

Rate cuts start to have positive effect on house prices

The 500 basis points rate cuts that started in December 2008 are starting to have a positive effect on house prices, FNB said on Thursday. The 500 basis points rate cuts that started in December 2008 are starting to have a positive effect on house prices, FNB said on Thursday.

Releasing the latest FNB House Price Index, property analyst Eward Kellerman said the deflation rate for September was -4.4 percent year-on-year, significantly less than a revised August rate of -6.5 percent.

"At this rate, year-on-year deflation will probably be a thing of the past before year-end," he noted.

According to Kellerman, the diminishing price deflation trend was a strong sign that the positive impact of 500 basis points' worth of interest rate cuts since December 2008 was starting to be felt in terms of residential market performance.

"It is becoming clearer that the recent months' diminishing price deflation is indeed the start of a trend back towards price inflation, following on an improving trend in demand and transaction volumes, which started earlier in 2009," he said.

The improvement in the market to date had been very much due to interest rate cuts, which had improved the household sector's ability to service debt.

However, Kellerman added that there had been no real help from the economy, which had exerted huge pressure on households' disposable incomes.

The improvement in the market had not only been seen in the volume of transactions and diminishing price deflation, but also in an improvement in credit quality.

"FNB has seen home loan arrears numbers improving, while second quarter insolvencies were down by -40 percent year-on-year," Kellerman said.

The September house price numbers represented the third consecutive month of diminishing house price deflation, suggesting that an improving trend had indeed been established," he added.

Kellerman said there had been an increase in residential demand in recent times, mostly driven by a series of interest rate cuts.

"However, this strengthening in demand has been slow and moderate, because against interest rate cuts the country has had the spectre of declining real household income, caused by the combination of job loss, deteriorating discretionary remuneration, and weaker investment income flows to households in tough economic times."

Therefore, he added, it would not appear that oversupplies of property on the market had been entirely eliminated yet.

With regard to the economy, there had been some early signs of levelling out, with the SA Reserve Bank Leading Business Cycle Indicator starting a rising trend during recent months after a major decline in 2008.

"It is conceivable that economy-wide production could be showing some signs of stabilising, and that the third quarter may have seen the end of the recession."

However, Kellerman emphasised that the platform off which the USA hoped to launch its economic recovery did not appear very stable, with that country's various debt and debt-service ratios still at or near the highest levels in history.

"In SA, too, the household debt to disposable income has made little downward progress, due to incomes being under huge pressure and making debt reduction slow going."

Kellerman said that realistically, while FNB expected to see a move back to house price inflation in 2010, the expectation was that average price inflation for next year would be moderate at around 5 percent.

Sapa