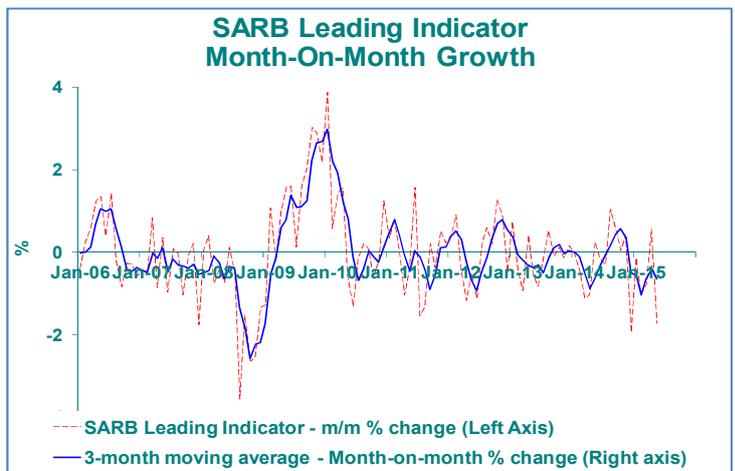
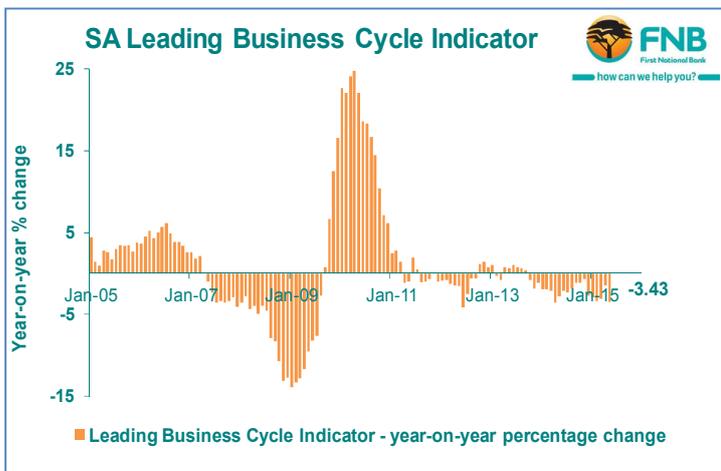


SARB LEADING INDICATOR - MAY

After some slight hint of improvement, the May SARB Leading Business Cycle Indicator takes a turn for the worse. The key negative influences were largely home grown and partly residential property related

21 July 2015

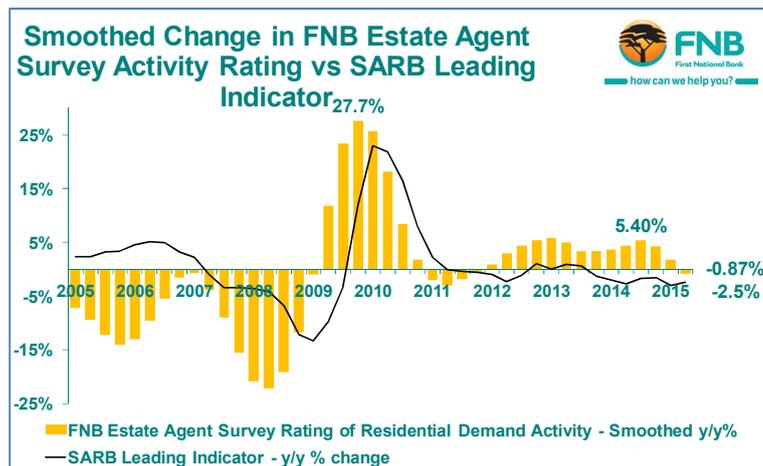
The SARB (South African Reserve Bank) Leading Business Cycle Indicator continued to point to a bleak near term economic outlook, recording a year-on-year decline of -3.4% in May 2015. The indicator, often a good indicator of what economic activity growth will do in the near term, has now recorded its 20th consecutive month of year-on-year decline. Month-on-month, the May decline was an equally dismal -1.72%, although month-on-month rates of change can admittedly be volatile.



The list of negative contributing factors is a lengthy one now. The residential property sector played a key negative role in May in that a weak number of residential building plans approved was seen as the major negative contributor to the indicator. The second most important negative contributing factor was that of the level of job advertisements. This is arguably a reflection of a recently protracted period of weak economic growth, but a factor which can cause further downward pressure on consumer confidence and consumer spending, thus also impacting negatively on the economy in the near term

Other negative factors included weak business confidence levels, weak manufacturing activity and new vehicle sales numbers, as well as the Leading Indicator for South Africa's major trading partners.

The Leading Indicator for SA's major trading partners countries is one that may cause further problems in the near term, with especially China's economy showing some serious "cracks" and "downside risks" in recent times.

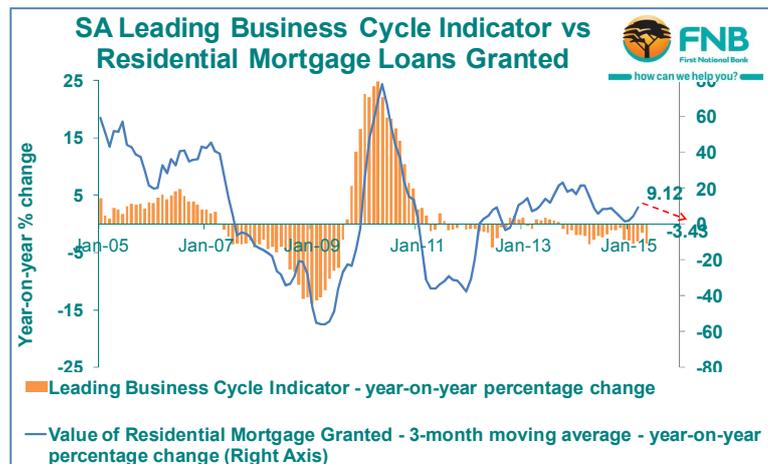


Our own in-house "Leading Indicator", i.e. the smoothed growth rate in the FNB Estate Agent Survey Residential Activity Rating, appears to have predicted further weakness in the SARB Leading Indicator. Its year-on-year growth rate has slowed from 5.4% in the 3rd quarter of 2014 to a -0.87% decline in the 2nd quarter of 2015. This indicator's growth trend changes normally lead the SARB Leading Indicator's trend changes by a quarter or two. So, while the year-on-year rate of change in the SARB Leading Indicator was -2.5% for the 2nd quarter to date (June data still to come), which was actually slightly better than the -3.1% average rate of decline for the 1st quarter, our estate agents survey sample suggests that this rate of decline

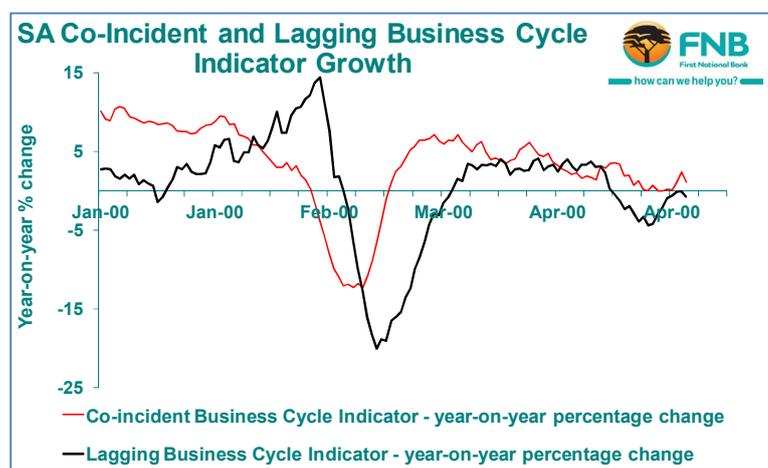
may get worse in the 2nd half of 2015, and the May Leading Indicator decline suggests that this may have already started to happen.

Therefore, Residential property is one of the leading sectors in the cycle, and our indicators have for some time pointed to slowing growth, which can itself be a near term predictor of the broader economy.

What does the Leading Indicator's weakness imply for Residential Mortgage Lending? We expect that it is negative.



SARB residential mortgage data showed a slight rise in growth in the value of loans granted in the 1st quarter of 2015, to 9.12% year-on-year, from a low of 1.3% for the final quarter of 2014. That improvement followed a slight “improvement” in the SARB Leading Indicator which saw diminishing negative growth through the 2nd half of last year as the economy emerged from an early-2014 contraction. However, more significant year-on-year declines in the Leading Indicator in the 1st half of 2015 suggest that this slight strengthening in residential mortgage lending grants is likely to have been short-lived, and soon to return to a weaker growth rate.



The Co-Incident and Lagging Business Cycle Indicators also showed some slowing year-on-year growth in April (their data releases running one month behind the leading indicator, after prior months of improving growth rates).

In short, ongoing weakness in the SARB Leading Business Cycle Indicator comes as little surprise, given the South African economy's well-documented structural constraints. In addition, the global economy is off the boil, and big questions are currently being asked of the world's 2nd largest economy, China, which is also one of South Africa's key trading partner nations. Not surprisingly, therefore, the Leading Indicator for South Africa's Major Trading Partner Countries was also a negative influence in the SARB Leading Indicator in May. The weakness in the Leading Indicator has a residential property market “flavor”, with weakness in residential plans passed during May being the most important negative influence.

In addition, slowing growth in residential market activity in the 1st half of 2015 appears to have been predictive of ongoing weakness in the Leading Indicator, with the FNB Estate Agent Survey Activity rating's growth trends usually leading the SARB Leading Indicator slightly. For the area of Residential Mortgage Lending, this suggests slowing growth after a slight 1st quarter uptick in growth in value of new loans granted.

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Table 2 Component time series of the composite leading business cycle indicator and their contribution to the May 2015 data point:

Positive contributors (ranked from largest to smallest)
Commodity price index for South Africa's main export commodities (US dollar based)
Interest rate spread: 10-year government bonds minus 91-day Treasury bills
BER*: Volume of orders in manufacturing (half weight)
Negative contributors (ranked from largest to smallest)
Number of building plans approved: Flats, townhouses & houses larger than 80m ²
Job advertisements: The Sunday Times (percentage change over 12 months)
BER*: Business Confidence Index
BER *: Average hours worked per factory worker in manufacturing (half weight)
Number of new passenger vehicles sold (percentage change over 12 months)
Composite leading business cycle indicator of South Africa's major trading-partner countries (percentage change over 12 months)
Real M1 (six-month smoothed growth rate)
Unavailable component series
Gross operating surplus as a percentage of gross domestic product

* Bureau for Economic Research, Stellenbosch University