BIZCOMMUNITY

Repo rate holds steady for 5th consecutive MPC meeting

The announcement by the Monetary Policy Committee (MPC) that the repo rate would remain unchanged at 8.25% - meaning that the prime rate holds steady at 11.75% - was disappointing for consumers with significant borrowings, including those with existing mortgages as well as first-time home buyers, says Andrew Golding, chief executive of the Pam Golding Property group.

Source: Supplied. Andrew Golding, chief executive of the Pam Golding Property group.

With inflation at a four-month high, rising to 5.6% in February from 5.3% in January 2024, this is the fifth consecutive MPC meeting where the repo rate has remained stable.

Says Golding: "Although the resilience of the residential property market continues to shine through despite the current weak economy and financial pressures faced by consumers, with FNB and Pam Golding Properties' own data reflecting that buying activity has trended higher in recent months, some respite in the form of a reduction in the interest rate would have gone a long way to bolster confidence and sentiment in the market.

"According to FNB's estate agency survey, increased housing market activity saw time on the market improve from 11 weeks and four days in Q4 2023 to 10 weeks and six days in Q1 2024, led by the Western Cape, where time on the market fell to seven weeks and one day, while Gauteng also registered an improvement.

"And despite slowing during the past year, relocation or semigration has remained elevated, rising from 11% in Q4 2023 to

13% in Q1 2024 – seen against the long-term average of 9% since the pandemic.

“With a weak economy and the uncertainty ahead of the general elections, it is currently a challenging environment for the housing market – which is awaiting interest rate relief. Nonetheless, life goes on – children need to go to school, couples marry and people accept jobs in new locations – all of which translates into property-related decisions, which include returning expats.

"We are also seeing renewed interest from international buyers, which incorporates those from the rest of Africa.

“Positively, market commentators are still anticipating that interest rates are likely to begin to decline later this year, providing a boost in confidence and general market sentiment.

"This provides comfort for those who can afford to purchase a home in the current environment, particularly as there are still value-for-money opportunities in many areas around the country.

"However, the market is not a one-size-fits-all situation but rather based on specific and particular supply and demand factors in almost every area and suburb across all regions. Certainly, there is a strong appetite for investment property – particularly in the Western Cape – showing a continued belief in the value of property investment.

“The recent interest rate hiking cycle – which began in November 2021 and ended in May 2023 and resulted in 475bps of rate hikes, was aimed both at normalising interest rates - which had been slashed to historic lows during the pandemic - and at containing the inflationary pressures unleashed first by the pandemic (notably supply-chain disruptions) and then by assorted other factors including the war in Ukraine coupled with the disruption this caused to food and energy markets.

“While the rate hikes have been successful in bringing inflation down from post-pandemic highs, a consistent message from central bankers – including both the Fed and our own Reserve Bank – has been that there is little point in easing interest rates before inflation has been successfully contained.

“The Governor of the Reserve Bank has stated that the Bank would like to see inflation settle around the inflation target mid-point (4.5%) before the MPC starts cutting interest rates.

"Unfortunately, the most recent local inflation rate surprised on the upside at 5.6% in February – close to the upper inflation target limit of 6% and a four-month high. This reading reflects higher fuel prices and a steep increase in the cost of medical aid, which is surveyed twice a year.

"Of particular concern is that core inflation - excluding food, non-alcoholic beverages, fuel and energy prices - also rose by more than expected and increased to 5%, up from 4.5% in previous months. Core inflation is a measure of underlying inflationary pressures in the economy and is thus closely monitored by the MPC.”

Concludes Golding: “With US interest rates remaining higher for longer, the dollar is likely to remain stronger and hence the Rand may well remain under pressure.

"This means the Fed’s decisions are of key interest to the local MPC, as the rand plays a critical role in the local inflation outlook.”