FNB Mining Towns House Price Index shows underperformance

By John Loos

12 May 2017

The FNB Mining Towns House Price Indices have in recent times, unsurprisingly, shown an “underperformance” in growth relative to the overall country.

© John Williams – 123RF.com

We say, “unsurprisingly”, because many of these towns’ economies have suffered at the hands of a global commodity price slump which has contributed to mining output growth struggling since around 2011.

From a February 2011 peak, the IMF Dollarised Global Metals Commodity Price Index fell by a massive -59.4% by the beginning of 2016.

Thereafter, there was some recovery as the global economy showed some strengthening, but by March 2017 the index remained -41.7% below that early-2011 high.

Contraction in domestic sector

This has been a major contributor to the domestic mining sector’s output frequently going into contraction in recent years, which was bound to have some negative impact on mining town economies and their housing markets.

There may be some early signs of slightly better days for mining town housing markets ahead, a possible result of the recent muted rise in metals commodity prices, but for the time being the Mining Towns House Price Indices point to these markets still having been in the “doldrums” in the early stages of 2017.

The weakest performing index of the mining town house price indices is the FNB Gold Mining Towns House Price Index, whose first quarter 2017 year-on-year rate of change was slightly negative to the tune of -0.1%.

This represents a significant slowdown from a relative high point of +5.4% as at the third quarter of 2015. Besides the impact from interest rate hiking up until early-2016, we suspect that the weak state of gold mining also played a role in this slowing to a rate lower than the national average house price inflation rate.

Positive growth for Non-Gold Mining Towns House Price Index

In marginally better shape was the FNB Non-Gold Mining Towns House Price Index, which rose year-on-year by +2.3% in the first quarter. This represents a small acceleration from a multi-year low rate of +0.9% in the second and third quarters of 2016, and may be reflective of non-gold mining production’s fortunes having turned mildly for the better of late, to record some positive growth over the past half year or so.

Nevertheless, both house price indices remain weak, and the net result is that the overall FNB Mining Towns House Price Index rose year-on-year by a lowly +2%.

As mentioned, early-2011 was where the global metals commodity price slump began, exerting pressure on South Africa’s mining exports and production, and thus on the economies of many mining-dominated towns.

This appears to be reflected in the cumulative house price growth for mining towns since 2011.

Cumulative house price growth nationally

When we compile a national house price index from deeds data, using the same repeat sales methodology as that of our overhauled Mining Town House Price Indices, we see cumulative house price growth of 43.8% nationally from the start of 2011 up until the first quarter of 2017.

By comparison, the FNB Mining Towns House Price Index rose by a significantly lesser 26.68% over the same period and using the same index methodology.

In short, the FNB Mining Towns House Price Indices point to a housing market underperformance of late, as well as cumulatively since early-2011. This is believed to be in part the result of the global metals commodity price slump starting early in 2011, an event which was bound to have a cooling impact on many mining town economies and their housing markets. Gold mining towns as a group appear a little worse off than non gold mining towns, with the gold industry in a long-term state of output decline which goes back to years well before 2011.

ABOUT JOHN LOOS

John Loos is Property Sector Strategist: FNB Commercial Property Finance