



HOME LOANS
DIVISION

SARB LEADING INDICATOR

– Further rise in November Leading Indicator suggests further possible near term improvement for the residential mortgage market

PROPERTY AND
MORTGAGE MARKET
ANALYTICS

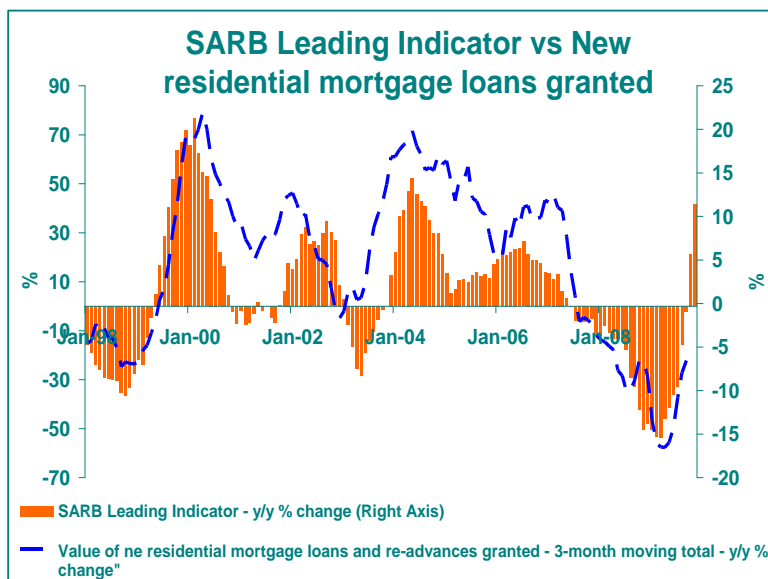
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FURTHER ACCELERATION IN THE SARB LEADING INDICATOR SUGGESTS FURTHER SHORT TERM RESIDENTIAL MORTGAGE MARKET IMPROVEMENT

The South African Reserve Bank (SARB) Leading Business Cycle shows a very strong correlation to the residential mortgage market, as can be seen by the accompanying graph which compares the trend in year-on-year percentage change in the value of new mortgage loans and re-advances granted with that of the percentage change in the Leading Indicator.



The Leading Indicator is good for bringing together recent interest rate trends and certain economic trends, and is a good indicator of **short term** prospects not only for the economy but also very often for the residential mortgage market.

It has a global economic component to it, including commodity prices and major trading partner country leading indicators. Given the recent improving global economic prospects, these could be expected to be having a positive impact on the SARB Leading Indicator. Locally, it has a strong focus on the manufacturing sector, which is very responsive both to global economic events as well as local interest rate moves, also includes a

construction and trade sector component, as well as moves in JSE which can be a good indicator of market expectations for the economy in the near term. And then, very importantly for the residential sector, it has an interest rate component.

The Leading Indicator, however, is nearer to being a “co-incident” indicator relative to the residential mortgage market, as this sector itself is one of the sectors that leads the business cycle. Nevertheless, the Leading Indicator has often in the past taken the lead in pointing to a change of direction in the residential mortgage market in the near term, and as such is a worthwhile indicator to pay attention to, for those of us involved in this sector.

The latest Leading Indicator datapoint to appear, that of November 2009, indicated a significant further acceleration, on a month-on-month basis the value going from 116.5 to 119.8, which translates into a year-on-year growth acceleration from 6% in October to 11.6% in November. This bodes well for further improvement in growth in new residential mortgage loans and re-advances granted in the current quarter. While prospects for further interest rate cuts don't appear wonderful, it is likely that some of last year's rate cutting stimulus still has to be felt early in 2010, while the rise in the leading indicator is also driven by moderately strengthening economic growth signals. An improving economy has positive implications for disposable income growth and thus residential purchasing power in the near term.

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