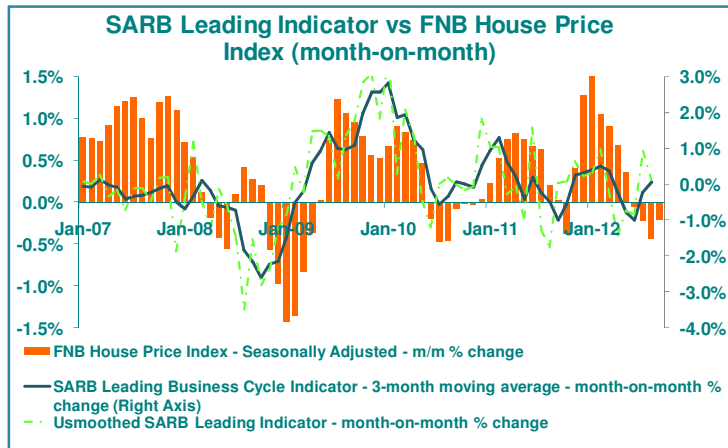


HOUSEHOLD SECTOR – SARB LEADING INDICATOR

Despite slight monthly growth, the SARB Leading Indicator continues to point to a mediocre economy and flattish new mortgage lending

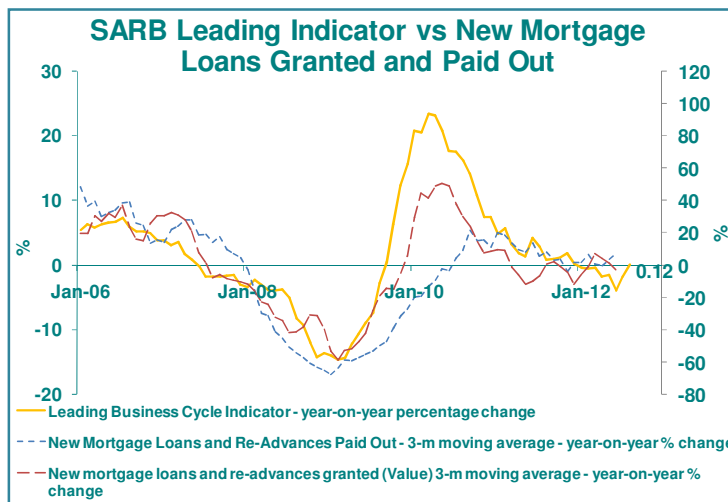
23 October 2012

The Reserve Bank (SARB) Leading Business Cycle Indicator showed a positive month-on-month growth rate for the 2nd consecutive month in August, to the tune of +0.1%. This was slightly lower than the previous quarter's +0.92% growth rate. However, on a monthly basis the indicator can be volatile, and we therefore prefer to smooth the series slightly with a 3-month moving average. Using the 3 month average, the month-on-month growth rate improved further from July's -0.2% decline to a +0.07% positive increase.



As the Leading Indicator correlates reasonably well to the month-on-month growth rate in the FNB seasonally adjusted House Price Index, a return to positive month-on-month growth in the 3-month average Leading Indicator could be mildly positive for month-on-month FNB House Price Index growth in coming months, after 4 consecutive months of price decline.

The key positive contributor to the slight August increase in the Leading Indicator was the Leading Indicator of SA's Major Trading Partner Countries, although the current level of global vulnerability means that this can change quickly.

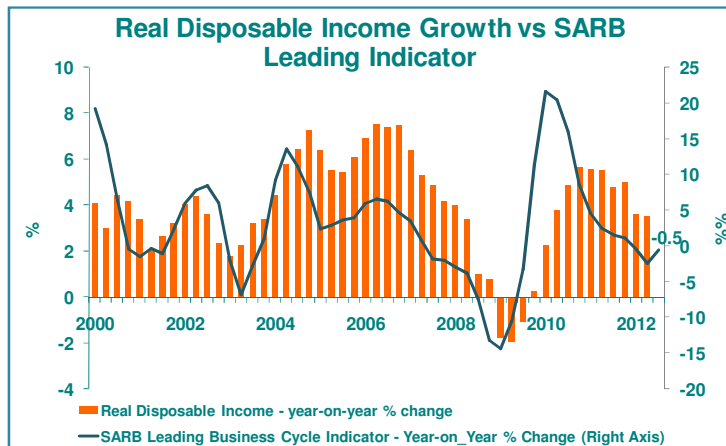


However, looking at the "bigger picture", i.e. the year-on-year rate of change in the Leading Indicator (which has less high frequency fluctuations than the month-on-month rate of change), it continues to paint a very "flat" economic picture.

The post-recession recovery of late-2009/10 had the Leading Indicator growth rate climbing to a massive 23.4% year-on-year growth peak by March 2010, before receding steadily back to reach negative territory by early-2012. The August year-on-year growth rate did manage to be very slightly positive at +0.12%, after some negative months, but this is by no means a meaningful increase.

With mortgage demand (commercial and residential included but with residential being dominant) itself being a leading component of the economy, it is not surprising that the growth in value of new mortgage loans granted tends to correlate fairly well with the Leading Indicator. Therefore, the slow pace of growth in the Leading Indicator suggests that new mortgage loans growth will continue along at slow single-digit rates in the near term. Indeed, the SARB Quarterly Bulletin for September showed the value of new mortgage loans granted in the 2nd quarter to have declined slightly by -2.65% year-on-year, having

peaked at +50.7% growth in June 2010, while the value of new mortgage loans paid out grew moderately in the 2nd quarter by +7%, now well down from a 19.9% growth peak in January 2011..



In short, despite a very slight improvement in the year-on-year growth rate of the Leading Indicator in August, the growth rate remains insignificant and well below the year-on-year growth of 2010.

This slower growth in the Indicator since 2010 has not only pointed the way to slower mortgage lending growth after the 2010 recovery surge. It has also long suggested that growth in real household disposable income and consumption expenditure would subside after a significant recovery out of negative growth back in 2009.

Year-on-year, real household disposable income growth peaked at a very high 5.7% in the final quarter of 2010. Thereafter, its growth has subsided to +3.5% by the 2nd quarter of 2012. This slowing in part explains slowing in new mortgage loan growth, and is also expected to lead to slowing real retail sales growth in the near term after a period of solid growth.

So despite some slight monthly improvement, the Leading Business Cycle Indicator continues to point to a flat economic growth, mortgage and consumer picture in the near term.

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

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