



OPPORTUNITY

PRIVATE CAPITAL

Economic Snapshot August 2024

LOCAL ECONOMIC INDICATORS 30 AUGUST 2024	NEWS
<ul style="list-style-type: none"> All-Share Index 30 Aug 2024: +- 83,750 All-Share Index 30 Aug 2023: +- 74,787 Market PE ratio: 17.9 USD/ZAR R17.84/\$ South Africa 10Y Government Bond yield: Current 9.21% <p>(Data: Bloomberg; SimplyWallSt; Tradingeconomics.; Google Finance.)</p>	<ul style="list-style-type: none"> Forget the published inflation rate. According to Stats SA a shopping excursion for grocery essentials that would have cost R1 000 only 5 years ago, now costs a disturbing R1 466. (Moneyweb, 2024). Shopping is hurting consumers in all the wrong places. According to S&P Global the improved inflationary outlook in the USA will likely prompt a rate cut by the Federal Reserve in September. This is potentially good news for South African consumers as the SA Reserve Bank should follow suit giving much needed respite. SA Banks to implement a significant change to EFT transactions in September between Common Monetary Area (CMA) countries - Namibia, Lesotho, Eswatini. In effect, SA account holders will no longer be able to make payments to account holders in these countries.

CAPE TOWN RESIDENTIAL PROPERTY AND INFLATION HEDGING

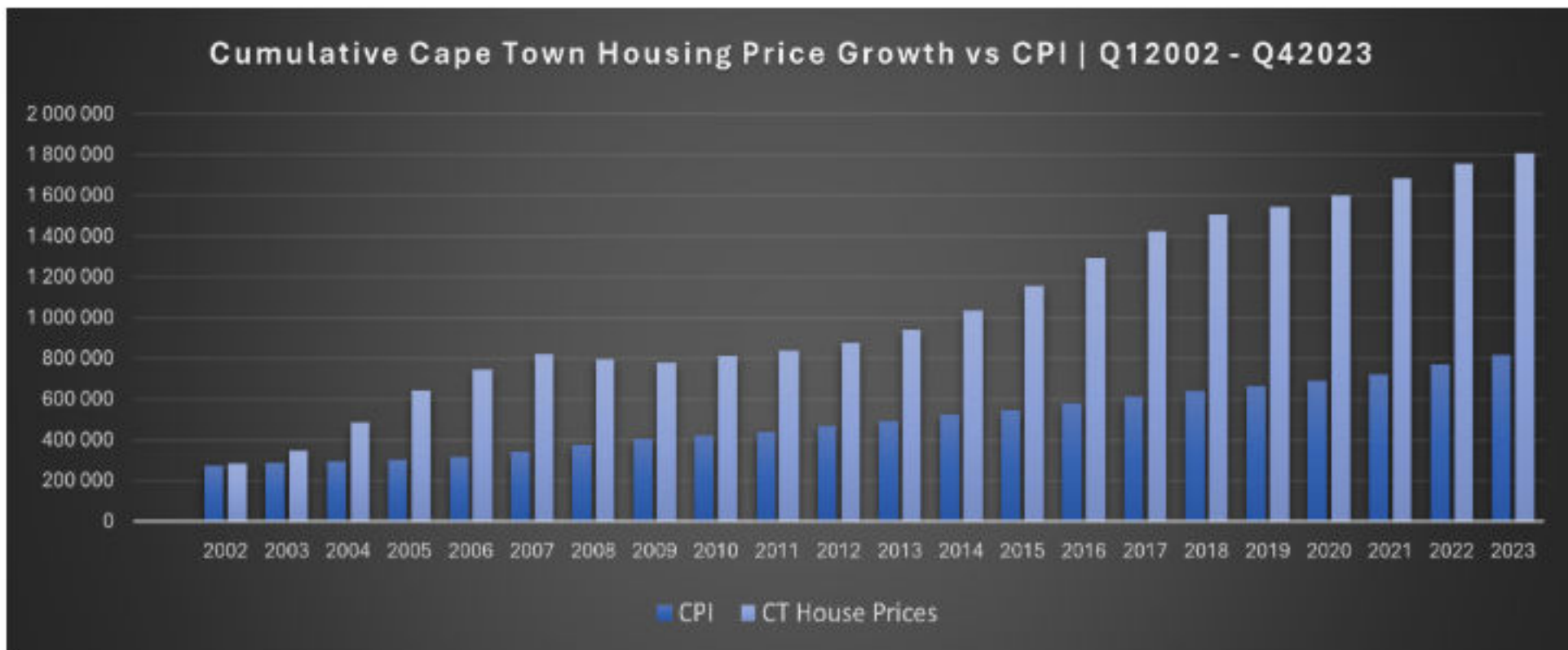
Cape Town property has historically exhibited remarkable growth over certain periods. The question beckons whether this growth has been effective in staving off the eroding effects of inflation. It's commonly said that property provides an effective hedge against inflation. Well, does it really? Let's clear up a familiar misconception about this statement.

A differentiation must be considered between inflation hedging and inflation protection. To be an actual hedge against inflation housing values should move in synchronicity with inflationary movements. Consequently, for an asset class to be an effective inflation hedge it must correlate positively in a close relationship with inflation (Stefan, 2017). An **inflation hedge** implies therefore that the housing prices will move in the same direction as inflation at a rate that outperforms inflation. Yes, housing prices do have a sensitivity to inflationary movement but often exhibit an asymmetric relationship with inflation over short periods, which means that in such cases residential property cannot be considered an efficient hedge against inflation.

Inflation protection however refers to returns or values exceeding inflation over a longer term to preserve the purchasing power of investors' capital. Statistics confirm that consistent growth in Cape Town housing values over sustained periods outstrip the cumulative effects of inflation creep over time. The implication for investors and homeowners is that buoyant housing values and attributed growth in Cape Town act as a potent protection against inflation over the long-term and that residential property in this region is a fundamental feature of long-term wealth preservation.

The graph below tracks the cumulative house price growth of residential property in Cape Town against CPI trajectory over the last 22 years. So, while investors should not look to property to hedge against short-term inflation volatility, in particular acute upward trends, the data empirically illustrates the viability of harnessing residential property in Cape Town as a protection against the attritional and damaging forces of inflation over time.

GRAPH OF THE MONTH



Source: Adapted from data courtesy of Stats SA and Lightstone

Compiled by Nick Morgan - Co-founder, Opportunity Private Capital.