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Published by:
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Housing market to slow further after rate hike

The Reserve Bank's Monetary Policy Committee (MPC) today announced a hike of 50 basis points in the repo rate, which will lead to banks raising their prime and mortgage interest rates to a level of 13,5%. Interest rates have been hiked by a total of 300 basis points since mid-2006.

A wide range of factors contributed to the latest rate hike. CPIX inflation has been above the 6% upper limit of the inflation target range for three consecutive months since May this year, driven by factors such as high international oil prices and a weaker rand exchange rate, while food prices have moved higher in recent months on the back of demand and supply conditions. Short- to medium-term inflation expectations are forecast to remain on the upside in view of above-inflation wage settlement rates in various sectors of the economy. Although there are signs that consumer demand is gradually tapering off, year-on-year growth in private sector credit extension is still well above the 20% level. However, the effect of the National Credit Act will only become visible during the next few months, with growth in credit extension, including mortgage advances, expected to be markedly lower by the end of the year from current levels.

The rising trend in interest rates since mid-2006 caused the debt servicing cost of households to increase to about 9,5% of disposable income in the first quarter of 2007. This also takes into account the ratio of household debt to disposable income, which increased to an all-time high of 75,9% in the first quarter. Although the debt servicing ratio is still well below the almost 15% level reached in the third quarter of 1998 when the prime interest rate was above 23%, debt servicing costs have increased gradually over the past three years from as low as 6,2% at the end of 2003.

The affordability of housing, especially for first-time buyers in the low- and middle-income groups, will be negatively affected by the latest hike in interest rates. Consumers' spending power has already been eroded by higher fuel and food prices over the past number of months. In the first seven months of 2007, nominal year-on-year house price growth averaged 15,4%, but is expected to slow down further in the remaining few months to average around 14% for the full year.

Mortgage advances growth, which declined gradually from as high as 30,9% year-on-year in October 2006 to 27,2% in June 2007, is forecast to slow down further towards the end of the year, taking into account the current interest rate cycle, the possible effect of the National Credit Act, and expected slower growth in house prices over the short term.

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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%	
								10.5%-13.5%
R 100 000	R 998	R 1 032	R 1 066	R 1 101	R 1 136	R 1 172	R 1 207	R 209
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 418
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 627
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 836
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 1 045
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 1 254
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 1 463
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 1 672
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 1 881
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 2 090
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 3 135
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 4 180

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