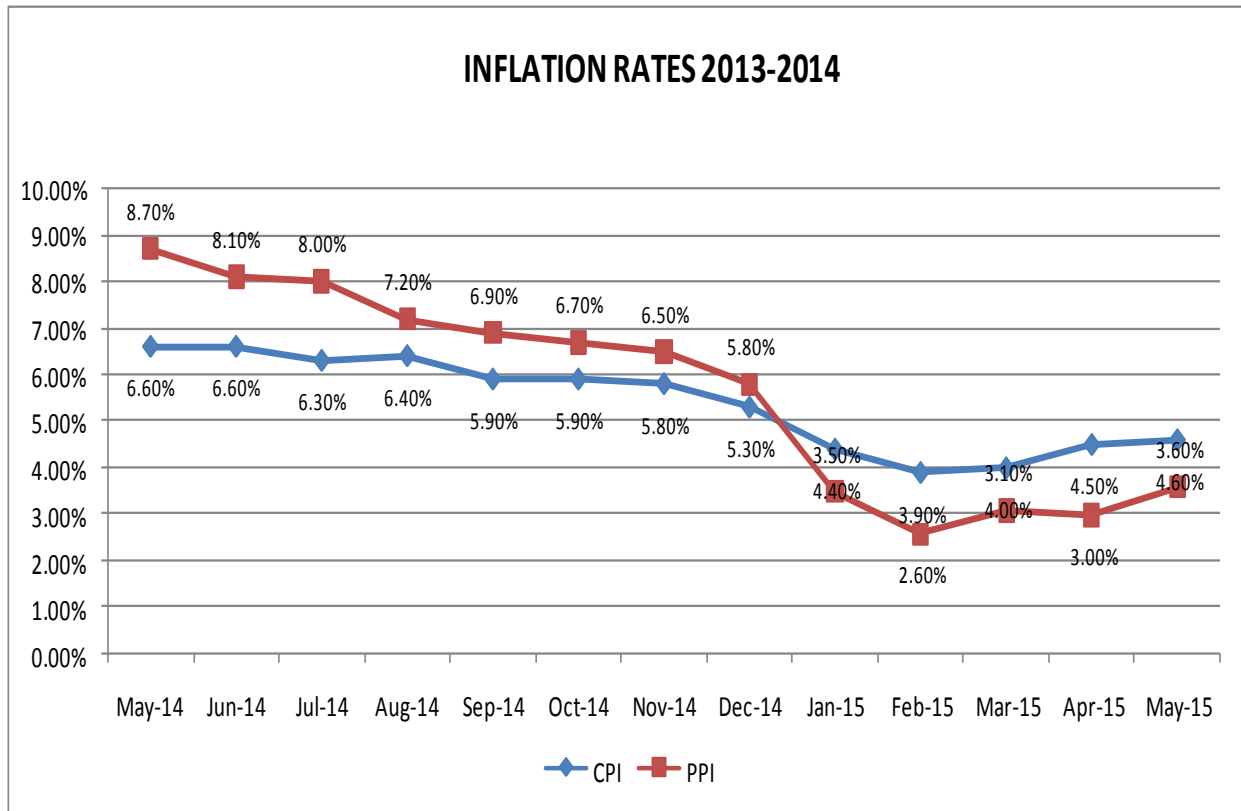
The Consumer Price Index (CPI) and Producer Price Index (PPI) are the two primary measures of inflation for South Africa. The CPI tracks the rate of change in the prices of goods and services purchased by consumers. Thus, the headline CPI is used as the inflation target measure which guides the South African Reserve Bank (SARB) on the setting of interest rates. The PPI tracks the rate of change in the prices charged by producers of goods.

According to Statistics South Africa, the headline CPI (for all urban areas) annual inflation rate in May 2015 was 4.6%. This rate was 0.1 of a percentage point lower than the corresponding annual rate of 4.5% in April 2015. On average, prices increased by 0.3% between April and May 2015.

The food and non-alcoholic beverages index increased by 0.6% between April and May 2015. The annual rate decreased to 4.7% in May 2015 from 5.0% in April 2015. The following components in the food and non-alcoholic beverages index increased: fish (2,6%), bread and cereals (1,9%), other food (1,7%), sugar, sweets and desserts (1,3%), oils and fats (1,2%), cold beverages (0,9%), milk, eggs and cheese (0,7%) and hot beverages (0,1%). The following components decreased: fruit (-4,6%) and vegetables (-1,4%). The transport index increased by 0,3% between April 2015 and May 2015. The annual rate increased to -0,7% in May 2015 from -1,1% in April 2015 (STATSSA, 2015).

The annual percentage change in the PPI for final manufactured goods was 3, 6% in May 2015 compared with 3,0% in April 2015. From April 2015 to May 2015 the PPI for final manufactured goods increased by 0,8%. The main contributors to the annual rate of 3,6% were food products, beverages and tobacco products (6,4% year-on-year and contributing 2,2 percentage points) and metals, machinery, equipment and computing equipment (6,6% year-on-year and contributing 1,0 percentage point) The main contributor to the monthly increase of 0,8% was food products, beverages and tobacco products (1,2% month-on-month and contributing 0,4 of a percentage point) (STATSSA, 2015).

FIGURE 1: INFLATION RATES



Source: STATSSA, June 2015

For housing specifically, if costs of production are still high, it means that the value capital investments made for housing development will consistently decline. The result is that it will cost a little more to build the same size of a house. These developments together with high prices of essentials like food and clothing for instance does indicate that households will find it more challenging to provide shelter for themselves and therefore will require some form of assistance from government.

### 3.4 Interest Rates

At its Monetary Policy Committee (MPC) meeting in May, the South African Reserve Bank left the repo rate unchanged at 5.75%. The prime interest rate asked by commercial banks

also remained unchanged at 9.25% (SA Reserve Bank, 2015). This decision meant that the pressure on disposable income for individuals with mortgages and other forms of credit exposure also remained unchanged.

In its previous statement the Committee noted that the more favourable inflation path allowed for some room to pause in the process of domestic monetary policy normalisation. The deterioration in the outlook suggests that this scope has narrowed. The uncertainties related to US policy normalisation and the weak state of the domestic economy prompted the MPC to keep the repurchase rate unchanged for now (SA Reserve Bank, 2014).

### **3.5 Unemployment**

According to the Labour Force Survey done by Statistics South Africa, between the fourth quarter of 2014 and the first quarter of 2015, the official unemployment rate increased by 2,1%. The number of employed people increased for four consecutive quarters since second quarter of 2014 with the largest gain recorded in the fourth quarter of 2014 at 203 000. Employment gains of 39 000, 22 000 and 203 000 were recorded in second, third and fourth quarters of 2014 respectively, while in the first quarter of 2015 a gain of 140 000 was recorded. The number of employed people increased by 140 000 in first quarter of 2015 compared to the fourth quarter of 2014. Large quarterly gains were observed in the Finance (156 000), Agriculture (150 000) and Private households industries (69 000). Job losses were recorded in the Trade, Transport and Community and social services industries (201 000, 53 000 and 51 000 respectively).

In the first quarter of 2015, formal sector employment declined by 115 000 compared to the fourth quarter of 2014. The largest decline in the formal sector jobs were observed in the Trade (213 000), Transport (87 000) and Community and social services (52 000) industries. Employment gains were observed in the Finance (122 000), Construction (45 000) and Utilities (37 000) industries.

Around 40% of the working-age population is economically inactive, with students accounting for the largest share (17,1% in 2008 and 16,7% in 2015). Over the period 2008 and 2015, the largest increase was observed in the share of discouraged job-seekers to the working age population (2,9 percentage points) (Statssa, 2015).

The high levels of unemployment means people will still be dependent on State assistance programmes. For the Department of Human Settlements it means more people will require housing assistance and this will add to the already existing backlog

### **3.6 Access to credit**

According to du Toit (ABSA, 2015), the value of outstanding credit balances in the South African household sector was marginally lower at the end of April 2015 compared with the end of March, with year-on-year (y/y) growth that slowed down to 3,3% from 3,6% in March. This was the net result of lower growth in household unsecured credit balances and growth in secured credit balances that was somewhat higher, supported by an increase in the value mortgage balances.

Growth in the value of household secured credit balances (R1 086,5 billion at end-April and 76% of total household credit balances) came to 3,3% y/y at the end of April, slightly up from 3,2% y/y at end-March. Secured credit balances growth up to end-April was underpinned by improved growth in mortgage balances (77,3% of household secured balances), whereas growth in instalment sales balances (22,4% of household secured balances), slowed down to 5,8% y/y from 6% y/y at the end of March.

Household unsecured credit balances, with a value of R343,2 billion and a share of 24% in total household credit balances at end-April, recorded growth of 3,4% y/y at the end of the first four months of the year, which was the lowest year-on-year growth in any month since February 2010. This was the result of a drop in growth in the largest component of unsecured credit balances, namely general loans and advances (60,8% of household unsecured balances), to 2,9% y/y at end-April from 3,7% y/y at end-March.

Growth in the outstanding value of household mortgage balances increased marginally to 2,8% y/y at the end of April, impacted by a month-on-month rise of almost R2 billion and a relatively low base of calculation a year ago. The value of outstanding mortgage balances is the net result of all property transactions related to mortgage loans, including additional capital amounts paid into mortgage accounts and extra monthly payments above normal mortgage repayments.

Economic developments, and the consequential impact on household finances and consumer confidence, will remain important driving factors of household credit and its various components. Although economic growth is forecast to pick up in 2015 from last year, with inflation expected to be lower on the back of sharply lower international oil and domestic fuel prices, and interest rates projected to rise only later in the year, growth in household credit balances, including mortgage balances, is forecast to remain in single digits this year.

### **3.7 Credit Defaults**

According to du Toit (2015), in the third quarter of 2014 a total of 10.05 million credit active consumers, or 44.7% of a total of 22.5 million, had impaired credit records, up from 9.95 million (45.0%) in the second quarter. The number of consumers in good standing came to 12.45 million (55.3%) in the third quarter compared with 12.17 million (55%) in the second quarter. A total number of 81.18 million consumer credit accounts were active in the third quarter of last year, of which 59.55 million (73.3%) were in good standing and 21.64 million (26,7%) were impaired.

Consumer financial vulnerability, as measured by the Bureau of Market Research (BMR), improved somewhat in the third quarter of 2014 from the second quarter. But still, consumers' credit-risk profiles severely restrict the access to credit and adversely affects household consumption expenditure against the background of the continued low level of household savings.

#### **4. CURRENT DEVELOPMENTS IN THE BUILDING INDUSTRY**

According to ABSA, the first quarter of 2015 saw continued subdued levels of building activity in the South African market for new housing, as reflected by the number of building plans approved and the number of buildings completed. Compared with a year ago, the volume of building activity contracted in both the planning and construction phases in the first quarter of the year.

The cost of new housing constructed came to about R5 900 per square metre in the first quarter of 2015, resulting in an increase of 5% on the building cost of R5 619 per square metre in the corresponding quarter last year. Building costs are impacting the prices of newly built housing as well as renovations and alterations to existing housing, which have also remained largely subdued up to the first quarter of the year compared with a year ago. Building costs are affected by building material costs, labour costs, transport costs, equipment costs, land prices, rezoning costs, and developer and contractor holding costs and profit margins.

##### **4.1 Building plans completed**

The number of building completed reflects the level of building activities that occurred during the specified period. According to Statistics South Africa (2014d), the value of buildings reported as completed (at current prices) decreased by 1,1% (-R179,5 million) during January to April 2015 compared with January to April 2014. Decreases were reported for non-residential buildings (-22,3% or -R975,0 million) and additions and alterations (-0,8% or -R26,5 million). An increase was recorded for residential buildings (10,0% or R822,0 million).

##### **4.2 Building Plans Passed**

According to Statistics South Africa, the building plans passed provide an indication of the level of building activities that is expected to take place in the near future. According to the

Statistics South Africa, the value of recorded building plans passed (at current prices) increased by 5,5% (R1 539,7 million) during January to April 2015 compared with January to April 2014 (see Table A). Increases were reported for residential buildings (19,9% or R2 588,8 million) and additions and alterations (6,4% or R482,8 million). Non-residential buildings fell by 20,7% (-R1 531,9 million).

Table 2: Comparative Analysis of Building Plans Passed and Completed by Province

<b>Province</b>	<b>% Change in Buildings Completed Between January to April 2014 and January to April 2015</b>	<b>% Change in Building Plans Passed Between January to April 2014 and January to April 2015</b>
Eastern Cape	-18.2	4.8
Free State	131.6	29.4
Gauteng	-4.5	-5.5
KwaZulu-Natal	8.3	-1.5
Limpopo	-16.7	22.5
Mpumalanga	-33.9	21.2
Northern Cape	-17.2	-64.4
North West	7.5	13.5
Western Cape	6.4	25.6
<b>Total</b>	<b>-1.1</b>	<b>5.5</b>

Source: Stats SA, 2015

Out of the nine provinces, five reported a year on year (y/y) negative value of buildings completed in April 2015. Mpumalanga dominated the decrease with a -33.9 followed by Eastern Cape with -18.2 and Northern Cape with -17.2. Free State recorded the highest contribution of 131.6 followed by KwaZulu-Natal with 8.3. In terms of building plans passed, six provinces reported y/y increases in the value of building plans passed. Free State lead the positive figure with a 29.4 followed by Western Cape and Limpopo with 25.6 and 22.5 respectively.

Residential building activity continues to be influenced by conditions and trends in the economy, household finances, consumer and building confidence, as well as factors related to the demand for and supply of new housing. These will remain the main driving factors of residential building activity.

### **4.3 Building Costs**

The CPAP (Haylett) Indices represent composite indices of the components of various cost inputs of building contractors, i.e. labour, materials, plant and fuel. According to BER/MFA report on Building Costs, Haylett Indices are rising in line with overall inflation. In April 2015, the y/y rise in Work Group 180, representing residential buildings, was 4.1%. During this same period, Work Group 181; representing commercial and industrial buildings; increased by 3.1%.

In the case of labour costs, the consumer price index (rising by 4.6% year-on-year in May 2015) is used as a proxy. Building materials prices rose by 1.5% during the year to April 2015. Since early 2015, builders' input costs have benefited from cheaper local fuel costs. Despite a weaker rand exchange rate that could push up the local prices of imported plant items, production prices of civil engineering plant rose in the year to April 2015 by a modest 2.4%.

Tender price increases, as measured by the BER Building Cost Index, dropped by -0.2% in 2010 as intensive competition in tendering forced building contractors to trim their profit margins. However, tender prices rose by 3.4% in 2011 and by 6.9% in 2012. In 2013 the average rise was 7.3% per annum. BER building tender prices rose faster than overall inflation during most of 2014 and into the first quarter of 2015. Given more intensive price competition, the rate of growth in tender prices dropped sharply during the second quarter of 2015 to 1.9% year-on-year.

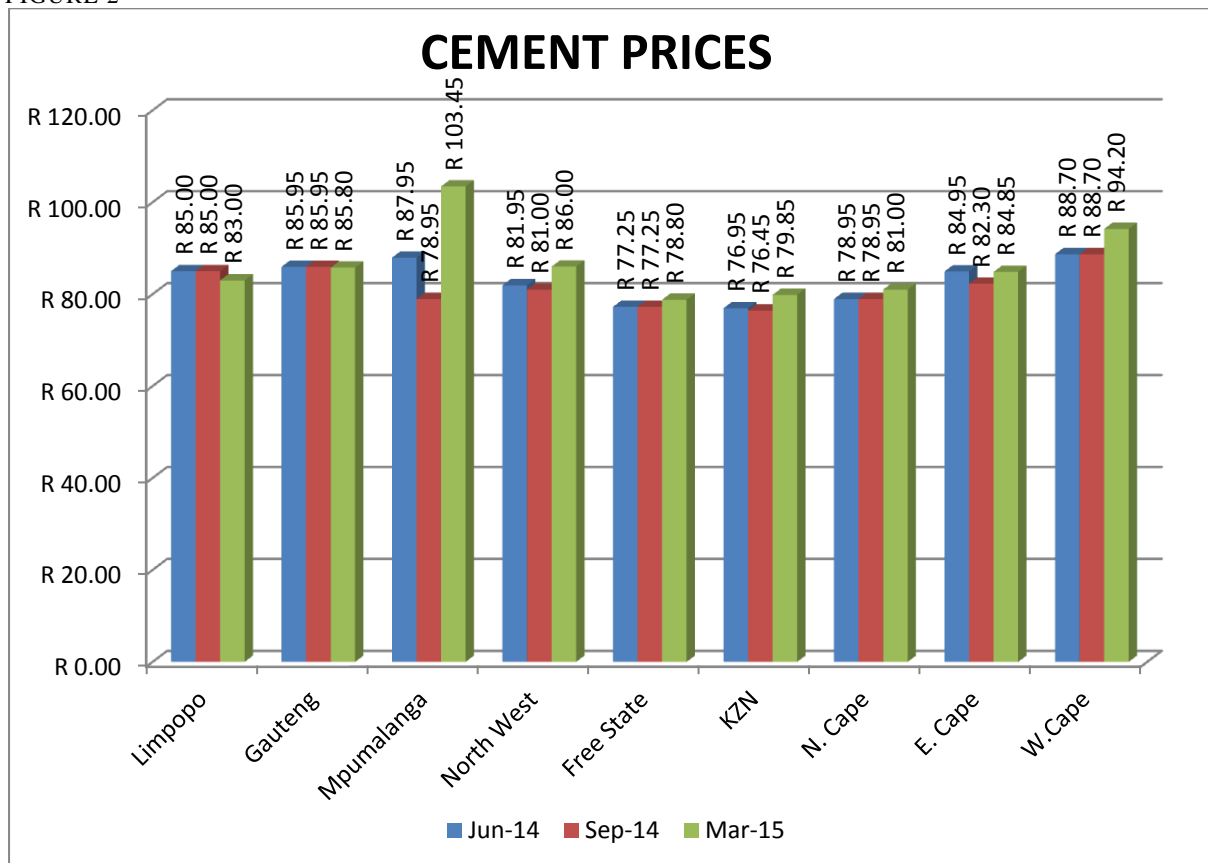
These building costs developments suggest that input costs continues to increase going forward and therefore they should be adequately accommodated in the subsidy quantum.



#### 4.4 Cement Prices

Cement is one of the major products utilised in the building industry particularly in government-subsidised housing. Therefore, increases in the cement price impact significantly in the delivery of government subsidised housing and the total building costs. A telephonic interview with Cash Build Hardware was conducted to establish the cement prices in all Provinces. According to the data obtained from them, it was evident that the cement prices vary. These varying prices might be due the transport costs associated with delivering products different provinces within the country.

FIGURE 2



Source: Department of Human Settlements, 2015

In trying to track trends in cement prices, most provinces experienced there haven't been major changes in the cement prices between July 2014 and March 2015. It should be noted that in provinces such as Mpumalanga, Free State, KwaZulu Natal and Eastern Cape, the Cashbuild hardware don't stock the PPC cement. They only sell the NPC, LaFarge, Afrisam and Sephaku. This might be the reason for the difference in prices. In terms of the most

expensive prices, Mpumalanga reported an alarming R103.45 followed by R94.20 for Western Cape. (Human Settlements, 2014).

These figures are indicating that the transport costs from the harbour to the inland could be a major factor that affects prices for goods in the inland provinces.

## **5. OVERVIEW OF THE RESIDENTIAL PROPERTY MARKET**

Trends in house prices is a reflection of the property market conditions and related factors which are affected by a combination of macroeconomic developments, the state on household finances and the level of consumer confidence.

According to ABSA, House price growth in the middle segment of the market remained largely resilient throughout 2014, despite some challenging economic conditions impacting households over a wide front during the course of the year. In both the categories of affordable and luxury housing nominal price growth was higher last year compared with 2013, with prices also increasing in real terms in these two segments of the market. A situation of a normalisation of and more balanced housing demand and supply conditions have largely contributed to house price growth in 2014 (ABSA, 2015).

### **5.1 Residential Property Prices**

The affordable segment (houses with the size of 40m<sup>2</sup> to 79m<sup>2</sup> and priced up to R545, 000 in 2014), increased by 7.4%, with an average price of about R381 000 in the fourth quarter of 2014, after rising by 8.2% in the third quarter. Real price inflation of 1.6% y/y was recorded in the fourth quarter from the 1.9% recorded in the third quarter (du Toit, 2015).

The average nominal price of a homes in the middle segment of the market (homes of 80m<sup>2</sup> to 400m<sup>2</sup> and priced at R4million or less in 2014) increased by 9.4% y/y to more than R1 315 000 in the fourth quarter of 2014 (9.8% y/y in the third quarter). Real price inflation in this

category of housing came to 3.6% y/y in the fourth quarter of the year, down from 3.4% y/y in the third quarter (du Toit, 2015).

In the fourth quarter of 2014 the average price of luxury housing (homes priced at between R4 million and R14.6 million in 2014) rose strongly by a nominal 15.7% y/y to a level of about R5 935 000, after prices had risen by an equally strong 11.9% y/y in the third quarter. In real terms, the average price in this category of housing was up by 5.3% y/y and 9.7% y/y in the third and fourth quarters respectively.

## **5.2 Land Values**

The value of land for new housing in the middle and luxury segments of the market for which Absa received applications and approved mortgage finance, increased by a nominal 8.9% y/y to an average of about R588 500 in the fourth quarter of 2014, after having risen by 7.9% y/y in the third quarter. In real terms residential land values were up by 3.1% y/y in the fourth quarter of last year, after rising by 1.6% y/y in the preceding quarter.

Residential land values increased by a nominal 6.1% and a real 0.1% in 2014 after nominal and real growth of 7.6% and 1.8% respectively in 2013. The average price of land for new middle-segment and luxury housing came to 26.7% of the total value of a new residential property in these categories in the fourth quarter of 2014, with this ratio averaging 27.1% last year (du Toit, 2015).

## **6. CHALLENGES**

### **6.1 Poor prospects of economic performance**

World economic growth slowed down in the first half of 2014 compared with the second half of 2013. It indicates that growth in real world output was down to an annualised rate of 2.7% in the first half of the year from 3.9% in the last six months of 2013.

## **6.2 High rate of unemployment**

The third quarter saw an increase in employment of 22 000 from 8 666 000 in June 2014 to 8 688 000 in September 2014. This resulted to a slight decrease in the unemployment rate from 25.5% in the second quarter of 2014 to 25.4% in the third quarter. Though a slight improvement was seen, more South Africans will still rely on government for assistance including housing.

## **6.3 Vulnerability of the low income earners**

High level of indebtedness and high level of impaired credit record presents evidence of vulnerability of low income earners to access mortgage loans which is the main form of funding housing development for ownership currently. This suggests that incremental housing should be the preferred approach for housing development for low income earners. Information from Credit Regulator provides evidence that low income earners are continually opting for short term loans to fund their housing development as opposed to mortgage loans.

## **6.4 Increasing input cost**

Cost escalations for new house construction continue to outstrip the cost of buying an existing house. Increasing land cost is also expected to continue to contribute significantly to the costs of housing development. This means that more funding will be required to ensure that the level of housing development is not affected.

## **6.5 Subdued property market**

The property market is expected to continue to reflect conditions of poor economic performance, struggling consumer sector due to declining values of disposable income (owing to inflation and increasing costs of living) and limited access to funding due to indebtedness, impaired credit record and risk aversion by financial institutions. This is more prevalent in the affordable segment of the market which registered real price deflation of 2.6% y/y in the first quarter.

## 7. FUTURE ECONOMIC PROSPECTS AND IMPACT ON THE RESIDENTIAL PROPERTY MARKET

Confidence indices are the key leading indicators which points the direction for the future economic performance. Business confidence and building confidence indices provides indication of future investments by businesses while consumer confidence is critical to point the direction of spending by the general public.

The **Business Confidence Index**<sup>3</sup> (BCI) which measures the confidence levels of prevailing business conditions in the manufacturing, building, retail trade, wholesale trade and new vehicle trade sectors fell by 2 points to 49 points in the first quarter of 2015. Retail confidence bounced back from 55 to 60 index points in the first quarter. Growth in new vehicle units sold rose noticeably in the first quarter which, in turn, lifted sentiment from 30 to 44 index points. Wholesalers' confidence was little changed at 61 index points. Building confidence fell from 66 to 49 index points and in the case of manufacturing from 42 to 30.

According to RBM/BER, the **Consumer Confidence Index**<sup>4</sup> (CCI) consumer confidence index, consumer sentiment deteriorated notably during the first quarter of 2015. Having recovered from a decade low of -8 index points in the third of 2013 to a level of zero in the fourth quarter of 2014, the CCI slumped back to -4 index points during the first quarter of 2015. The financial positions and time to buy durable goods sub-indices of the CCI declined slightly (both by 2 index points), but the economic outlook index dropped substantially (by 8 index points, from -3 to -11). The confidence levels of high-income consumers (earning more than R14 000 per month) saw the largest decline during the first quarter of 2015, slumping from +3 to -6 index points. Consumer sentiment among middle-income households (earning between R3 000 and R14 000 per month) deteriorated from +1 to -2 index points. In

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<sup>3</sup> Business Confidence Index (BCI) is determined from a survey of five major sectors of the economy namely manufacturing, building, retail trade, wholesale trade and new vehicle trade. BCI measures whether investors in these sectors rate prevailing business conditions as satisfactory or not.

<sup>4</sup> **Consumer Confidence Index** is a FNB/BER survey of consumers based on three questions, namely the expected performance of the economy, the expected financial situation of households and the rating of the appropriateness of the present time to buy durable goods (such as furniture, appliances, electronic equipment, and motor vehicles) (BER, 2011c).

contrast, low-income confidence (earning less than R3 000 per month) improved from -6 to -3 index points.

The **Building Confidence Index**<sup>5</sup> fell from 60 to 55 points in the first quarter of 2015. The decline in overall confidence was, in part, due to a sharp fall in residential building activity which weighed on the confidence of main contractors and manufacturers of building material in particular. The main contractor confidence declined to 49 index points. In contrast, sub-contractor confidence rose for the third consecutive quarter, by 2 index points to 52 in the first quarter of 2015. The confidence of building material retailers continued to rise during the quarter, from 74 to 91 index points. Architect confidence edged up slightly to 49 index points while the confidence of quantity surveyors decreased to 57.

The first quarter survey results were disappointing, especially with respect to residential main contractor confidence and activity, which ended 2014 on a relatively solid footing. However, despite the decline in overall confidence, the index remained above 50. This suggests that the sector, although still growing, was unable to maintain the momentum of second half of 2014.

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<sup>5</sup> **Building confidence Index** measures the level of performance as well as possibility for future investments in all sectors of the building industry. The index measures the business confidence of all the major role players and suppliers involved in the building industry, such as architects, quantity surveyors, contractors, sub-contractors, wholesale and retail merchants, and manufacturers of building materials (BER, 2011f). The index can vary between zero (indicating an extreme lack of confidence) and 100 (indicating extreme confidence).

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