

Home Loans



Compiled by
Jacques du Toit
Property Analyst
Absa Home Loans

45 Mooi Street
Johannesburg | 2001

PO Box 7735
Johannesburg | 2000
South Africa

Tel +27 (0) 11 350 7246
jacques@absa.co.za
www.absa.co.za

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Interest rates

19 July 2012

Interest rates cut by 50 basis points

After remaining unchanged since last cut in November 2010, the South African Reserve Bank's Monetary Policy Committee (MPC) lowered the key monetary policy interest rate – the repo rate – by 50 basis points to 5%. On the back of this cut in the repo rate, Absa announced that its prime lending and variable mortgage interest rates will drop from 9% to 8,5%, effective from 20 July 2012. The market consensus was for rates to remain unchanged.

The latest rate cut will bring the mortgage rate to a level last seen in December 1973, whereas the prime lending rate will be at its lowest level since early 1974. As a result of a further drop in the mortgage rate, monthly repayments on mortgage loans will in general be 35,9% lower compared with early December 2008 when the mortgage rate was 15,5%.

The further cut in interest rates came against the background of a struggling global economy, which is feared to impact the local economy. The headline consumer price inflation rate (CPI) is back within the inflation target range of 3%-6%, after reaching a level of 6,3% year-on-year in January this year. Headline CPI came in at 5,5% y/y in June 2012, with the average for the first six months of the year at 6% y/y. Food price inflation, having a weighting of 14,3% in the headline index, was 6% y/y in June (6,8% y/y in May), averaging 8,6% y/y over the past six months. Core inflation remained relatively stable at around 4,4% y/y in the first half of the year.

There are, however, indications of upward pressure on international food prices, which might affect local food price inflation in the near term. The MPC sees the higher international grain prices as a result of severe drought conditions in the US as a risk to the inflation outlook. The Reserve Bank's forecast is for consumer prices to rise by an average of 5,6 y/y in 2012, and 5,1% y/y in both 2013 and 2014. Growth in real gross domestic product (GDP) is forecast by the Reserve Bank at 2,7% for 2012, 3,8% in 2013 and 4,1% in 2014.

The future outlook for interest rates will depend on global and domestic economic developments and movements in key indicators such as economic growth, inflation and the factors affecting inflation, which are expected to impact household and company finances as well as consumer and business confidence and spending.

Inflation and interest rates in 2012

	Jan	Feb	Mar	Apr	May	Jun	Jul
Headline CPI inflation (y/y %)	6.3	6.1	6.0	6.1	5.7	5.5	-
Core CPI inflation (y/y %) ¹	4.3	4.3	4.4	4.5	4.4	4.6	-
Repo rate (%)	5.5	5.5	5.5	5.5	5.5	5.5	5.0
Prime interest rate (%)	9.0	9.0	9.0	9.0	9.0	9.0	8.5
Mortgage interest rate (%)	9.0	9.0	9.0	9.0	9.0	9.0	8.5

¹Core CPI inflation: Headline CPI inflation excluding food, non-alcoholic beverages, petrol and energy

Sources: SARB, Stats SA

Monthly mortgage repayment

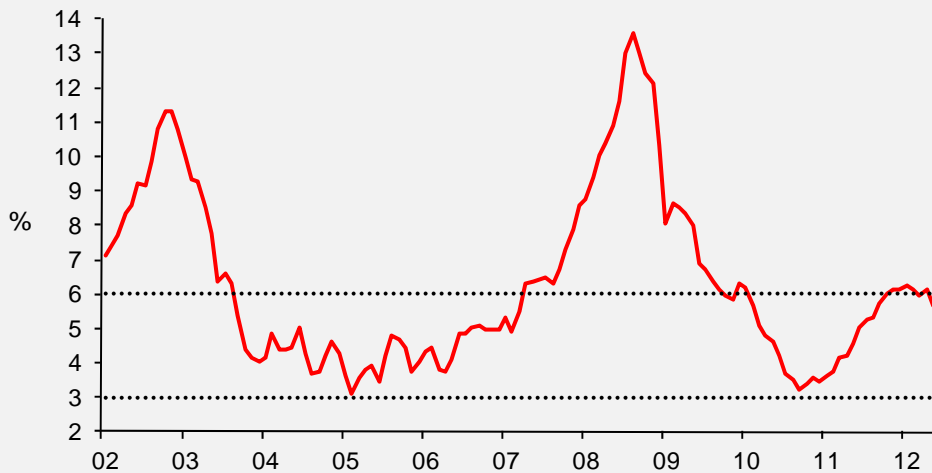
Calculated over a period of 20 years

Loan amount	Repayment at a mortgage rate of			Reduction in repayment 9.0%-8.5%	Cumulative reduction in repayment ¹ 15.5%-8.5%
	8.5%	9.0%	15.5%		
R 100 000	R 868	R 900	R 1 354	R 32	R 486
R 200 000	R 1 736	R 1 799	R 2 708	R 64	R 972
R 300 000	R 2 603	R 2 699	R 4 062	R 96	R 1 458
R 400 000	R 3 471	R 3 599	R 5 416	R 128	R 1 944
R 500 000	R 4 339	R 4 499	R 6 769	R 160	R 2 430
R 600 000	R 5 207	R 5 398	R 8 123	R 191	R 2 916
R 700 000	R 6 075	R 6 298	R 9 477	R 223	R 3 402
R 800 000	R 6 943	R 7 198	R 10 831	R 255	R 3 888
R 900 000	R 7 810	R 8 098	R 12 185	R 287	R 4 375
R 1 000 000	R 8 678	R 8 997	R 13 539	R 319	R 4 861
R 1 500 000	R 13 017	R 13 496	R 20 308	R 479	R 7 291
R 2 000 000	R 17 356	R 17 995	R 27 078	R 638	R 9 721
R 2 500 000	R 21 696	R 22 493	R 33 847	R 798	R 12 151
R 3 000 000	R 26 035	R 26 992	R 40 616	R 957	R 14 582
R 3 500 000	R 30 374	R 31 490	R 47 386	R 1 117	R 17 012
R 4 000 000	R 34 713	R 35 989	R 54 155	R 1 276	R 19 442
R 4 500 000	R 39 052	R 40 488	R 60 925	R 1 436	R 21 873
R 5 000 000	R 43 391	R 44 986	R 67 694	R 1 595	R 24 303

¹Since December 2008

Targeted inflation*

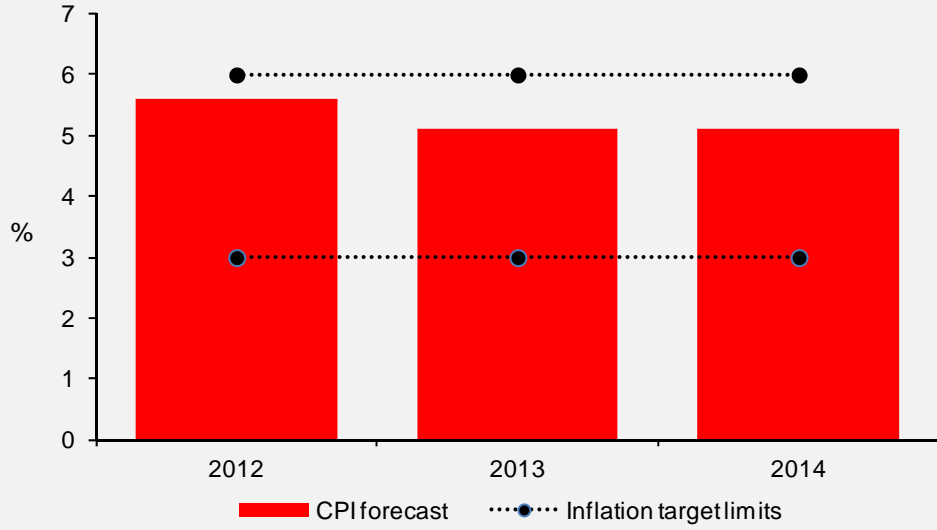
*CPIX for metropolitan and other urban areas up to end-2008; CPI for all urban areas from January 2009



Source: Stats SA

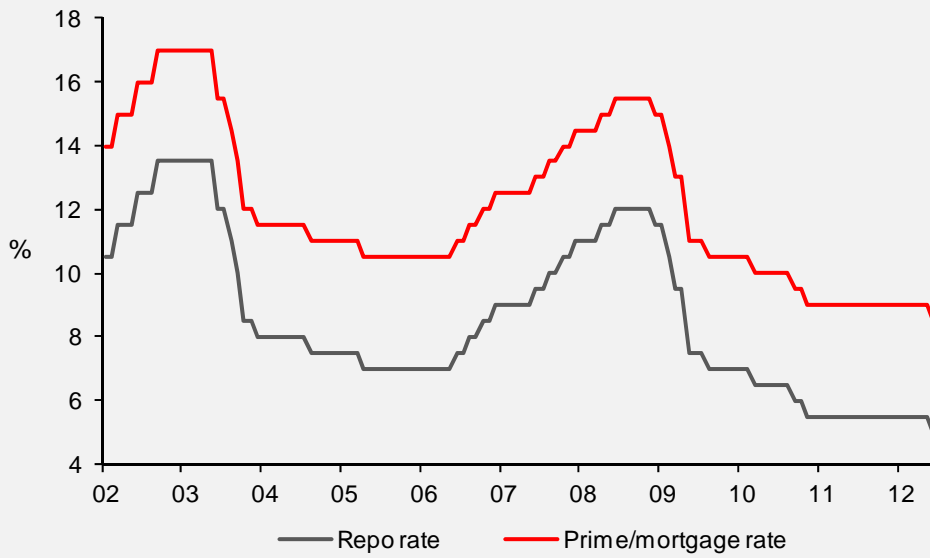
Headline CPI inflation forecast

All urban areas



Source: SARB

Interest rates



Source: SARB