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Explanatory notes:

The Absa House Price Index is based on the total purchase price of houses in the 80m²-400m² size category, valued at R2,7 million or less in 2006 (including improvements), in respect of which loan applications were approved by Absa. Prices are smoothed in an attempt to exclude the distorting effect of seasonal factors and outliers in the data. As a result, the most recent index figures may differ materially from previously published figures.

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House price growth ends 2006 on a lower note

In December 2006 nominal house price growth of 13,5% year-on-year was recorded in the middle segment of the market (see explanatory notes), down from a revised growth rate of 14% in November. This brought the average price of a house in this segment of the market to about R857 400 at the end of last year. House prices were up by 15,2% in nominal terms in 2006 compared with 22,7% in 2005 and 32,2% in 2004.

In real terms, year-on-year growth of 8,2% was recorded in November compared with a revised growth rate of 8,4% in October, based on the headline consumer price index. Average real year-on-year house price growth of 9,7% was recorded in the first eleven months of 2006.

On a month-on-month basis, nominal price growth was slightly down at 0,9% in December after it remained stable at 1,1% between August and November last year. House prices increased by 1,1% month-on-month in real terms in November (0,9% month-on-month in October).

With CPIX inflation on an upward trend since mid-2006 and inflationary pressures still present in the economy, interest rates are expected to increase further by a total of 100 basis points in the first half of 2007. This will bring banks' prime and variable mortgage interest rates to a level of 13,5% by the middle of the year. Against the background of higher inflation and interest rates, real economic growth for 2007 is forecast to be somewhat lower than in 2006, which will also contribute to slower growth in real household disposable income this year.

In view of these developments and expectations, nominal house price growth is projected to continue its downward trend of the past two years for most of 2007. Year-on-year growth of about 9% in house prices is forecast for this year, with prices set to rise by around 3% in real terms. With interest rates forecast to move to lower levels again in 2008, house price growth is expected to improve and increase to above 10% during that year and into 2009.

