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Explanatory notes:

The Absa House Price Index is based on the total purchase price of houses in the 80m²-400m² size category, valued at R2,7 million or less in 2006 (including improvements), in respect of which loan applications were approved by Absa. Prices are smoothed in an attempt to exclude the distorting effect of seasonal factors and outliers in the data. As a result, the most recent index figures may differ materially from previously published figures.

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Lower house price growth recorded in June

Growth in house prices in the middle segment of the market (see explanatory notes) declined to a nominal 14,9% year-on-year in June 2007, according to the latest Absa House Price Index. This brought the average price of a house to about R924 800 in June. Nominal price growth was 15,4% year-on-year in May. In the first half of 2007 average nominal house price growth of 15,5% was recorded compared with the same period last year.

Real year-on-year growth in house prices of 7,9% was registered in May (the lowest growth since February 2003 when it was also 7,9%) compared with a revised growth rate of 8,1% in April, based on the headline consumer price index. In the first five months of 2007, real growth in house prices averaged 8,7% year-on-year.

On a month-on-month basis, nominal house price growth slowed further to 0,6% in June (0,8% in May), which was the slowest nominal month-on-month growth recorded since September 1999 when it was 0,4%. In real terms, house prices increased by 0,2% month-on-month in May.

Against the background of the full implementation of National Credit Act (NCA) in June and the possible impact this could have had on house price growth in the past month, it is probably too early to make a definite conclusion that the NCA resulted in the growth rate slowing down further. The possible full effect of the NCA on the growth in house prices may only become visible in a couple of months' time.

The Reserve Bank's Monetary Policy Committee (MPC) hiked the key monetary policy interest rate, the repo rate, by 50 basis points in June after rates were left unchanged at the February and April meetings this year. This resulted in banks' prime and mortgage lending rates rising to 13%. The MPC stated that the main reason for the further increase in interest rates was continued upward pressure on producer and consumer price inflation. This was caused by volatility in international oil prices and the rand exchange rate, pushing domestic fuel prices to record highs. Rising food prices on the back of adverse weather conditions also contributed to these inflationary pressures.

Nominal month-on-month house price growth continued its downward trend since the start of the year and reached its lowest level in more than 7½ years in June. This caused slower year-on-year growth, and a further moderation is expected in the remaining months of 2007, mainly as a result of declining month-on-month growth, while the higher interest rates are also set to lead to lower growth in house prices.

