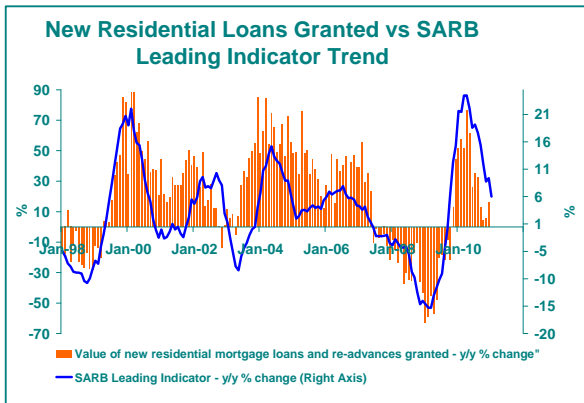


NEW MORTGAGE LOANS AND THE SARB LEADING INDICATOR



Growth in new mortgage loans granted picked up in December, but Leading Indicator suggests this may be temporary in nature

23 March 2011



Today saw the release of the Reserve Bank's (SARB) Leading Business Cycle Indicator for January. The Leading Indicator has had a very good correlation with trends in demand for new mortgage loans, as reflected in the SARB's data for the value of new residential mortgage loans granted.

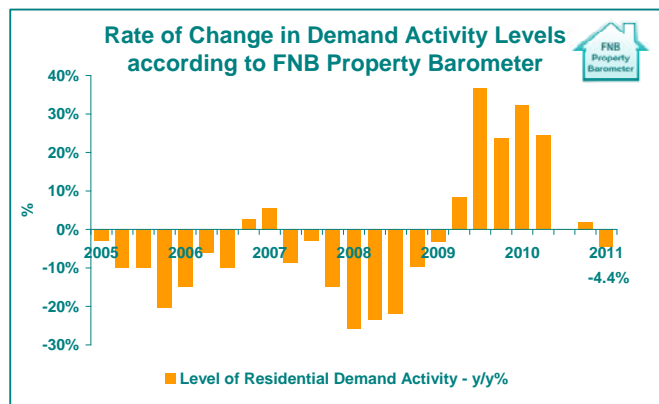
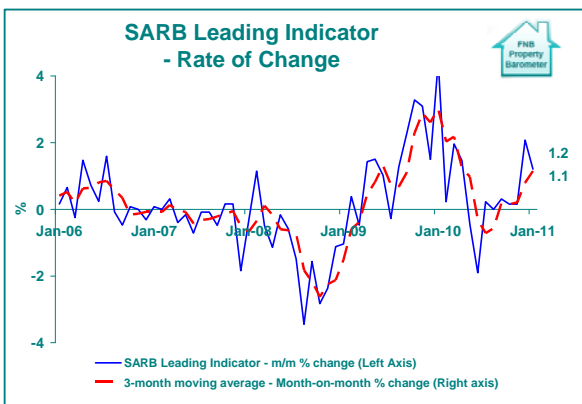
The SARB resumed interest rate cuts in the spring of 2010, cutting its repo rate by a further 50 basis points in September, and again in November of last year. It is believed that this additional stimulus should have provided residential property demand with a slight short term boost, and this may well have been reflected in the December 2010 year-on-year growth rate in the value of new residential loans granted, which increased from 5.4% in November to 16%.

While one month's worth of new mortgage data can be volatile, this would appear in line with what our Estate Agent Survey says, i.e. that there was a noticeable increase in residential demand in the 4th quarter of 2010, as

well as being in line with the Leading Indicator, which showed a slight increase in year-on-year growth in December, from 8.25% in November to 8.9%.

However, the January Leading Indicator resumed its declining trend in year-on-year growth, declining to a rate of 5.5%, suggesting that the increase in year-on-year growth in new residential mortgage loans in December may have been short-lived.

On a month-on-month basis the data is volatile, but here too, December saw a "spike" to 2.1% growth, before a decline back to 1.2%. What the Leading Indicator is telling us appears to tie in with the response of estate agents surveyed in the FNB Estate Agent Survey, whose demand activity rating (scale of 1 to 10) year-on-year rate of increase rose slightly to +1.9% in the 4th quarter of 2010, before declining to -4.4% in the 1st quarter survey. This would suggest that there was some residential demand recovery over and above summer seasonal factors, driven by a resumption of interest rate cuts late in 2010, and possibly reflected in a rise in year-on-year growth in new residential loans granted in December. However, it also suggests that we will probably see a resumption of the slowing growth trend in mortgage demand in the near term future months' data.



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