

Authored by:  
Jacques du Toit  
Senior Economist

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Absa Group  
Economic Research

26th Floor  
Absa Towers  
160 Main Street  
Johannesburg  
2001

PO Box 7735  
Johannesburg  
2000

Tel: +27 (11) 350-7246  
Fax: +27 (11) 350-7252  
E-mail: jacques@absa.co.za

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

### Housing market to show effect of higher interest rates

The Reserve Bank's Monetary Policy Committee (MPC) announced a hike of 50 basis points in the repo rate to 10,5%, prompting banks to raise their prime and mortgage rates to 14%. Interest rates have been hiked by a total of 350 basis points since mid-2006.

Inflationary pressures eased somewhat in August, with year-on-year (y/y) CPIX inflation marginally lower at 6,3% from 6,5% in July. Although these inflation numbers appeared to be positive for the interest rate outlook, rising food and energy prices remain a major concern and a threat to inflation in the near future. These developments, as well as above-inflation wage increases, fuelled inflation expectations over the short term.

Against this background, the MPC was prompted to raise interest rates once again, despite clear indications that consumer demand and growth in credit extension to the domestic private sector, including mortgage advances, are tapering off. These developments are likely to be the result of a number of interest rate hikes since the middle of last year, as well as early indications of the National Credit Act starting to take effect.

The rising trend in interest rates since mid-2006 caused the debt servicing cost of households to increase to about 9,7% of disposable income in the second quarter of 2007, with this ratio expected to increase further on the back of the latest rate hike. This takes account of household debt levels, which increased to 76,6% of disposable income in the second quarter of this year. The household debt ratio is forecast to remain around these levels in the rest of 2007.

The latest interest rate hike will further negatively influence the affordability of housing, and with debt servicing costs set to rise to higher levels, consumers' already stretched financial position will come under even more pressure during the next few quarters. The 350 basis point rise in rates since mid-2006 have caused the average monthly repayment on a mortgage loan to have risen by 24,6%.

In the first three quarters of 2007, nominal year-on-year house price growth averaged 15,3%, but is expected to slow down further in the remaining few months to average around 14,5% for the full year, resulting from changing economic conditions.

Mortgage advances growth, which declined gradually from as high as 30,9% year-on-year in October last year to 26,4% in August, is forecast to continue to slow down towards the end of the year. This will be the result of the current interest rate cycle, the 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 <sup>1</sup> 10.5%-14%
	10.5%	11.0%	11.5%	12.0%	12.5%	13.0%	13.5%	14.0%	
R 100 000	R 998	R 1 032	R 1 066	R 1 101	R 1 136	R 1 172	R 1 207	R 1 244	R 245
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 2 487	R 490
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 3 731	R 735
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 4 974	R 981
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 6 218	R 1 226
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 7 461	R 1 471
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 8 705	R 1 716
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 9 948	R 1 961
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 11 192	R 2 206
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 12 435	R 2 451
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 18 653	R 3 677
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 24 870	R 4 903

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