

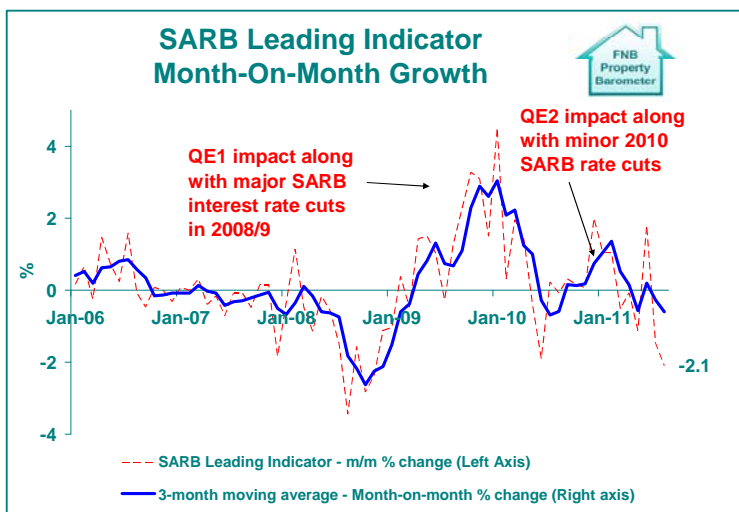


SARB LEADING BUSINESS CYCLE INDICATOR – AUGUST 2011

No surprises, as the SARB Leading Business Cycle Indicator heads south in line with key global leading indicators. This would hint at mortgage market weakness, which tracks this indicator fairly well.

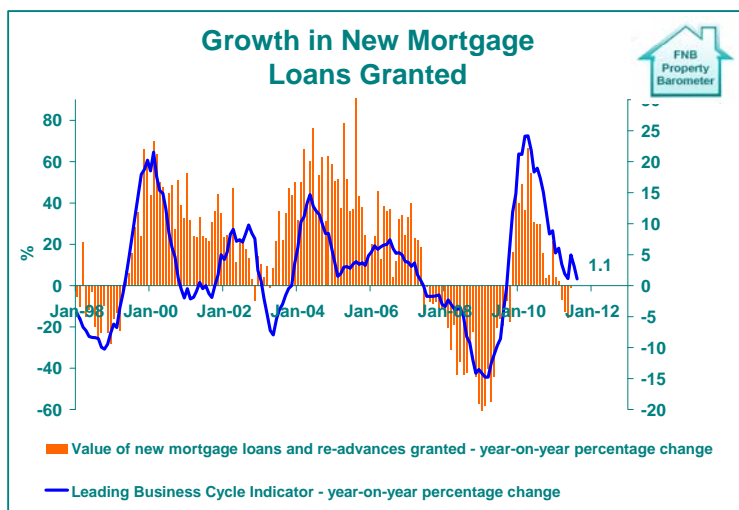
25 October 2011

The release of the August SARB Leading Business Cycle Indicator provided little in the way of surprise, showing further month-on-month decline which is not out of line with the direction of certain key global leading business cycle indicators.



The Leading Indicator correlates well to trends in the South African mortgage market, and more specifically to trends in the value of new mortgage loans granted.

On a month-on-month basis, the Leading Indicator fell by -2.1% in August, which represents a downward acceleration from the previous month's revised -1.5%. While month-on-month growth rates can be volatile, and should thus be read with caution, the past 2 months' declines were very significant, with the August drop was the biggest since November 2008. On a 3-month moving average basis, too, there was a month-on-month decline to the tune of -0.6%.

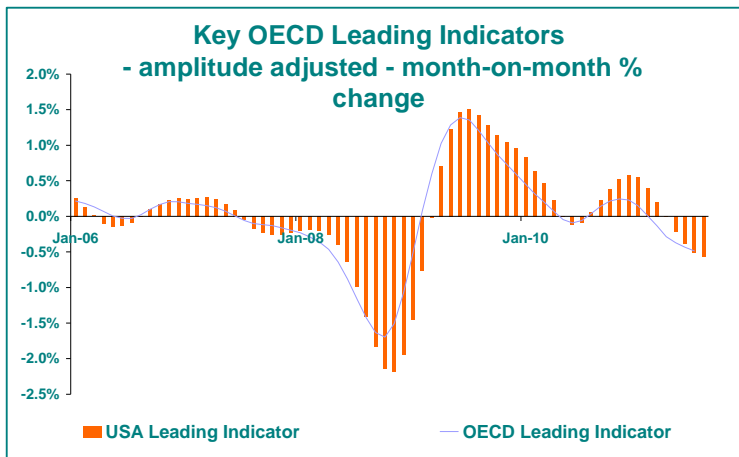


Year-on-year, the Indicator was 1.1% higher than August 2010, but this too represents a slowing in the growth rate from 5% "mini-spike" in the previous month.

One sees a broad correlation in the direction of the year-on-year change in the Leading Indicator and that of the value of new mortgage loans granted (residential and commercial, with residential being the dominant component). From March to June, the value of mortgage grants was already in year-on-year decline.

The SARB reports that only one of the 11 time series that were available for the compiling of the August datapoint was a positive contributor and that was the commodity price index for SA's main export commodities. The most significant negative contributing time series was the

Composite Leading Indicator of SA's major trading partner countries, indicating that we are indeed feeling the pressure from a weakening global economy. The 2nd two most important negative contributors were a weaker JSE, and weaker business confidence, while deteriorations in market interest rate expectations and a decline in job advertisements also featured.



Examining the OECD's set of "amplitude adjusted" leading indicators for the US as well as for OECD countries, both have been experiencing significant month-on-month decline in recent months.

High commodity prices can be a "direct" near term positive for South African exporters. However, indirectly they have the potential to be strongly negative, contributing to higher domestic consumer price inflation, and also due to the possible effect that the currently high oil prices may be having on especially the USA, the world's largest oil consuming economy.

Looking forward, the further decline in the SARB Leading Indicator suggests likely near term economic weakness, and this would probably imply the same for the mortgage market and the value of new mortgages granted, given the typically good correlation between new mortgages and the Leading Indicator.

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