FNB First National Bank — how can we help you?

PROPERTY BAROMETER – SARB LEADING INDICATOR

SARB Leading Business Cycle Indicator suggests no shooting the lights out for property trading activity growth in the near term.

20 August 2013

The South African Reserve Bank (SARB) Leading Business Cycle Indicator for June suggests that we should continue to harbor moderate expectations regarding growth in property trading volumes. The broad direction of growth in property trading activity normally correlates reasonably well to the Leading Indicator, and on a month-on-month basis the Indicator showed a -0.6% decline in June following on a decline of -0.4% in the previous month. On a 3-month moving average basis, the June month-on-month decline was -0.25%

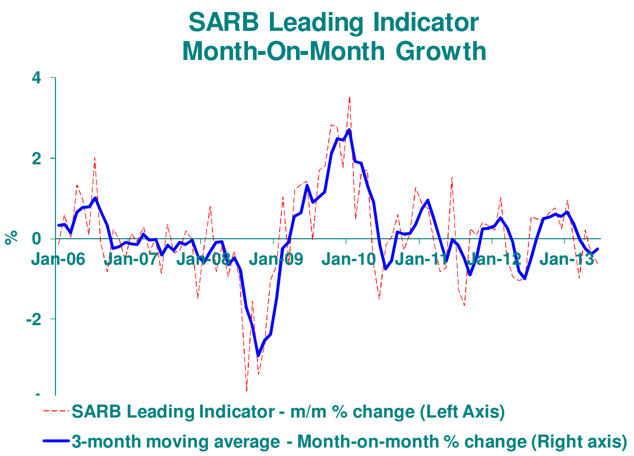
6 of the 10 component time series that were available decreased in June. They were Building Plans Passed, the Commodity Price Index for SA's main export commodities, the Index of prices of all classes of shares traded on the JSE, the 12 month rate of change of job adverts in the Sunday Times, the Composite Leading Indicator of SA's major trading partners, and the 12 month change in new passenger vehicles sold.

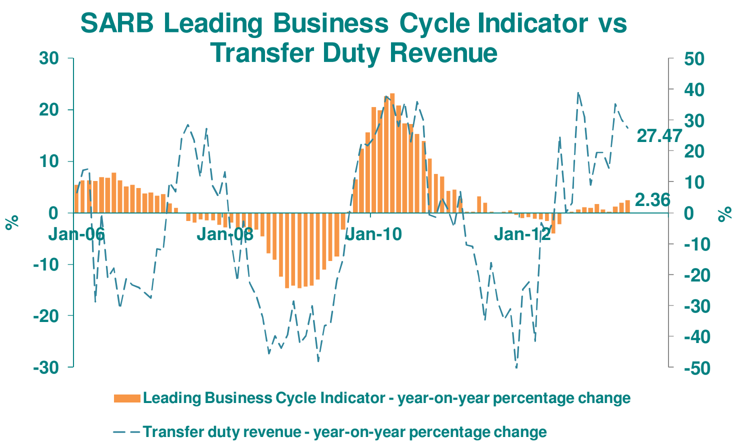
The 4 components that contributed positively were Real M1 money supply, the interest rate spread between 10 year government bonds and 91 day TBs, average hours worked in manufacturing and volume of orders in manufacturing.

Month-on-month changes can be volatile, and the recent months' declines don't necessarily mean the start of a declining trend. However, they do point to an economy not likely to have strong direction in the near term. On a year-on-year basis there was some positive growth in June to the tune of +2.36%, but that too is not a strong upward direction if one compares this rate with growth in excess of 20% back in early 2010.

Indeed, the mild year-on-year growth rates in the Leading Indicator in recent times probably mirror more moderate growth through 2012/13 in residential property trading activity, which has also been more mild than the 2009/10 surge as interest rates tumbled rapidly at that time.

This may sound somewhat strange, as the transfer duty revenue growth surge since early-2012 has been almost as impressive as the one in 2009/10. However, the most recent surge was arguably driven by better residential price inflation through 2012/13 than back in 2010, caused by the gradual building up of residential stock constraints of late, following 5 years of very low levels of building activity.





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