Repo rate unchanged for now

On Thursday, 27 March, the Monetary Policy Committee of the Reserve Bank announced its decision to keep the repo rate at 5.5%.

The decision came on the back of the Rand's improved performance and a marginally improved inflation outlook, and is good news, for the moment.

Hikes to happen slowly

Home owners have already had to tighten their belts with the recent, unexpected repo rate hike and it seems that the current reprieve is merely a respite from further hikes now expected. John Loos, FNB household and property sector strategist revealed the bank's prediction that the prime rate, currently at 9%, will also increase, ending 2014 a little higher at 10% with a further rise in 2015 to 11%, in what it expects to be a 'modest rate hiking cycle.'

Dr Roelof Botha, economic advisor to PwC is quoted as saying that, "An issue that was apparently overlooked by most of the rather frenzied media reporting on the 2014 budget speech is National Treasury's view on inflation. According to the latter, consumer inflation should not move beyond a level of 6.2% later in the year, after which it is expected to drop to below 6% again. This forecast is important for mortgage holders, as it implies (if National Treasury is correct) that the recent increase of 50 basis points in the SARB's official repo rate may have been the last for some time to come and that the prime rate could remain at 9% well into the future."

Bruce Swain, MD of Leapfrog Property Group believes that "the governor of the Reserve Bank is in a precarious position as the weak rand and higher risk profile of the country impact negatively on investors and call for an increase in the repo rate. However this will impact negatively on the already expected poor economic performance/low growth rate. I am of the opinion that the repo rate will stay the same for the foreseeable future."

"We've known that the recent low, stable repo rate would not remain indefinitely and it has started climbing again, albeit slowly. As such my advice to home owners would be to make the most of this brief pause, saving as much as possible. Just because predictions are that the rate hiking cycle will be moderate, things could always change and change quickly," says Swain.

Overextended households face hardship

John Loos uses figures from the FNB Estate Agent Survey conducted towards the end of 2013 to illustrate that around 14% of home sellers were "selling to downscale due to financial pressure". Admittedly this figure is much lower than the recorded 34% registered during the 2nd quarter of 2009, but it's still high.

Loos urges buyers to consider not only their repayment rates but also the cost of maintaining a property before making a decision to purchase. Swain agrees, adding that "people often forget to factor in the municipal rates and general maintenance costs when it comes to property and end up purchasing above their means - we all need a home but think twice before buying to avoid buyer's remorse later on."

He advises current home owners to pay as much into their bonds as possible. "What is certain is that the repo rate will increase again and home owners would be wise to decrease their mortgages now as further hikes will put pressure on their disposable income."