

Property Insights



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SARB Leading Business Cycle Indicator – The July SARB Leading Business Cycle Indicator shows a monthly increase, but remains in year-on-year decline for the 10th consecutive month.

John Loos:
Property Strategist

FNB Commercial Property
Finance

Tel: 087-312 1351

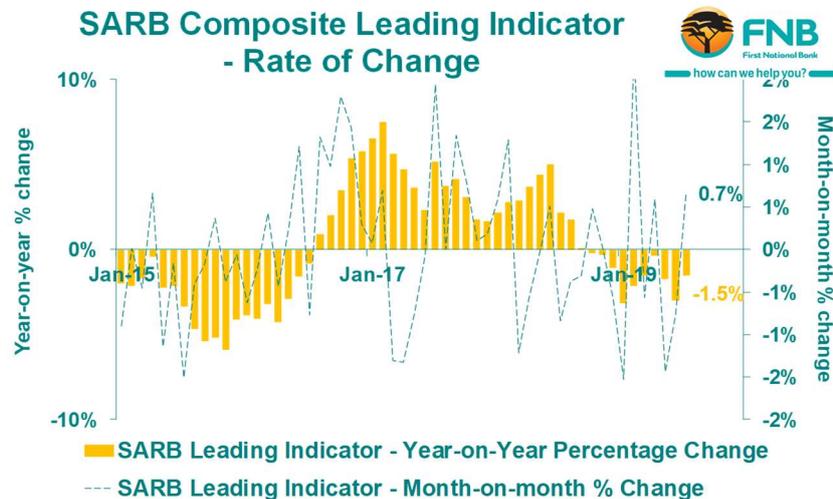
Email:
john.loos@fnb.co.za

After 2 prior month-on-month declines, the July SARB Leading Business Cycle Indicator showed an increase to the tune of +0.7% month-on-month.

The list of positive month-on-month contributors included global economic elements, with both the Leading Indicator for SA's Major Trading Partner Countries, as well as the Commodity Price Index for SA's Major Exports listed amongst them. It also included job advertisement levels, Number of Residential Building Plans Approved and the Volume of Manufacturing Orders. Negative contributors included New Passenger Vehicle Sales, Business Confidence, Real M1 Money Supply, Interest Rate Spread Between 10-Year Government Bonds and 91-Day Treasury Bills, and Average House Worked Per Manufacturing Factory Worker.

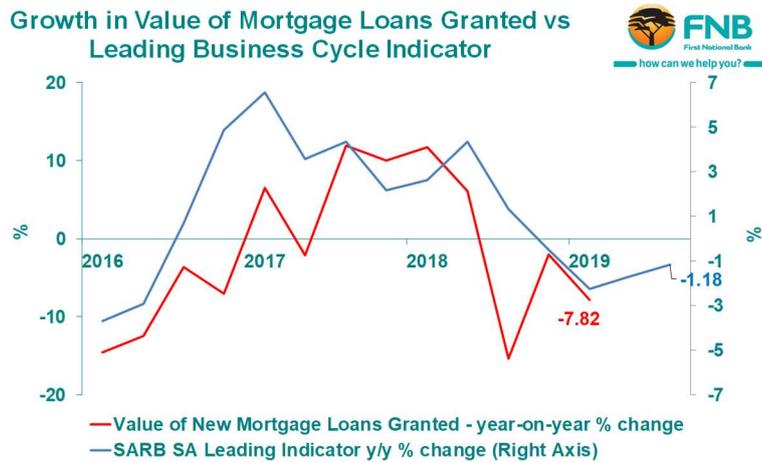
The Leading Indicator can be a useful near term indicator of economic growth direction, but also something we look at as a possible lead indicator of property market conditions and new mortgage lending.

The month-on-month fluctuations in the Leading Indicator are, however, volatile, and as such we prefer to view the year-on-year rate of change in this indicator. This measure of the rate of change points to ongoing weakness for the economy in the near term, and likely the property market too. At -1.5%, the year-on-year rate of decline in July was of a lesser magnitude than the prior month's -3%. However, it remains a decline, and this was the 10th consecutive month of year-on-year decline.



Therefore, while taking note of the month-on-month increase, we believe that the ongoing year-on-year decline continues to point to weak new mortgage lending growth, the latter's year-on-year growth direction having a reasonable correlation to the former.

Like the broad direction of the Leading Indicator over the past year or so, new property mortgage lending growth remains in the doldrums, and is heavily dependent on economic performance to drive it.



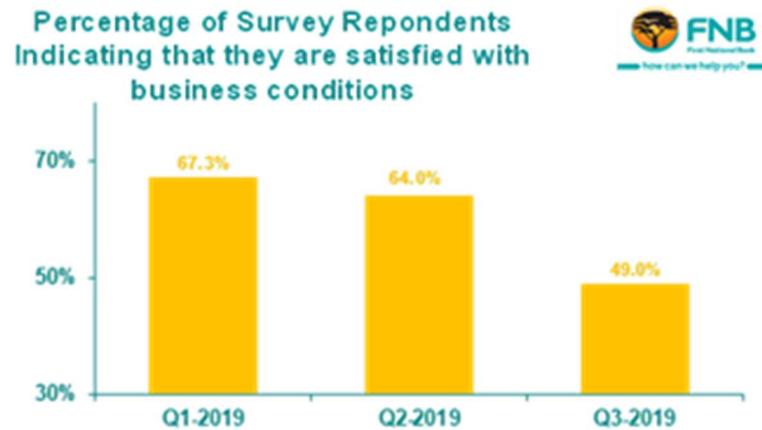
According to SARB data, growth in the value of new mortgage loans approved broadly tracked the Leading Indicator growth rate slower and into negative growth territory in the 2nd half of 2018 to the 1st quarter of 2019, recording a year-on-year decline of -7.82% in the 1st quarter of 2019.

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

-1.18% for the 3rd quarter to date. This is less of a decline than the -2.3% and -1.7% rates of decline for the prior to respective quarters. However, at best this would suggest that New Mortgage Loans Granted could move towards "levelling out" after 3 prior quarters of decline, but would not point to strong positive growth just yet.

One event that could change things slightly going forward is SARB interest rate cutting, which commenced in July with a 25 basis point reduction in the Repo Rate. However, 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 (SARB held interest rates unchanged in September) one could conceivably see a return to some positive new mortgage lending growth later in the year.

But for the time being, despite a month-on-month increase, ongoing year-on-year decline in the Leading Indicator doesn't point to any strong support for new mortgage lending growth from the economy's performance just yet, with local business confidence remaining very low in the 3rd quarter.



And more specifically related to the Commercial Property Sector, the FNB Property Broker Survey, too, shows ongoing weakness in confidence levels, with a further 3rd quarter decline in the percentage of brokers being "satisfied with business conditions", from 64.6% in the 2nd quarter to 49% in the 3rd quarter of 2019.

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