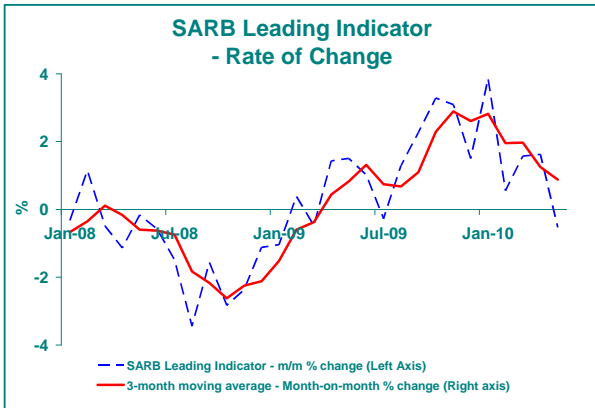


# SARB LEADING INDICATOR

- The May Leading Business Cycle Indicator slows, supportive of the view that the residential market may be set for slowdown



The SARB Leading Indicator for May 2010 returned to month-on-month negative growth for the 1<sup>st</sup> time since early-2009, to the tune of -0.5%, down from the +1.6% growth of the previous month. On a 3-month moving average basis, the month-on-month growth rate was still positive to the tune of 0.9%, but this too was slower than the previous month's +1.3% growth.

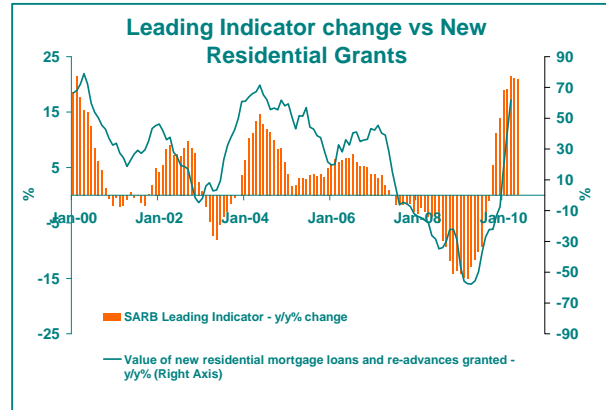


Given residential property's status as a sector that generally leads the business cycle, along with new vehicle sales, there is usually a good correlation between the Leading Indicator and residential property, and even more so with the residential mortgage market.

Arguably the key factors slowing the growth of the Leading Indicator are slowing growth rates in key global leading indicators, as well as a lack of further interest rate reduction since August 2009.

Examining the graph below, one can see that the monthly slowdown in the Indicator has brought about the apparent peaking in year-on-year growth in the Leading Indicator recently. Year-on-year growth still appears impressive, but at 20.9% in May, this was the 2<sup>nd</sup> month of mild slowing, from a high of 21.5% as at March.

Given the good correlation between it and growth in the value of new residential mortgage loans granted, it is likely that a similar peak and decline in the year-on-year growth rate will commence from mid-year in the new mortgage stats too.



## COMMENT

The SARB Leading Indicator typically correlates very well with trends in the value of new residential mortgage loans granted.

FNB's recently released Estate Agent survey results for the 2<sup>nd</sup> quarter pointed to a slowdown in residential demand. It is tough to draw conclusions from that 2<sup>nd</sup> quarter survey due to the World Cup build-up and abnormally long school holiday possibly having had some "distracting" effect on would-be home buyers.

However, the weakening month-on-month growth trend in the Leading Indicator suggests that there is more than just the World Cup at play, i.e. a general weakening in economic factors.

The May figure lends further support for our view that the 2<sup>nd</sup> half of 2010 will see a tapering off in residential market strength, especially in the credit-driven part of the market, which in turn will translate into declining year-on-year growth in new residential mortgage grant numbers.

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