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This report is also available on the Internet at <http://www.finforum.co.za/absa> and <http://www.absa.co.za>

### Explanatory notes:

The Absa House Price Index is based on the total purchase price of houses in the 80m<sup>2</sup>-400m<sup>2</sup> 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 trend growth increased further

According to the latest Absa House Price Index, nominal year-on-year growth in house prices, which appears to have levelled out in the third quarter of last year, increased further in the early months of 2007. This development is also supported by relatively strong growth in transaction volumes during January and February this year.

In February, nominal house price growth of 15,4% year-on-year was recorded in the middle segment of the market (see explanatory notes), compared with a revised growth rate of also 15,4% in January. This brought the average price of a house in this segment of the market to about R891 700 in February 2007.

In real terms, year-on-year growth of 8,9% was recorded in January compared with a revised growth rate of also 8,9% in December, based on the headline consumer price index.

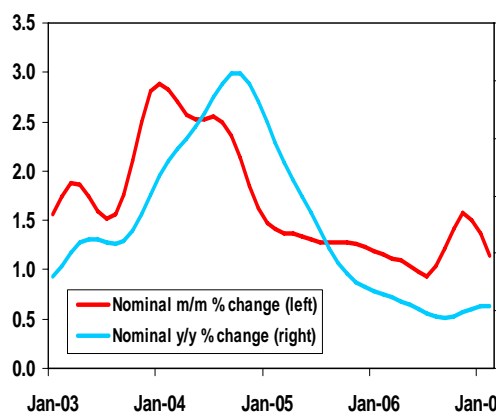
On a month-on-month basis, nominal price growth was again slightly down at 1,1% in February after growth of 1,4% was recorded in January. House prices increased by only 0,5% month-on-month in real terms in January (1,1% month-on-month in December).

Inflation data recently released for January 2007 showed an increase in the CPIX inflation rate to 5,3% from a stable 5% in the period October to December 2006. Over the past two weeks, international oil prices moved higher to around \$60/barrel on average, causing domestic fuel prices to increase in March. Taking into account the higher oil price, an increase of 10 cents/litre in the fuel levy as from April, which was announced in the Budget last month, as well as a weaker exchange rate, fuel prices will increase further next month. The drought conditions currently experienced in many food producing regions around the country are expected to feed through into higher food prices in coming months. These trends do not bode well for overall inflationary pressures in the economy over the short term.

Against the background of further upward pressure on inflation in the near future, together with continued strong growth in domestic credit extension and a ballooning trade deficit in the fourth quarter of last year, which will cause the current account deficit to remain high, the Reserve Bank may well decide to increase interest rates further at the next Monetary Policy Committee meeting in April.

Month-on-month house price growth is tending downwards after moving higher between July and November last year. This, together with a currently growing possibility of higher interest rates in April, house price growth is forecast to level off again later this year.

Absa House Price Index



Absa House Price Index (nominal, 2000=100)

	2003	2004	2005	2006	2007
Jan	144.6	183.2	240.7	281.0	324.2
Feb	147.1	188.3	244.1	284.2	327.9
Mar	149.8	193.4	247.4	287.4	
Apr	152.6	198.4	250.8	290.5	
May	155.3	203.4	254.1	293.5	
Jun	157.7	208.5	257.5	296.4	
Jul	160.1	213.9	260.8	299.2	
Aug	162.6	219.2	264.1	302.2	
Sep	165.5	224.4	267.5	305.9	
Oct	169.0	229.2	270.9	310.2	
Nov	173.2	233.4	274.3	315.1	
Dec	178.0	237.2	277.7	319.8	
Ann ave	159.6	211.0	259.1	298.8	