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Published by:
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Mortgage advances growth declining gradually

Data released by the South African Reserve Bank showed growth of 26,4% year-on-year was recorded in mortgage advances by the monetary sector in August 2007 (26,7% in July). This brought the total amount of mortgage advances to R793,1 billion in August.

On a month-on-month basis, mortgage advances growth was unchanged at 2,3% in August from July. The amount of mortgage advances increased by R17,7 billion in August from R775,4 billion in July.

The declining trend in year-on-year growth in mortgage advances since peaking at 30,9% in October last year, could be ascribed to the lagged effect of higher interest rates since mid-2006. The recently implemented National Credit Act is probably also starting to have a gradual dampening effect on domestic credit extension, including mortgage advances. In August the year-on-year growth in credit extension to the domestic private sector declined further to 22,9% from 23,1% in July and 24,8% in June.

Inflationary pressures eased somewhat in August, with year-on-year (y/y) CPIX inflation marginally lower at 6,3% from 6,5% in July. However, food inflation remains a major concern, increasing to 11,1% in August from 10,2% in July. Food price inflation in August was largely driven by dairy products (+16,5% y/y), grain products (+14,4%) and vegetables (+14,1%). PPI inflation eased from 10,3% y/y in July to 9,4% in August, mainly as a result of a significantly lower inflation rate recorded in the domestic component of PPI.

Although the latest inflation numbers appear to be positive for the interest rate outlook, both PPI and CPIX inflation remain under upward pressure from rising food and energy prices. The Reserve Bank's MPC meets again on 10 and 11 October to decide on interest rates. Although the view with regard to keeping rates stable or hiking further is currently evenly balanced, the MPC may well decide to keep rates unchanged in the face of slowing domestic demand and credit extension as a result of previous rate hikes and the implementation of the NCA. Against this background, mortgage advances growth is expected to continue declining gradually towards the end of the year.

