Lower inflation a positive indicator for potential interest-rate cuts - Andrew Golding

By Andrew Golding

26 Jan 2024

With headline inflation easing to 5.1% in December 2023, down from 5.5% in November and a high of 7.1% in March 2023, as anticipated, the Monetary Policy Committee (MPC) left the repo rate unchanged at 8.25% for the fourth consecutive meeting, as announced on Thursday, 25 January 2024.

Source: Pexels

While the stability of the repo rate is positive news for the housing market, the current higher debt costs as a result of the prevailing interest rates, means that consumers – including home buyers and existing mortgage holders - and businesses remain under pressure amid a tepid economy, with ongoing load shedding and increased electricity and other municipal tariffs weighing heavily on all sectors.

Lower inflation and interest-rate cuts are inevitably positive for consumer confidence, a crucial ingredient for renewed buoyancy in the housing market.

Notably, according to FNB statistics, financial pressure accounted for 25% of all residential property sales in Q4 2023, exceeding the historical average of 18% and now the most important reason cited by sellers. Reduced interest rates would help boost economic confidence and encourage increased housing market activity, with the likelihood of a new cycle of real house-price growth.

While there is little disagreement over the fact that interest rates have peaked and are ultimately headed lower this year, there is less certainty as to both the timing and extent of those cuts.

As the Governor of the Reserve Bank has clearly stated his intention to cement inflation expectations around the mid-point (4.5%) before taking his foot off the brake, local market expectations seem to be shifting to the first cut in rates materialising during the second half of the year.

SA is unlikely to start reducing the repo rate until the Fed makes the first move. Initial optimism that the Fed could start cutting interest rates in March has faded with the first reduction expected in the second quarter – or later.

However, according to market analysts, it appears likely that the Reserve Bank will cut by a total of 75 basis points during the second half of the year, with further cuts possible in 2025.

Residential property trends in South Africa

According to the *Pam Golding Residential Property Index*, national house price inflation stabilised at +2.7% in Q4 2023. Unsurprisingly, due to the strong demand for homes in the lower price band, house price inflation in the category below R1m continued to accelerate in Q4 2023, averaging +7.1%.

Cape Town continued to outperform relative to other major metro housing markets during the period from January to September 2023 (latest data), with house price growth of 3.46%, followed by Nelson Mandela Bay at 1.51%, Tshwane 1.41%, Ekurhuleni 1.37%, eThekwini 1.05% and Johannesburg -0.68%.

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Positively, according to FNB's *Estate Agent Survey Q4 2023*, average time on the market has improved slightly, while according to ooba Home Loans, first-time home buyer applications remained stable and actually increased marginally last year (2023) in Gauteng South and East, KwaZulu-Natal and the Free State. In addition, ooba Home Loans reports that the average concession relative to prime averaged -0.44% last year compared to -0.38% in 2022.

Bucking current trends, and also according to ooba Home Loans, the demand for investment or buy-to-rent properties soared in December 2023, rising to 14.9% of total applications – the highest since November 2008. Demand in the Western Cape remained the driving force behind the national rebound, accounting for a whopping 30% of total applications received in Q4 2023.

Pam Golding Properties is also experiencing increased activity and enquiries in the high-end luxury market from R25m upwards, in prime, sought-after locations particularly in Cape Town, Johannesburg's northern suburbs, and Garden Route areas such as Plettenberg Bay and Knysna.

ABOUT ANDREW GOLDING

Andrew Golding is the chief executive of the Pam Golding Property group.

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