



# FOCUS

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## End to interest rate hiking cycle may not have arrived yet

Many a consumer may have hoped for some festive season spending relief but this was dealt a blow by the most recent decision by the Reserve Bank to hike interest rates yet again by 50 basis points in the first week of December following a series of hikes since June last year.

The most recent rate hike, which was widely expected by investors and already priced in by the market, has brought the prime interest rate to 14.5% - four percentage points up from when rates first started climbing about 18 months ago.

How have these increases affected the ordinary person in the street and what can we expect going forward?

Interest rate changes typically take one to one-and-a-half years to really feed through to the economy. This is because consumers don't change their behaviour immediately and take time to adjust their lifestyles to the higher costs of living. Before consuming less, they tend to save a little less first, then load up the credit card and finally, if the higher interest rate environment stays around for a while, they begin to buy fewer goods.

This effect of recent rate increases (just over one year after the first rate hikes started) is now being seen in declining retail sales growth and plunging vehicle sales. Passenger vehicle sales are down 20 percent since mid-2006 while retail sales are growing at the slowest pace in four years. Independent equity research firm Avior has even predicted that retail sales growth may soon go into negative territory.

The sectors that have been most affected by the consecutive interest rate hikes are retail, vehicle and other consumer sectors. While there have been recent reports by Statistics SA that residential building renovations in various cities are also starting to be hampered, the construction and infrastructure development sector of the economy continues to be strong mainly because the government has committed billions of rands to the development of roads, buildings and energy capacity. These sectors are therefore keeping the overall economic growth buoyant.

Looking ahead, it is very hard to predict any cycle when it nears its peak. Although the South African Reserve Bank may not be finished raising interest rates, there are indications that they may be nearing the end. A slowing consumer sector and softer GDP growth point to the beginning of the end of the interest rate hikes. However, on the negative side, international oil and food prices remain buoyant and unless the rand regains some significant strength, the Reserve Bank will continue to be wary of further inflationary pressures.



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The Reserve Bank has indicated that their models show that we are approaching the peak in inflation, after which we will see the inflation numbers begin to decline. However, the inflation numbers released at the end of November were worse than expected with the key CPIX measure breaching seven percent - leading analysts to the conclusion that the peak in inflation may be further out, along with the end of the interest rate hiking cycle.



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