HOUSEHOLD SECTOR – JANUARY SARB LEADING INDICATOR

The Reserve Bank's Composite Leading Indicator continues to slow year-on-year, hinting at some possible near term moderation in mortgage lending growth and mild deterioration in household financial performance.

25 March 2014

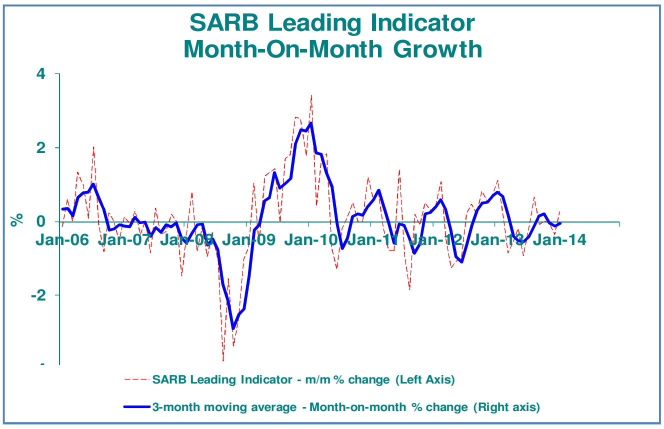
MONTH-ON-MONTH, THE JANUARY LEADING INDICATOR GIVES NO STRONG DIRECTION

The January SARB (South African Reserve Bank) Leading Business Indicator continues to show little in the way of clear direction.

On a month-on-month basis, which can be quite volatile, the Indicator returned to slight positive growth of +0.27%, but the smoother 3-month moving average was still slightly negative to the tune of -0.05%.

The marginal month-on-month rise was driven by positive factors which include the level of residential building plans approved, JSE share price movement, job advertisements, average number of hours worked in factories, and the spread between 10 year government bond yields and 91 day treasury bill interest rates.

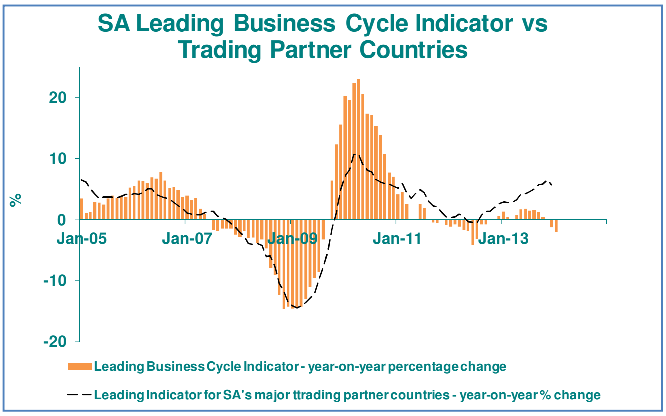
Against this, negative contributors to the Indicator included global economic factors, with the Composite Leading Indicator for SA's Major Trading Partner Countries featuring most prominently, followed by Money Supply M1 growth, manufacturing orders, business confidence, change in new passenger vehicles sold and SA's main commodity export prices.



YEAR-ON-YEAR, THE SLOWING CONTINUES

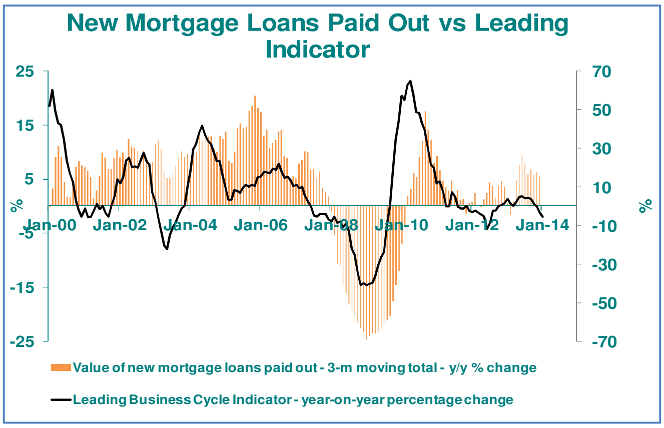
However, the "big picture" is probably better reflected in the year-on-year percentage change in the Indicator, which declined further to -2%, compared to a -1.2% decline in December 2013.

This is perhaps particularly disappointing given that the Indicator for SA's Major Trading Partner Countries had shown steady broad acceleration in year-on-year growth for much of 2012 and 2013.

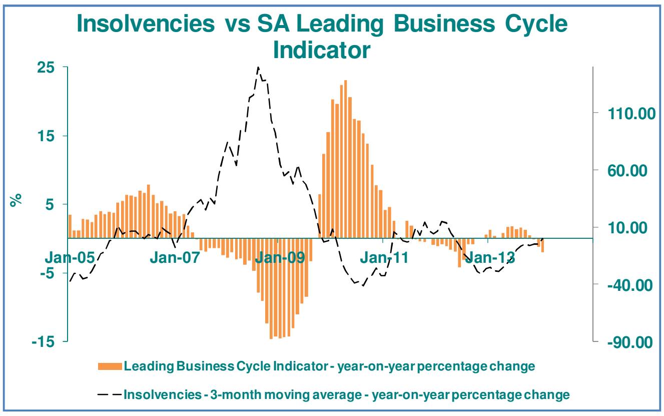


This year-on-year decline can have near term implications for new mortgage lending growth. For much of the time in recent years, the growth direction in value of new mortgage loans has broadly tracked the direction of growth in the Leading Indicator, as one could probably expect in a "rational" market driven by economic fundamentals. The further decline year-on-year in the Leading Indicator could thus imply near term slowing in growth in new mortgage loan payouts (Commercial and Residential, as per SARB data series).

As at December, 3-month average year-on-year growth in new mortgage payouts was still a very solid 15.3%, but this growth had already slowed mildly from a few months prior, co-inciding with the slowing growth in the Leading Indicator.



The further decline year-on-year in the Leading Indicator also supports the expectation of mild near term increase in the level of insolvencies, with the direction of the Leading Indicator also having a good inverse correlation with year-on-year change in insolvencies. This should be the case, as economic performance has a bearing on the growth in household disposable income, and thus on household financial performance.



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