

Has SA reached its interest rate hike cycle peak yet?

Yesterday's interest rate hike of 50 basis points brings the repo rate to 7.75% and the prime rate to 11.25%. This is 425 basis points above the low of 7% during the worst of the pandemic, and is 1.25% higher than the levels prevailing before the pandemic.



Source: Reuters.

While this hike, which brings the prime lending rate to a level last seen in 2009, is a necessary step to help curb local inflation, it has left many South Africans wondering 'have we finally reached the peak of the interest rate cycle?'

Rhys Dyer, chief executive officer of ooba Home Loans shares that the answer to this is complex and dependent on various external factors outside of the South African Reserve Bank's control.

"There's been much speculation by economists and industry experts around the peak of the interest-rate cycle. However, various uncontrollable macroeconomic factors make it difficult to predict. Load shedding has undoubtedly had a compounding effect on economic activity, and the supply of goods, and this is evident in the recent GDP dip of 1.3% in Q4 2022."

Stabilisation of interest rates

Dyer does, however, believe that there is a strong promise of the stabilisation of interest rates in the near future as inflation starts to settle. "On balance we think this will be the peak of the current interest-rate cycle, with the marked weakening in the economy during the final quarter of 2022 and into early 2023 – due largely to the persistent power crisis - likely to limit the Reserve Bank's appetite for further interest-rate hikes, provided that inflation expectations moderate."

“While a volatile climate has slowed home-buying activity among rates sensitive first-time homebuyers, the general outlook remains positive as banks continue to compete for home loan business, stimulating ongoing activity in the market.” Investor buyers continue to show confidence in the housing market.

In spite of this cautious optimism, it is clear that the impact of a high interest-rate environment is being felt by both homeowners and tenants. “While homeowners are bearing the brunt of these hikes due to increases in their monthly repayments, tenants are starting to feel the pinch too.

“Landlords are having to increase rental prices to cover their own increased bonds. For some tenants, this might be the final push that causes them to enter the market as prospective homeowners.

“We do believe that it is still a good time to buy, primarily because of the competitive rates that banks are offering (often below prime), easing home-loan affordability, together with the lower cost of homes in many parts of the country.”

In response to the effects of the prime lending rate, property-price growth has slowed and is now showing meagre nominal growth. The average purchase price in February 2023 sits at R1,446 534, just 1.9% above year-earlier levels, according to Dyer. With inflation at 7%, that is negative real house price growth.

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