

# FNB comment on the SARB Leading Indicator

The June Reserve Bank (SARB) Leading Business Cycle Indicator showed a significant month-on-month jump to the tune of +1.8% following 3 previous months of month-on-month decline.



In year-on-year terms, the Leading Indicator also saw its growth increase from May, although the rate remains low at +3.6%. The Leading Indicator is well-correlated to the residential mortgage market, with the growth rate in value of new residential mortgage loans granted usually closely tracking it.

The SARB indicated that 7 out of the 10 component time series that were available for June increased while 3 decreased. The largest positive contributions, it says, were from June residential building plans passed along with a notable increase in the 12-month percentage change in job advertisement space. The major negative contributor was declines in prices of all classes of shares traded, along with the "interest rate spread".

We are not of the opinion that this monthly up-tick in the Leading Indicator represents the start of any noticeable rising trend. The Bank did note that the 12-month change in job ad space was distorted by an abnormally low base created by last year's World Cup tournament, while we know that monthly building data can be volatile.

## Too much economic bad news

There is currently too much bad economic news emanating from the global economy, notably the US and Europe, with global recession talk firmly back on the cards. Locally, certain other key indicators for July, notably the Manufacturing Purchasing Managers Index and the NAAMSA New Vehicle Sales growth rate showed slowing.

Therefore, although the Leading Indicator is an important indicator to watch for those of us in the residential mortgage sector, as yet the volatile nature of monthly data points would make it too early to identify the start of an upward trend (the 3-month moving average still shows negative month-on-month growth), and given the news emanating from the global economy we consider this highly-unlikely.

For now, therefore, the broader declining growth trend in the Leading Indicator dating back to early-2010, and the currently weak level of year-on-year growth in the indicator, continues to suggest to us a very flat residential mortgage market in the near term.

For more, visit: <https://www.bizcommunity.com>