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Higher interest rates to weigh on the housing market

The Reserve Bank's Monetary Policy Committee (MPC) today announced an increase of 50 basis points in the repo rate, which will see banks' prime and mortgage rates rising to 12,5%. Interest rates have been hiked by a total of 200 basis points since June this year.

Volatility in the rand exchange rate and international oil prices, together with increasing inflation, prompted the further increase in interest rates. PPI inflation surged to 10% in October (9% in September), while CPIX inflation came in at 5% in October (5,1% in September). Other factors which also contributed to the higher rates include record-high levels of household debt as a result of continued strong growth in private sector credit extension (27,5% year-on-year (y/y) in October), largely driven by mortgage advances growth of 30,9% y/y; the huge trade deficit of R12,9 billion in October, which will contribute to the current account deficit remaining at a level of above 5% of GDP in the fourth quarter; buoyant manufacturing production and retail sales growth, which confirmed that demand is still resilient; and relatively strong real GDP growth (4,7% at a seasonally adjusted annualised rate) in the third quarter.

CPIX inflation is expected to rise above the upper target limit of 6% in the first quarter of 2007. As a result, interest rates are forecast to be hiked further by 50 basis points at each of the MPC meetings in February and April 2007. This could bring banks' prime and variable mortgage rates to a level of 13,5% by the second quarter of next year

In view of further interest rate hikes expected up to April 2007, which will have a negative effect on the affordability of housing, nominal house price growth is projected to continue its declining trend well into next year. In view of average house price growth of 14,6% recorded in the period January to November this year, price growth is estimated at 14,5% for the full year. Nominal house price growth of around 8% is forecast for 2007, with real price growth declining to its lowest level since 1999.

Mortgage advances growth, which was maintained at a level of around 30% y/y since March this year, is expected to slow down to some 28% by year-end (28,6% at end-2005), and about 15% by the end of 2007, taking into account the abovementioned interest rate projections and a further slowdown in the housing market.

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%	10.5% to 12.5%
R 100 000	R 998	R 1 032	R 1 066	R 1 101	R 1 136	R 138
R 200 000	R 1 997	R 2 064	R 2 133	R 2 202	R 2 272	R 276
R 300 000	R 2 995	R 3 097	R 3 199	R 3 303	R 3 408	R 413
R 400 000	R 3 994	R 4 129	R 4 266	R 4 404	R 4 545	R 551
R 500 000	R 4 992	R 5 161	R 5 332	R 5 505	R 5 681	R 689
R 600 000	R 5 990	R 6 193	R 6 399	R 6 607	R 6 817	R 827
R 700 000	R 6 989	R 7 225	R 7 465	R 7 708	R 7 953	R 964
R 800 000	R 7 987	R 8 258	R 8 531	R 8 809	R 9 089	R 1 102
R 900 000	R 8 985	R 9 290	R 9 598	R 9 910	R 10 225	R 1 240
R 1 000 000	R 9 984	R 10 322	R 10 664	R 11 011	R 11 361	R 1 378
R 1 500 000	R 14 976	R 15 483	R 15 996	R 16 516	R 17 042	R 2 066
R 2 000 000	R 19 968	R 20 644	R 21 329	R 22 022	R 22 723	R 2 755

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

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