FNB Mining Towns House Price Indices growth rates slow

By John Loos

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The FNB Mining Towns House Price Indices growth rates have slowed in recent quarters, which may be in part influenced by a mild slowing in mining sector production growth of late. Using a six-month moving average for smoothing purposes, year-on-year growth in mining production slowed from 4% for the six months to November 2017 to 2.7% for the six months to February 2018.

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In the first quarter of 2018, the FNB Mining Towns House Price Index grew by 1.5%, slower than the 2.3% of the previous quarter, representing the third successive quarter of slowing growth since the 3.2% "high" reached in the second quarter of last year.

1.5% remains on the weak side of the overall national market, our FNB "Long Term" National Repeat Sales House Price Index having grown by 5.5% in the first quarter of this year.

The Mining Towns House Price Index growth is also still clearly negative in real terms to the tune of about -2.6% year-on-year, with CPI (Consumer Price Index) inflation measuring a significantly higher 4.1% year-on-year in the first quarter of 2018.

Interestingly, the FNB Gold Mining Towns House Price Index grew faster than the non-gold mining towns sub-index, to the tune of 4.0% in the first quarter of 2018, while FNB Non-Gold Mining Towns House Price Index grew by a lesser 1.3%. However, both indices growth rates remain below the national index's rate.

Longer run performance

The FNB Gold Mining Towns House Price Index has outperformed that of non-gold mining towns for most of the period since late-2013, despite also being weak, but both the gold mining and non-gold mining house price indices have underperformed the national index growth-wise since around 2013.

The gold mining towns' house price growth outperformance of the non-gold mining towns may suggest more "realistic" gold mining town housing markets, which have long-since come to terms with gold's long term decline, probably translating into far less expansion in housing supply (less supply growth possibly provides slightly more support for house price growth).

But in the longer run, we would continue to expect gold mining town housing markets to underperform non-gold mining towns, while also expecting both indices to continue to underperform the broader national market.

We expect this because gold mining production has been in a major long term decline, while non-gold mining production, although more stable, has not kept up with the broader economy's growth either.

Decline in gold mining output

From the year 2000 to 2017, gold mining output has declined by -68.2% in SA, while non-gold mining output has grown by +29.2%.

The difference is reflected in the slower cumulative growth rate in the FNB Gold Mining Towns House Price Index, which has risen by 410% since the beginning of 2001, compared to 465% in the non-gold mining towns index.

While the FNB Non-Gold Mining Town House Price Index did mildly exceed the cumulative growth of the overall national housing market, the mining sector's problems have intensified more recently, with the end of the commodity price boom around 2011.

And since then, both the gold and non-gold mining town house price indices have significantly underperformed the national house price index, the national index rising cumulatively by 57.9% since the first quarter of 2011, the gold mining towns index by a far slower 33.35% and the non-gold index by 28.17%.

In short, the FNB Mining Towns House Price Indices year-on-year growth rates slowed as we moved into 2018. This could be in part reflective by a recent broad slowing in mining production growth.

They also continue to underperform the overall national house price index, arguably reflective of the mining sector's longer term stagnation trend.

ABOUT JOHN LOOS

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