An opportunity for momentum?

By Richard Gray

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Over the last two weeks, South Africa has undergone a second round of ratings reviews for the year. Very real fears have been allayed now that all three ratings agencies - Moody's, Fitch and S&P - would lower our investment grade to 'junk'. As it happened, they have all retained us at investment grade. But unless we take concerted action, this may be a temporary reprieve.

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Looking back on 2016, the prospects of a downgrade to a sub-investment rating were a central preoccupation, and with good reason. The impact of this in terms of lost portfolio investments (and hence our current account deficit) and the effect of increased borrowing costs would have come as a major blow to South Africa as the economy tries to find its feet after a tough few years.

The probable knock-on effect would have been to nudge South Africa into a recession.

For the property market, all this would have severely compounded an already difficult set of circumstances. In all likelihood, inflation would have surged, promptly followed by interest rate hikes. While a scenario reminiscent of the late 1990s – when rates exceeded 20% - would not be certain, it could also not be ruled out. As we have pointed out previously, economists at Rand Merchant Bank estimate that South Africa would take over seven years to escape a sub-investment grade rating.

Squeeze on income

This would compound the difficulties that many South African households are already experiencing. The squeeze on income at the lower and middle sections of the market would undermine the ability of many to make their bond payments, while even the more affluent would see their investments yielding slimmer returns. Some potential buyers would avoid entering the property market altogether, wary of exposing themselves to an inhospitable market.

That we avoided a downgrade is to be celebrated. We must, however, keep in mind that some clear warnings were spelt out. Our ratings are at the lower end of the investment grade continuum. The agencies have also given us a ‘negative’ outlook, suggesting that our position is precarious. A statement put out by Moody’s observed, among other things, that the negative outloook "recognises the downside risks associated with political uncertainty and low business confidence as well as the challenging external environment characterised by low growth, investment and trade".

Looking forward, we have a small window of opportunity before our next review in mid-2017. Fortunately, there are some encouraging signs: better projected growth (albeit still inadequate for our needs), a recognition of the need for a more cooperative relationship between labour and business, and the considerable efforts of our Treasury team to hold the line on fiscal prudence. These efforts deserve the support of all South Africans – ultimately our homes could depend on them.

ABOUT RICHARD GRAY

Richard Gray is CEO of Harcourts Real Estate South Africa. He joined the group in September 2010. Gray brings extensive experience in IT, project management, corporate operations and financial services provision, having been CEO of mortgage originator Bond Choice, to the table. He believes that the key to the group's prospects are the strong brand, industry-leading value proposition, talented people, and the benefits of being part of a powerful international real estate group.

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