

# SARB INTEREST RATE DECISION

- Two rate cuts in a row can make some short term difference to residential property, but we remain cautious as to the outlook



## FNB PROPERTY MARKET ANALYTICS

18 November 2010

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### INTEREST RATES DECLINE BY 50 BASIS POINTS. THE 2<sup>ND</sup> CUT IN 2 MONTHS

Today, after 2 days of deliberation, the SARB came out with a widely expected decision to cut interest rates by half a percentage point, taking the repo rate to 5.5%, and prime rate from 9.5% to 9%.

Given that this follows on a rate cut just 2 months ago, the two cuts put together could provide some mild stimulus for residential property demand.

However, once again we caution against expecting fireworks for residential property. The stimulus from interest rate cuts has indeed been a massive one. Since December 2008, the interest rate cuts have totaled 6.5 percentage points, and on a R500,000 bond at prime rate the monthly repayment should have declined by around R2,271 from R6,769 before December 2008 to R4,499.

However, the most recent SARB Quarterly Bulletin indicating that the household levels of indebtedness remain stubbornly high, with the debt-to-disposable income ratio for the 2<sup>nd</sup> quarter at 78.2%, not far below the all-time high of 82%. This would continue to suggest that households as a group are not able to aggressively grow their borrowing off such a high base.

Nevertheless, we do expect that the lower interest rates could help to stabilize the market during 2011, and that the current state of year-on-year house price inflation decline could be arrested towards mid-2011.

#### Implications for the home buyer/owner

Today's interest rate decision sends out a signal that the SARB has little concern over near term inflation pressures. The most recent consumer price inflation rate was 3.2% year-on-year, near to the lower end of the SARB's inflation target range of 3% to 6%, and a solid rand performance has greatly helped to curb imported inflation.

However, there are some early warning signs that the housing segment of the consumer price index may become increasingly troublesome for overall consumer price inflation during 2011. The electricity component of the housing CPI still shows high inflation of 18.3%, while the "water and other services" component also shows a high 9.3%. However, the overall housing CPI inflation rate has, to date, been kept relatively low by a weak rental market, and declining rental inflation. This has been crucial to the fortunes of the overall CPI, because actual and owner occupied rentals are a very important component of the overall CPI. But in September, actual rental inflation began to rise, reflecting earlier improvement in market rentals, and owner occupied inflation can be expected to follow suit. This caused the CPI for housing to rise ever so slightly from 6.26% in August to 6.31% in September year-on-year. While such a small rise is not yet significant, more increase is anticipated, given our view that actual rental market inflation should accelerate as rental demand improves, and given very slow buy-to-let buying which constrains the growth in rental property supply.

In short, therefore, we expect to see a rising housing component of the CPI begin to constrain any further decline in consumer price inflation going forward.

For credit-driven home buyers, therefore, we continue to advocate a cautious approach, because the housing CPI poses 2 risks. Firstly, one needs to make provision for big electricity and possibly water and other utility tariff and hikes, whilst a rise in the housing CPI inflation rate, the biggest single component of the CPI, can have a bearing on the future direction of interest rates. In addition, given that we may be entering "abnormal territory" in terms of low interest rate levels, it can mean that the next interest rate hiking cycle can be extreme. Provision should be made for such an event.



How can we help you?

**CHANGE TO 20-YEAR BOND REPAYMENTS FOLLOWING 50 BP NOVEMBER INTEREST RATE REDUCTION**

Bond Value (20 years)	Monthly repayment at 15.5% prime (Pre-Dec 2008)	Monthly repayment at 9.5% prime (Pre-November 2010)	Monthly repayment at 9% prime	Saving following 50 bps interest rate cut in November 2010	Cumulative Saving following last 650 bps worth of interest rate cuts since December 2008 (including November 2010 cut)
R 300,000	R 4,062	R 2,796	R 2,699	R -97	R -1,362
R 400,000	R 5,416	R 3,729	R 3,599	R -130	R -1,817
R 500,000	R 6,769	R 4,661	R 4,499	R -162	R -2,271
R 600,000	R 8,123	R 5,593	R 5,398	R -194	R -2,725
R 700,000	R 9,477	R 6,525	R 6,298	R -227	R -3,179
R 800,000	R 10,831	R 7,457	R 7,198	R -259	R -3,633
R 900,000	R 12,185	R 8,389	R 8,098	R -292	R -4,087
R 1,000,000	R 13,539	R 9,321	R 8,997	R -324	R -4,542
R 1,100,000	R 14,893	R 10,253	R 9,897	R -356	R -4,996
R 1,200,000	R 16,247	R 11,186	R 10,797	R -389	R -5,450
R 1,300,000	R 17,600	R 12,118	R 11,696	R -421	R -5,904
R 1,400,000	R 18,954	R 13,050	R 12,596	R -454	R -6,358
R 1,500,000	R 20,308	R 13,982	R 13,496	R -486	R -6,812
R 1,750,000	R 23,693	R 16,312	R 15,745	R -567	R -7,948
R 2,000,000	R 27,078	R 18,643	R 17,995	R -648	R -9,083

**Monthly Home Loan Instalment Calculator**

Bond Value (20 years)	Monthly instalment value according to interest rate charged on a 20-year bond											
	16.0%	15.0%	14.0%	13.0%	12.0%	11.0%	10.0%	9.5%	9.0%	8.5%	8.0%	7.5%
R 300,000	R 4,174	R 3,950	R 3,731	R 3,515	R 3,303	R 3,097	R 2,895	R 2,796	R 2,699	R 2,603	R 2,509	R 2,417
R 400,000	R 5,565	R 5,267	R 4,974	R 4,686	R 4,404	R 4,129	R 3,860	R 3,729	R 3,599	R 3,471	R 3,346	R 3,222
R 500,000	R 6,956	R 6,584	R 6,218	R 5,858	R 5,505	R 5,161	R 4,825	R 4,661	R 4,499	R 4,339	R 4,182	R 4,028
R 600,000	R 8,348	R 7,901	R 7,461	R 7,029	R 6,607	R 6,193	R 5,790	R 5,593	R 5,398	R 5,207	R 5,019	R 4,834
R 700,000	R 9,739	R 9,218	R 8,705	R 8,201	R 7,708	R 7,225	R 6,755	R 6,525	R 6,298	R 6,075	R 5,855	R 5,639
R 800,000	R 11,130	R 10,534	R 9,948	R 9,373	R 8,809	R 8,258	R 7,720	R 7,457	R 7,198	R 6,943	R 6,692	R 6,445
R 900,000	R 12,521	R 11,851	R 11,192	R 10,544	R 9,910	R 9,290	R 8,685	R 8,389	R 8,098	R 7,810	R 7,528	R 7,250
R 1,000,000	R 13,913	R 13,168	R 12,435	R 11,716	R 11,011	R 10,322	R 9,650	R 9,321	R 8,997	R 8,678	R 8,364	R 8,056
R 1,100,000	R 15,304	R 14,485	R 13,679	R 12,887	R 12,112	R 11,354	R 10,615	R 10,253	R 9,897	R 9,546	R 9,201	R 8,862
R 1,200,000	R 16,695	R 15,801	R 14,922	R 14,059	R 13,213	R 12,386	R 11,580	R 11,186	R 10,797	R 10,414	R 10,037	R 9,667
R 1,300,000	R 18,086	R 17,118	R 16,166	R 15,230	R 14,314	R 13,418	R 12,545	R 12,118	R 11,696	R 11,282	R 10,874	R 10,473
R 1,400,000	R 19,478	R 18,435	R 17,409	R 16,402	R 15,415	R 14,451	R 13,510	R 13,050	R 12,596	R 12,150	R 11,710	R 11,278
R 1,500,000	R 20,869	R 19,752	R 18,653	R 17,574	R 16,516	R 15,483	R 14,475	R 13,982	R 13,496	R 13,017	R 12,547	R 12,084
R 1,750,000	R 24,347	R 23,044	R 21,762	R 20,503	R 19,269	R 18,063	R 16,888	R 16,312	R 15,745	R 15,187	R 14,638	R 14,098
R 2,000,000	R 27,825	R 26,336	R 24,870	R 23,432	R 22,022	R 20,644	R 19,300	R 18,643	R 17,995	R 17,356	R 16,729	R 16,112
R 2,100,000	R 29,216	R 27,653	R 26,114	R 24,603	R 23,123	R 21,676	R 20,265	R 19,575	R 18,894	R 18,224	R 17,565	R 16,917
R 2,200,000	R 30,608	R 28,969	R 27,357	R 25,775	R 24,224	R 22,708	R 21,230	R 20,507	R 19,794	R 19,092	R 18,402	R 17,723
R 2,300,000	R 31,999	R 30,286	R 28,601	R 26,946	R 25,325	R 23,740	R 22,195	R 21,439	R 20,694	R 19,960	R 19,238	R 18,529
R 2,400,000	R 33,390	R 31,603	R 29,844	R 28,118	R 26,426	R 24,773	R 23,161	R 22,371	R 21,593	R 20,828	R 20,075	R 19,334
R 2,500,000	R 34,781	R 32,920	R 31,088	R 29,289	R 27,527	R 25,805	R 24,126	R 23,303	R 22,493	R 21,696	R 20,911	R 20,140
R 2,600,000	R 36,173	R 34,237	R 32,332	R 30,461	R 28,628	R 26,837	R 25,091	R 24,235	R 23,393	R 22,563	R 21,747	R 20,945
R 2,700,000	R 37,564	R 35,553	R 33,575	R 31,633	R 29,729	R 27,869	R 26,056	R 25,168	R 24,293	R 23,431	R 22,584	R 21,751
R 2,800,000	R 38,955	R 36,870	R 34,819	R 32,804	R 30,830	R 28,901	R 27,021	R 26,100	R 25,192	R 24,299	R 23,420	R 22,557
R 2,900,000	R 40,346	R 38,187	R 36,062	R 33,976	R 31,931	R 29,933	R 27,986	R 27,032	R 26,092	R 25,167	R 24,257	R 23,362
R 3,000,000	R 41,738	R 39,504	R 37,306	R 35,147	R 33,033	R 30,966	R 28,951	R 27,964	R 26,992	R 26,035	R 25,093	R 24,168

*\*Note: The above rates are indicative only. Actual instalment values can differ mildly depending on the method of calculation applied by a lending institution*



How can we help you?