

Property Insights



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SARB Leading Business Cycle Indicator – Weak May SARB Leading Business Cycle Indicator reading suggests new mortgage lending to remain mediocre in the near term.

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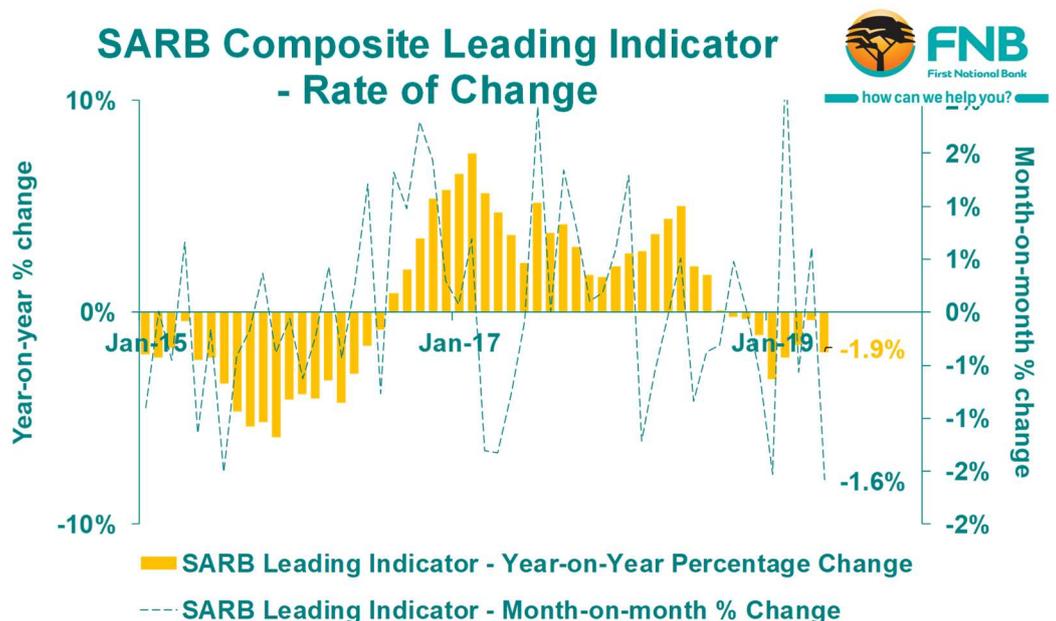
After month-on-month increases in 2 out of the 3 prior months, the May SARB Leading Business Cycle Indicator once again moderates any expectations of a near term economic recovery, and suggests that new mortgage lending growth may remain mediocre in the near term.

The Leading Indicator can be a useful near term indicator of economic growth direction, but also an indicator of near term new mortgage lending direction, new mortgage lending itself being a more leading component of the economic cycle.

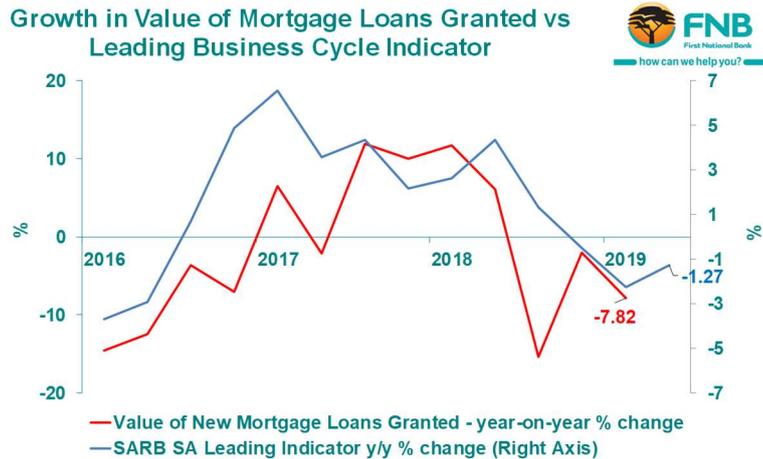
From a mortgage lending point of view, therefore, the May Leading Indicator was a disappointment, having decline significantly month-on-month by -1.6%, and on a year-on-year basis by -1.9%, the most significant year-on-year decline since February's -2.2%.

The list of negative contributors was a long one. It included global economic factors, including the leading indicator for SA's major trading partner countries as well as commodity prices. But it was also a host of domestic factors, including job advertisements levels, new vehicle sales, manufacturing orders and closer to the property sector weakness in the level of residential building plans passed.

Although we have had some month-on-month increases recently, The May reading represents the 8th consecutive month of year-on-year decline.



This can be significant for new mortgage lending growth, especially new commercial property mortgage lending growth, which remains in the doldrums, and is heavily dependent on economic performance to drive it.



According to SARB data, growth in the value of new mortgage loans approved broadly tracked the Leading Indicator growth rate slower and into negative growth territory in the 2nd half of 2018, recording a year-on-year decline of -7.82% in the 1st quarter of 2019.

New commercial property mortgage loans approved were particularly hard hit, declining by -29.6% in the 1st quarter, according to SARB data.

On a quarterly average basis, the Leading Indicator is showing year-on-year decline of -1.27% for the 2nd quarter to date, and another

quarter of year-on-year decline would suggest that new mortgage lending growth, especially on the commercial mortgage side, is still likely to be in the doldrums.

One event that could change things slightly going forward is the commencement of SARB interest rate cutting last week, with new mortgage lending being interest rate sensitive. The one 25 basis point rate cut to date would probably not make a meaningful difference, but if followed up by more in the coming months one could conceivably see a return to some positive new mortgage lending growth later in the year.

For the time being, though, the Leading Indicator doesn't point to any strong support for mortgage lending from the economy's performance just yet, with both global and local economic factors playing a negative role.

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