

## CONSUMER AND RETAIL – Interest Rate Decision

*SARB MPC leaves Repo rate unchanged, as expected and we believe most appropriate from a consumer point of view*

24 January 2017

**The South African Reserve Bank (SARB) Monetary Policy Committee (MPC) today decided to leave its policy Repo Rate unchanged at 7%, where it has been since March 2016. This will leave Prime Lending Rates at 10.5%.**

This unchanged decision was widely anticipated.

Our FNB forecast is for the Repo Rate to remain unchanged through the entire 2017

The decision comes despite a recent food price inflation surge sustaining Consumer Price Index (CPI) inflation at levels above the 6% upper target limits of the SARB, at 6.8% year-on-year in December. However, the alleviation of drought conditions appears set to lower food price inflation, and we expect this to gradually pull CPI inflation back into the 3-6% target range this year.

The SARB forecasts 6.2% CPI inflation average for 2017, returning to 3-6% target range in the final quarter of the year.

**From a Household and Consumer point of view we believe the SARB's current policy stance to be absolutely appropriate:**

- Current interest rate levels appear sufficient to keep all exuberance out of the household and consumer credit markets, keeping household credit growth low and contributing to an ongoing and very healthy decline in the all important Household Debt-to-Disposable Income Ratio. Low consumer confidence doesn't necessitate any further rate hiking at present in order to curb credit growth.
- But at the same time, the mild rate hiking phase from 2014 to early-2016, followed by the lengthy period of unchanged rates has not caused undue financial stress in the Household Sector.

**With regard to the housing market:**

- The level of rates is well above the recent percentage for house price inflation, limiting the potential for any unhealthy speculating activity in the housing market.
- But on the other hand, the onset of sideways movement in rates since March 2016, we believe, will limit the potential for decline average house prices, something undesirable for mortgage lenders and mortgage borrowers alike. The most recent FNB House Price Index for December inflated by a mere 1.6% year-on-year, but we believe that unchanged rates through 2017 will contribute to ongoing low positive average house price growth in 2017.

**All in all, therefore, we believe that current rate levels strike a nice balance from the point of view of contributing to healthy consumer/household financial behavior.**

**JOHN LOOS:  
HOUSEHOLD AND PROPERTY SECTOR STRATEGIST  
087-328 0151  
John.loos@fnb.co.za**

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