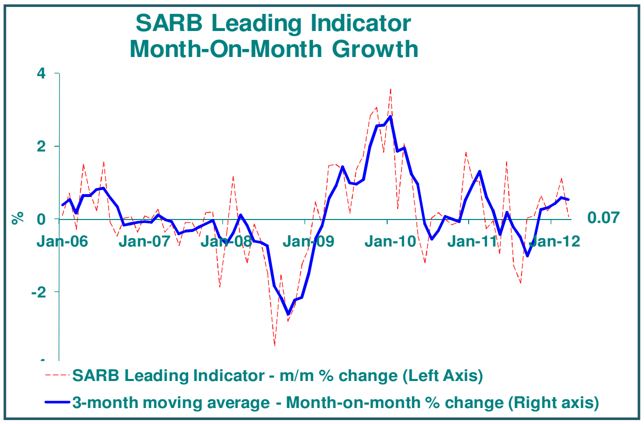
HOUSEHOLD, CONSUMER AND RETAIL SECTOR –March SARB Leading Business Cycle Indicator

Month-on-month growth in the March SARB Leading Indicator slows, perhaps just starting to provide early explanation of loss of momentum in retail and month-on-month house price growth.

22 May 2012



The Reserve Bank (SARB) Leading Indicator for March was released today, and saw its month-on-month growth rate slowing from a previous month's 1.12% to 0.07%. While monthly data can be volatile, the 3-month moving average also saw slightly slower month-on-month growth of 0.54%, down from a previous of 0.59%.

This comes after an uptick of sorts in the summer. As yet, one Leading Indicator datapoint alone is insufficient to draw conclusions from regarding a trend change towards slowing.. However, the slower March growth does seem to tie in with some other indicators that have also just begun to show signs of slowing economic and household sector spending growth. One of these is the Manufacturing Purchasing Managers' Index, which although above the 50 level which points to expansion, has seen its level declining in March and April.

The same goes for the FNB House Price Index, which saw a slight decline in March and April in its month-on-month seasonally adjusted growth rate, from 1.42% in February to 1.17% by April.

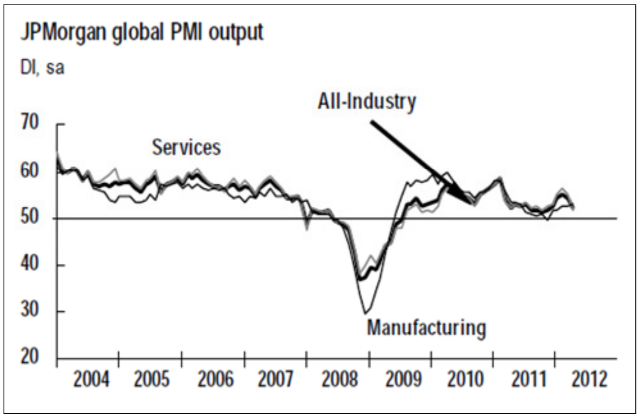
And this seems to be backed up by real retail sales growth, whose 3-month moving average growth rate, in year-on-year terms, has also slowed from a peak 8.7% in December to 5.9% as at March.

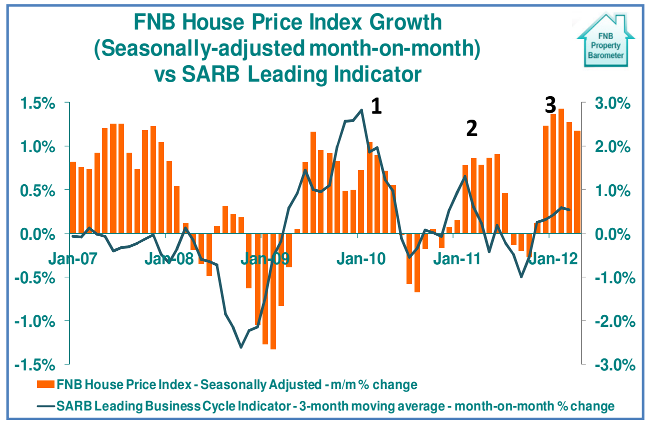
The SARB state that 5 of the 10 components that were available to be included in the March indicator increased while 5 decreased. The positive contributing factors were job advertisements, the Composite Leading Indicator of SA's major trading partners, new passenger vehicle sales, interest rate spread (govt. 10 year bonds minus 91 TB yields), and real M1 money supply.

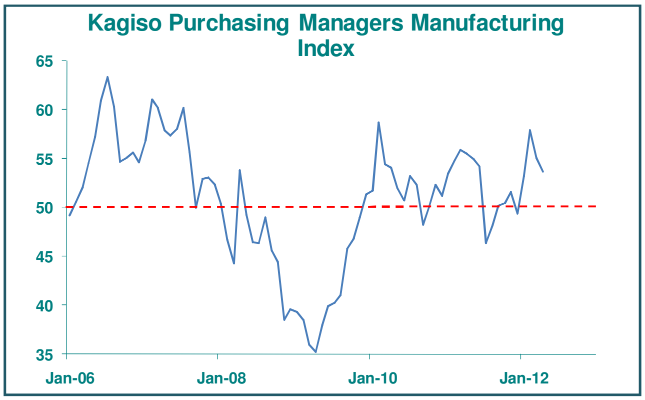
However, despite the Composite Leading Indicator for Trading Partners positively contributing, certain other perhaps more "current" indicators of global economic health were included as negative contributing factors. These include the commodity price index for SA's major export commodities, normally pressurized by anticipated global economic weakness, volume of orders in the globally sensitive manufacturing sector, and average hours worked per factory worker in manufacturing. JSE performance also contributed negatively, while a negative contribution from the number of residential building plans approved implied little assistance from the residential property sector at this stage.

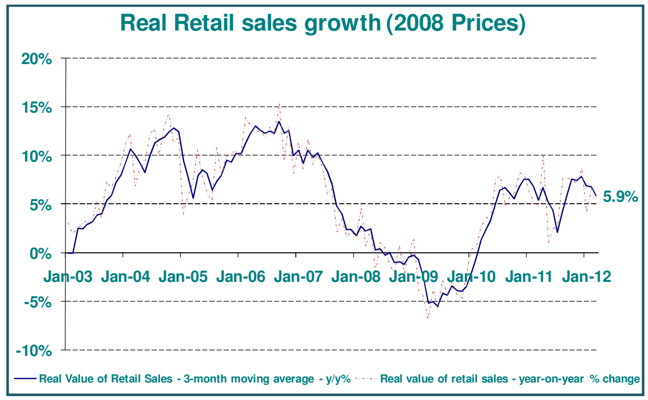
So, while it is too early to draw firm conclusions, a month-on-month growth slowdown in the SARB Leading Indicator would appear to be in line with certain other more up to date indicators, suggesting that the economy is moving into a "softer patch" of late. While the Leading Indicator of SA's major trading partner countries remained a positive contributor in March, other indicators such as certain manufacturing figures and commodity prices appeared to reflect a global economy under some mild pressure, and especially Europe's woes have been well-publicised. Such weakening was also seen in March and April in global manufacturing and services purchasing managers' indices as combined into the JPMorgan Global Purchasing Managers Index.

The implication is expected to be that both real retail sales growth and house price growth taper off in the coming months., as the economy slows real household disposable income growth.









JOHN LOOS:
HOUSEHOLD AND PROPERTY SECTOR STRATEGIST
011-649 0125
John.loos@fnb.co.za