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Higher interest rates set to slow housing market further

The Reserve Bank's Monetary Policy Committee (MPC) hiked the repo rate by a further 50 basis points to 11%, prompting banks to raise their prime and mortgage rates to 14,5%. Interest rates have been hiked by a total of 400 basis points since mid-2006.

In recent months, inflationary pressures have mounted on the back of exchange rate, and oil and food price movements. CPIX inflation increased to a level of 7,3% in October—well above the 6% upper limit of the inflation target range. The upward pressure on inflation is expected to continue in coming months, especially after domestic fuel prices were increased to a record high yesterday. Against this background, we forecast CPIX inflation to peak at a level of above 8% in the first quarter of next year, after being outside the target band since April this year.

In view of these developments and Reserve Bank expectations of CPIX inflation continuing to rise up to the first quarter of 2008, the MPC hiked interest rates once again, despite indications that consumer demand and growth in credit extension are tapering off. Nominal house price growth has also recorded markedly lower year-on-year growth over the past two months from 14,4% in September to 13,6% in October and 12,5% in November. These developments are believed to be the result of the upward trend in interest rates since the middle of last year, as well as the impact of the National Credit Act filtering through to the rest of the economy.

The debt servicing cost of households has increased from 6,5% of disposable income in the second quarter of 2006 when interest rates were still low, to about 9,7% in the second quarter of 2007. Taking into account the interest rate hikes in the second half this year, this ratio is expected to be above 11% by early 2008.

The affordability of housing, especially for first-time buyers in the low- and middle-income categories, will be further adversely influenced by the latest rate hike. Consumers' spending power has been severely eroded by higher food and fuel prices over the past number of months. In addition to this, the cumulative rise of 400 basis points in interest rates since mid-2006 have caused the average monthly repayment on a mortgage loan to have risen by more than 28%.

Nominal year-on-year house price growth is forecast to slow down further in December to average around 14,6% for the full year. In 2008, price growth of as low as 9% in nominal terms may be registered. This will mainly be the result of factors such as the tightening of monetary policy over the past year-and-a-half, and the full implementation of the National Credit Act in mid-2007.

Mortgage advances growth, currently at 25,3% year-on-year after declining from almost 31% in October last year, is forecast to continue to slow down well into 2008 on the back of the interest rate cycle, the impact of the National Credit Act, and a slowing housing market.

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Monthly mortgage repayment										
(calculated over a period of 20 years)										
Loan amount	Repayment at a mortgage rate of									Increase in repayment ¹
	10.5%	11.0%	11.5%	12.0%	12.5%	13.0%	13.5%	14.0%	14.5%	
R 100 000	R 998	R 1 032	R 1 066	R 1 101	R 1 136	R 1 172	R 1 207	R 1 244	R 1 280	R 282
R 200 000	R 1 997	R 2 064	R 2 133	R 2 202	R 2 272	R 2 343	R 2 415	R 2 487	R 2 560	R 563
R 300 000	R 2 995	R 3 097	R 3 199	R 3 303	R 3 408	R 3 515	R 3 622	R 3 731	R 3 840	R 845
R 400 000	R 3 994	R 4 129	R 4 266	R 4 404	R 4 545	R 4 686	R 4 829	R 4 974	R 5 120	R 1 126
R 500 000	R 4 992	R 5 161	R 5 332	R 5 505	R 5 681	R 5 858	R 6 037	R 6 218	R 6 400	R 1 408
R 600 000	R 5 990	R 6 193	R 6 399	R 6 607	R 6 817	R 7 029	R 7 244	R 7 461	R 7 680	R 1 690
R 700 000	R 6 989	R 7 225	R 7 465	R 7 708	R 7 953	R 8 201	R 8 452	R 8 705	R 8 960	R 1 971
R 800 000	R 7 987	R 8 258	R 8 531	R 8 809	R 9 089	R 9 373	R 9 659	R 9 948	R 10 240	R 2 253
R 900 000	R 8 985	R 9 290	R 9 598	R 9 910	R 10 225	R 10 544	R 10 866	R 11 192	R 11 520	R 2 535
R 1 000 000	R 9 984	R 10 322	R 10 664	R 11 011	R 11 361	R 11 716	R 12 074	R 12 435	R 12 800	R 2 816
R 1 500 000	R 14 976	R 15 483	R 15 996	R 16 516	R 17 042	R 17 574	R 18 111	R 18 653	R 19 200	R 4 224
R 2 000 000	R 19 968	R 20 644	R 21 329	R 22 022	R 22 723	R 23 432	R 24 147	R 24 870	R 25 600	R 5 632

¹Cumulative increase in the monthly mortgage repayment since the start of interest rate hikes in June 2006