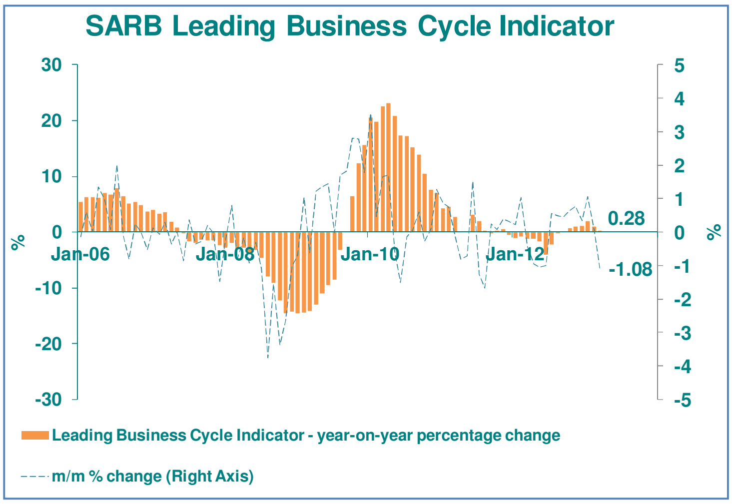
HOUSEHOLD AND CONSUMER SECTOR – MARCH LEADING BUSINESS CYCLE INDICATOR

After a brief resurgence since the 2nd half of 2012, the Leading Business Cycle Indicator begins to flatten out once more.

21 May 2013

The SARB (South Africa Reserve Bank) Leading Business Cycle Indicator began to show weakening once more in the March datapoint, after a brief resurgence which started in the latter stages of 2012.On a month-on-month basis, the indicators declined by -1.1%, significantly worse than February's +0.08%, while smoothed on a 3-month moving average basis the growth rate was zero.



On a year-on-year basis, too, the growth rate declined from February's 0.9% to 0.3% in March.

Examining the positive and negative contributing components of the Indicator, as reported by the SARB, global economic forces may be starting to impact negatively once more. The Composite Leading Indicator of SA's major trading partner countries was still seen as a positive contributor. However, the Commodity Price Index of SA's main export commodities was a negative contributor to the indicator, implying softening global commodity prices.

Manufacturing-related components of the Indicator also proved to be a drag, which can also be partly reflective of a weak global and export environment, although it must be remembered that domestic consumer demand as reflected in retail sales growth has been slowing too.

Positive contributors were:

- *Number of new passenger vehicles sold*
- *Interest rate spread between 10 year government bonds minus 91 day treasury bills*
- *Index of all classes of JSE shares*
- *Composite Leading Indicator for SA's major trading partner countries*

Negative contributors were:

- *Commodity Price Index for SA's main export commodities (Dollar based)*
- *Number of residential building plans approved*
- *Average hours worked per factory worker in manufacturing*
- *Volume of orders in manufacturing*
- *Real M1 money supply*
- *Percentage change in job adverts in the Sunday Times over 12 months*

One caution regarding the building and manufacturing negative contributors is that the shift of Easter weekend back from April in 2012 to March in 2013 may have played a role in suppressing some manufacturing activity in March 2013, thus having a negative impact on the March Leading Indicator.

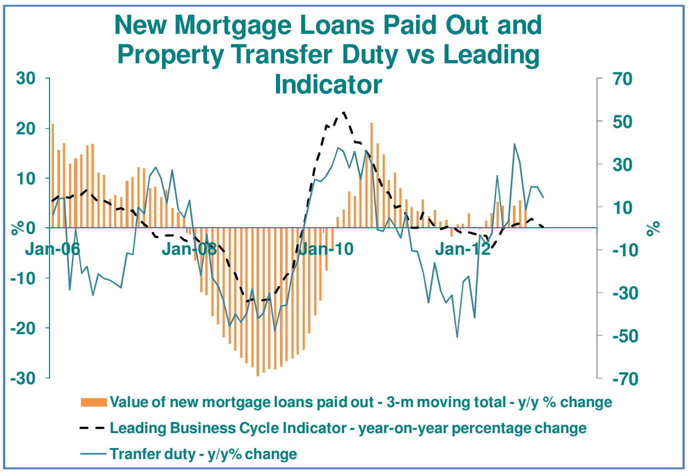
Potential Implications

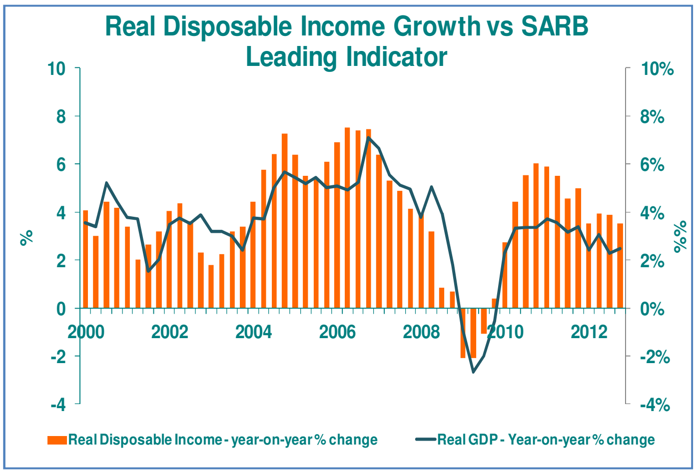
The direction in the SARB Leading Indicator can have potential implications for both consumer, and property and mortgage, demand in the near term, as these tend to track the Leading Indicator fairly well.

The flattening out in growth in the Leading Indicator suggests a possible slowing in growth in value of total new mortgage loans paid out (residential and commercial), after these had reached a healthy year-on-year growth rate of 10.3% as at the final quarter of 2012.

Already, although still strong, a slowing in the growth rate in the value of property transactions may be happening if transfer duty data is to be believed, with March year-on-year growth in the value of transfer duty measuring 14.3%, well off the 39.4% high of October 2012. One must however bear in mind that these growth rates are somewhat volatile from month to month.

The flattening of the Leading Indicator after a short-lived rise also suggests not much improvement in real economic growth in the near term. This would appear supportive of mediocre economic growth in the near term, and our forecast real economic growth rate is indeed a moderate 2.4% for 2013 as a whole. Under these circumstances, real household disposable income growth would be expected to slow further from its above-GDP growth 3.5% as at the final quarter of 2012.





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