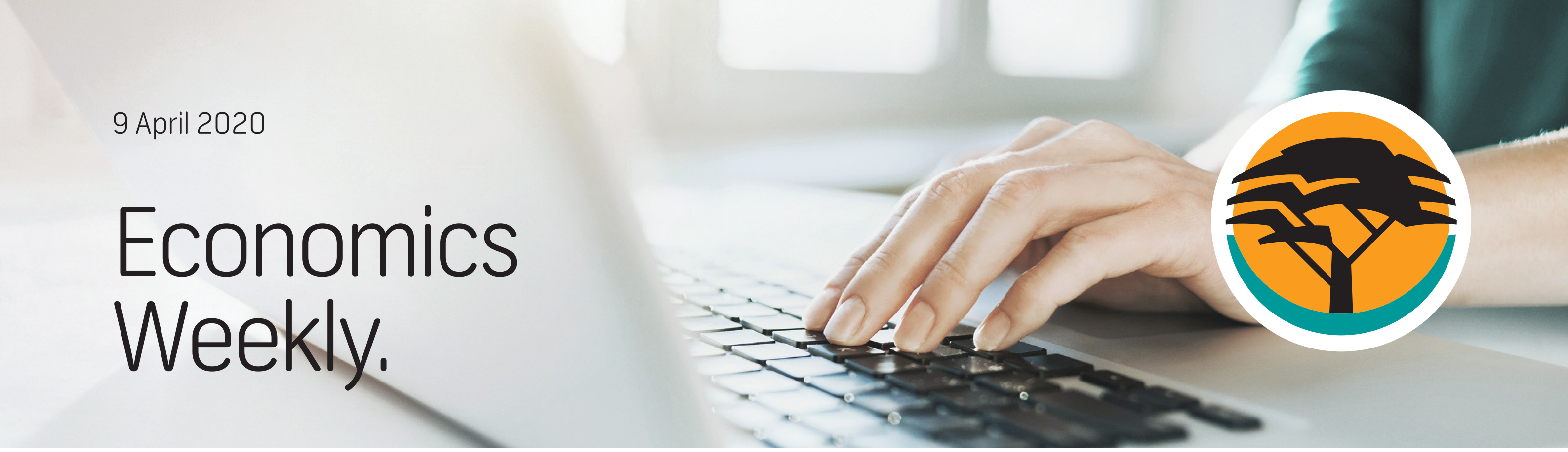
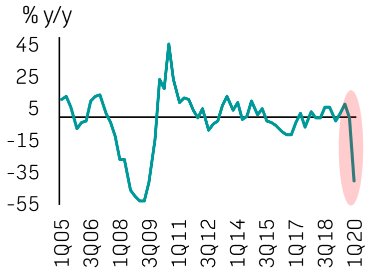


9 April 2020

Economics Weekly.

Covid-19 and the property market: Volumes more than values

Figure 1: Decline in transaction volumes



Source: FNB (from Deeds data)

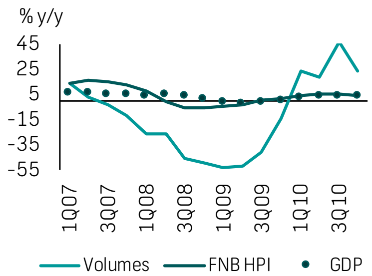
Note: Data are preliminary

There is little doubt that the Covid-19 lockdown will cause a sharp contraction in GDP growth, and thus some casualties in the labour market. Our estimates show that over the past decade, each one percentage swing in the overall SA GDP growth tends to result in roughly 0.57 of a percentage point (ppt) change in employment. Using our GDP forecast of -4.5% in 2020, employment is likely to shrink by at least 2.5% (i.e. 345 000 job losses) (see our report). All else being equal, this implies that the national unemployment rate is likely to rise from 29.1% in 2019 to about 31% in 2020. Worryingly, this would be the highest unemployment rate on record for SA.

For the property market in particular this will mean material pressure on demand and, by extension, the supply of mortgages and, ultimately, weakened house prices.

So far, the outbreak of Covid-19 (and the ensuing lockdown) has facilitated sudden changes in behaviour among homebuyers and sellers. Anecdotal evidence suggests that fears around the magnitude and endurance of the virus have led some sellers to take their homes off the market. From the buyers' perspective, restrictions on human movement and "avoidance behaviour" in general have reduced the number of buyer enquiries. We expect the combination of these factors to result in a sharp drop in transaction volumes, as buyers delay their purchasing decisions until the uncertainty lifts.

Figure 2: Volumes and HPI vs GDP during GFC*



Source: FNB, Stats SA

** Global Financial Crisis*

Preliminary deeds data shows that market volumes have declined by an estimated 40% y/y (Figure 1). To put this into context, transactions volumes in China at the height of lockdown declined in excess of 90% y/y, before recovering as lockdown restrictions were lifted. While aggressive cuts in interest rates will eventually assist home purchasing activity, in the short term this will likely be outweighed by heightened uncertainty due to Covid-19 and second-round effects on the labour market.

The supply side will also feel the pinch. With lower demand and some segments already excessively supplied, we expect a sharp decline in the supply of new residential units. On balance, supply disruptions are supportive of house price growth, particularly in the lower end where there is already a shortage of new building stock.

International experience suggests that pandemics tend to have a sharp but short-lived impact on property markets, more so on volumes. For example, during the SARS outbreak in 2003, Hong Kong housing transaction volumes fell by up to 72% y/y as customers avoided human contact. Importantly, transactions volumes normalised soon after the pandemic was over. House prices, on the other hand, did not fall significantly. During the current Covid-19 episode in China, available data shows that transaction volumes nearly ceased in February (at the height of the outbreak) but rebounded in March as restrictions were lifted. Similar to the SARS outbreak, the impact on house prices has been relatively muted so far.

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Commensurately, and notwithstanding the already existing weaknesses, we could expect Covid-19 to deliver a sharp but short-lived impact on South Africa's housing market. We expect that volume transactions will take a bigger hit relative to prices. House price growth will likely slow in the low- to middle-priced segments, but display a deeper nominal decline at the upper end. It is important to highlight that these weakening trends were already underway, and that the virus outbreak will only amplify them. In the end, the magnitude and endurance of the impact will depend primarily on a rebound in the broader economy, sustained liquidity in the property market and improvement in sentiment. The impact could linger for longer if liquidity dries up and lending standards tighten a tad more than we expect.

Tables

The key data in review

Date	Country	Release/Event	Period	Act	Prev
3 Apr	US	Non-farm payrolls (000s)	Mar	-701	275
7 Apr	Japan	Household spending (% y/y)	Feb	-0.3	-3.9
	AUS	Cash rate (%)	Apr	0.25	0.25
	UK	Halifax house prices (% y/y)	Mar	3.0	2.8

Data to watch out for this week

Date	Country	Release/Event	Period	Survey	Prior
10 Apr	US	CPI (% y/y)	Mar	1.6	2.3
15 Apr	US	Retail sales (% m/m)	Mar	-6.4	-0.5
	US	Industrial output (% m/m)	Mar	-4.1	0.6
16 Apr	Eurozone	Industrial output (% m/m)	Feb	0.0	2.3
17 Apr	China	GDP (% y/y)	1Q20	-5.90	6.00

Source: Bloomberg ("Survey" is the consensus forecast)

Financial market indicators

Indicator	Close	1 W	1 M	1 Y
All Share	46 689.90	6.8%	-10.3%	-19.5%
USD/ZAR	18.19	-0.2%	16.0%	28.9%
EUR/ZAR	19.75	-1.2%	11.7%	24.3%
GBP/ZAR	22.53	-0.1%	10.1%	22.2%
Platinum US$/oz	732.73	1.7%	-19.1%	-19.4%
Gold US$/oz	1 646.14	3.4%	-1.7%	26.9%
Brent US$/oz	32.84	32.7%	-27.5%	-53.8%
SA 10-year bond yield	9.96	0.0%	24.6%	17.0%

FNB SA Economic Forecast

Economic Indicator	2017	2018	2019	2020f	2021f	2022f
Real GDP %y/y	1.4	0.8	0.2	-4.5	0.5	0.5
Household consumption expenditure %y/y	2.1	1.8	1.0	-1.1	0.3	-0.1
Gross fixed capital formation %y/y	1.0	-1.4	-0.9	-14.3	-2.4	-2.6
CPI (average) %y/y	5.3	4.6	4.1	3.6	4.2	3.9
CPI (year end) %y/y	4.7	4.5	4.0	4.5	3.2	4.2
Repo rate (year end) %p.a.	6.8	6.8	6.5	4.25	4.25	4.25
Prime (year end) %p.a.	10.3	10.3	10.0	7.75	7.75	7.75
USD/ZAR (average)	13.3	13.3	14.4	15.9	15.5	16.3

Source: FNB

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