SARB has missed the mark, interest rate stimulus vital for economy


By Samuel Seeff

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The Reserve Bank has completely missed the mark with their decision to retain the repo rate at 3.5% (home loan base rate at 7%). The country and economy desperately need a stimulus and, while probably expected, it is disappointing that the bank has not taken the opportunity to provide some impetus.

Samuel Seeff, chairman of the Seeff Property Group

All that can be done must be done from a domestic perspective to stimulate the economy and contain business and job losses. There was opportunity for a rate cut during the last two Monetary Policy Committee meetings, as evident from the split decisions, especially in January when inflation fell to a 16-year low. Inflation has declined further in February to 2.9%, well below the bank's target, providing ample motivation for a rate cut.

Sales activity still falling short

Even if the petrol price increase fuels (pun intended!) higher inflation, this would be imported inflation and not as a result of South Africans spending wildly and irresponsibly. In fact, far from it. Even in the property market, where we have seen the biggest impact of the rate cuts, sales activity still falls short of what we could expect from such a low interest rate.

We are unlikely to see any noteworthy uptick in the economy this year. A potential third wave of the Covid pandemic is looming, and we are still anxiously awaiting a decisive vaccination roll-out programme without which we remain at an economic impasse.

As we have seen, the interest rate has been the biggest factor and motivator for the property market, not just enabling many more first-time buyers to invest in their own homes, but providing a resultant positive multiplier effect across many industries in the economy.

However, we should potentially have seen much higher levels of activity given that the interest rate is down by about 30% from just over a year ago and it remains a "tale of two markets", first-time buyers versus high-end buyers. It is essentially only the R750,000 to R3m price sectors driving the activity that we continue seeing in the market.

Predictable outcome as interest rate holds steady

Adrian Goslett 25 Mar 2021

High-end buyers waiting for GDP growth

High-end buyers continue reflecting the decline in confidence which has been evident since 2017. They are simply not prepared to invest more into the property market until they see GDP growth and demonstrable action on corruption and the state-owned enterprises. When they do buy, they are spending much less on real estate, possibly choosing to shift the remainder into offshore assets.

Although the interest rate has been great for property, a cut would provide an added boost. The market is currently achieving around 18,000 to 20,000 monthly transactions, reflecting that only about 3% of economically active individuals are buying property. This leaves room for growth in sales volumes, transfer duty for government and the multiplying knock-on benefits for the economy.

Looking ahead, the outlook for property remains positive and the market will remain active, driven largely by salary-earners taking advantage of the interest rate. To date, we have seen a steady stream of sellers and may start seeing some stock shortages soon, but for now, the market remains well balanced.

ABOUT SAMUEL SEEFF

Samuel Seeff is chairman of the Seeff Group.

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