

Mortgage Advances Growth Slows

The year-on-year (y/y) growth in the value of mortgage advances by monetary institutions (the total net outstanding balance on mortgage loans at these institutions) slowed down to 11,9% in January 2009 from 13,2% in December last year, based on data released by the South African Reserve Bank.

This was significantly lower than the 24,5% y/y growth in mortgage advances in January last year and was also the lowest growth rate recorded since May 2003 when it was at level of 11,9%. On a month-on-month basis the growth in net mortgage balances outstanding was only 0,1% in January, down from 0,4% in December.

Growth in mortgage advances to the household sector, largely related to residential property, was at a level of 9,9% y/y in January 2009. The amount of outstanding mortgage balances in the household sector was R700,7bn in January, with a share of 72,4% in total mortgage debt, which includes both residential and commercial mortgages.

Household mortgage advances had a share of 69,6% in total credit extended to the household sector in January 2009.

The sharp slowdown in specifically the residential property market has largely contributed to mortgage advances growth declining to its lowest level since May 2003. These developments came on the back of adverse inflation and interest rate trends impacting household finances over the past two years, as well as the effect of the National Credit Act (NCA) and the tightening of lending criteria by banks.

Although nominal y/y house price growth has moved into negative territory and interest rates have been cut by a cumulative 150 basis points since December 2008, the household sector is expected to continue experiencing some financial pressures this year as a result of a rapidly slowing economy, which may have adverse effects on employment and household income. However, inflation is set to decline further and interest rates are forecast to be cut further during the course of the year, which will bring some relief to heavily-indebted consumers.

Against the background of a struggling economy and a housing market expected to remain subdued for most of the year, the y/y growth in mortgage advances is projected to continue its declining trend for some time before bottoming and improving gradually by year-end/early 2010.