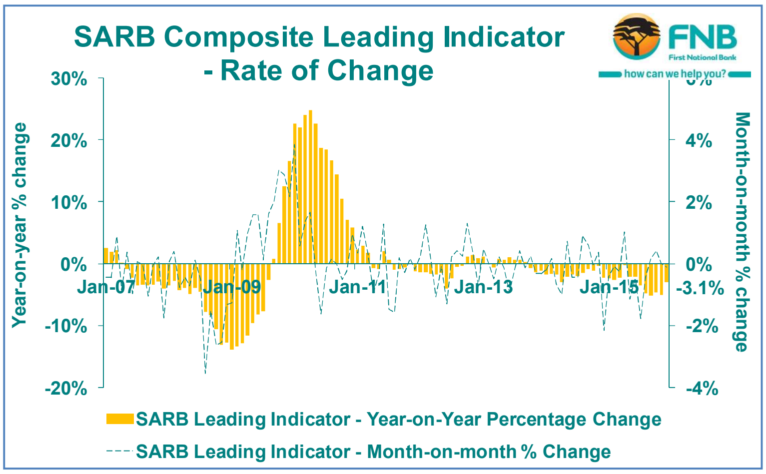
PROPERTY BAROMETER –COMPOSITE BUSINESS CYCLE INDICATORS

December 2015 Leading Business Cycle Indicator records the 27th consecutive month of year-on-year decline, pointing to further economic weakness ahead in 2016.

23 February 2016

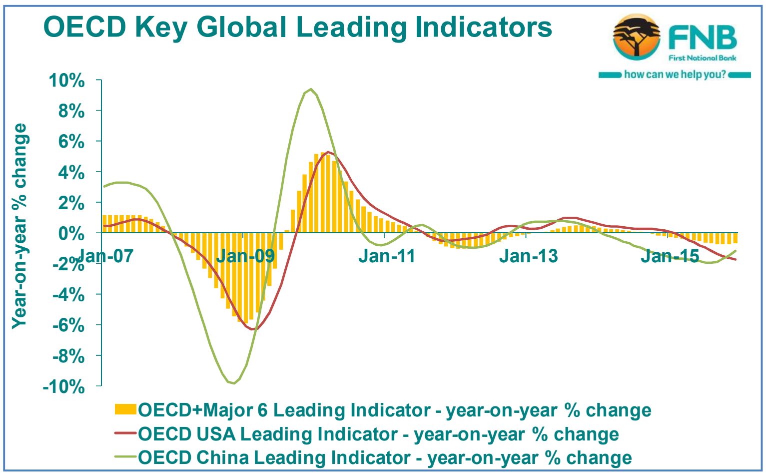
The year-on-year rate of change in the SARB Leading Business Cycle Indicator remained firmly negative, but was slightly less negative in December 2015 compared with November, while the more volatile month-on-month rate of change went from positive in November back to negative in December.



Year-on-year, the SARB Leading Indicator declined by -3.1% in the month of December 2015. This is a slightly less extreme decline than the -5.0% year-on-year decline for November, but nevertheless remains a very poor number.

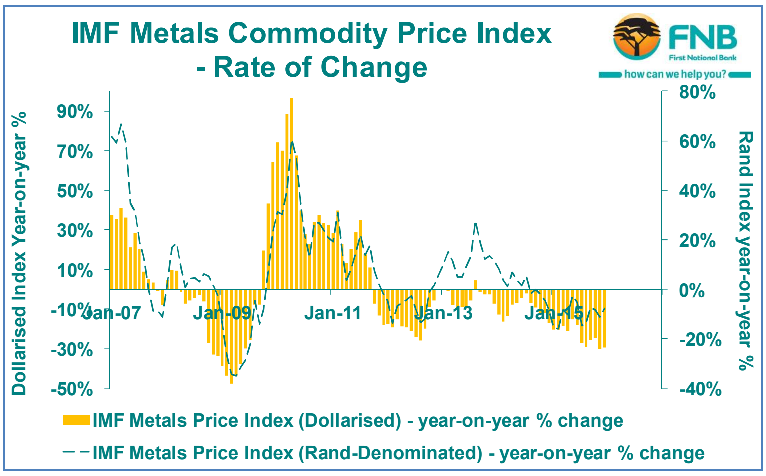
This rate of decline continues to point to likely near term economic growth weakening, as well as a deterioration in growth in new residential mortgage lending in the near term.

The slower rate of decline, on a year-on-year basis, may suggest that the worst economic performance deterioration may be in the early stages of 2016, where-after things may "bottom out". But that is a long shot, as December's year-on-year decline in the Leading Indicator was the 27th consecutive month of year-on-year decline.

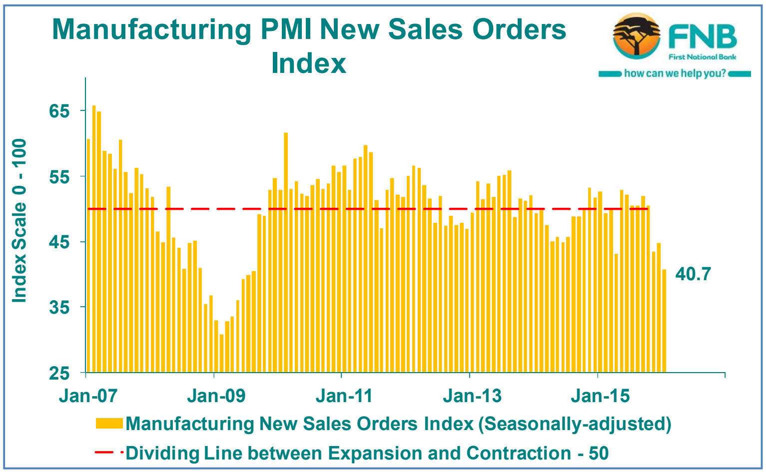


The condition of the global economy featured strongly to the negative side. Amongst the Negative Contributors to the Indicator in December were the Composite Leading Business Cycle Indicator for SA's Major Trading Partner Countries, along with the Commodity Price Index for SA's Main Export Commodities.

While the Leading Indicator for SA's Major Trading Partner Countries for December is not yet available, the OECD's Global Leading Indicators don't yet point to any meaningful global economic improvement. While China's Leading Indicator may be showing signs of its rate of decline receding, that is not yet the case for the US, and the OECD+Major 6 Leading Indicator still languishes in year-on-year decline.

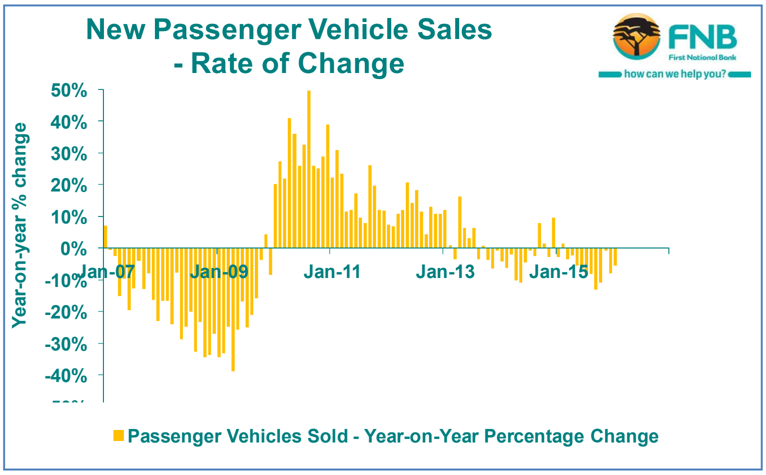


On the export commodity price front, too, there was little in the way of good news either. The IMF Metals Commodity Price Index declined by 29.3% year-on-year in December 2015, in Dollar terms, and by -7.6% in Rand terms even despite a significant weakening in the local currency.



The negative global contributions were no doubt having a partial impact on 2 other negative contributing data series from the manufacturing Sector, namely Average Hours Worked Per Factor Worker and Volume Of Orders in Manufacturing.

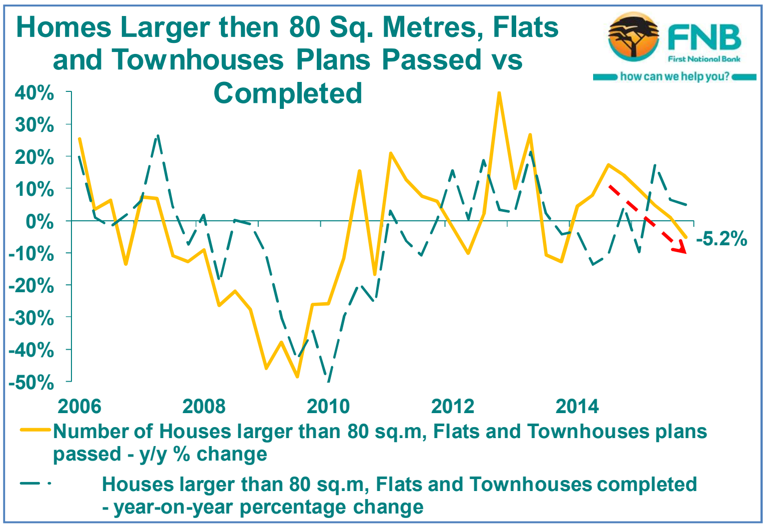
A further decline in the Manufacturing Sales Orders sub-index of the Purchasing Managers' Index suggests that things deteriorated still further in the Manufacturing Sector early in 2016.



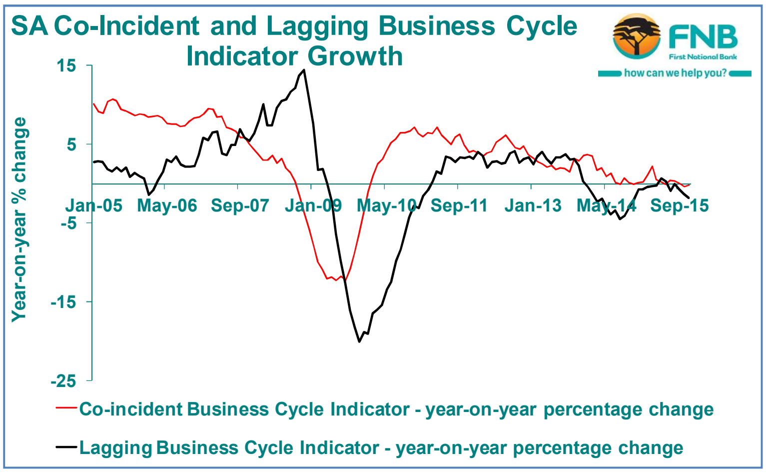
A further key negative contributor was the rate of change in New Passenger Vehicles Sold.

Of some minor encouragement here is the fact that January figures show less of a year-on-year decline than December, to the tune of -5.5%.

Perhaps some bottom points are nearing in the economy, as very low bases have now been created.



On the positive contribution side, perhaps surprisingly, Job advertisements featured as did Residential Building Plans Passed for Flats, Townhouses and Houses larger than 80 square metres. The latter series, however, is extremely volatile from month to month, and on a more smoothed quarterly was still trending lower in the 4th quarter of 2015, while we would not expect job prospects to improve on a sustainable basis in this current economic environment.



In the mean time, the other 2 SARB Composite Indicators, namely the Co-Incident Business Cycle Indicator and the Lagging Indicator, confirm the stagnant economic situation. From October's -1.3% year-on-year decline the Co-Incident Indicator's rate of decline de-celerated slightly to -0.2% in November. The Lagging Indicator, however, saw its rate of decline accelerate from -1.3% in the previous month to –1.8% in November.

CONCLUSION

The best thing that one can point out in the SARB Leading Business Cycle Indicator's year-on-year rate of change trend is that recent months have shown a mildly diminishing rate of decline.

This may suggest that the 1st half of 2016 will be the worst half from an economic growth point of view, where-after one may see some improvement, or at least less deterioration. That may be plausible to expect, should drought conditions subside somewhat and allow the Agriculture Sector's production to normalize somewhat as the year progresses.

However, the ongoing year-on-year decline in the Leading Indicator as we head into 2016 continues to suggest that a worse economic growth year is likely in 2016, compared to 2015. Indeed, we are projecting real economic growth of 0.5% for 2016 as a whole, slower than a 2015 average growth rate of between 1%-1.5%.

The components of the Leading Indicator continue to point to global economic mediocrity, and a commodity price slump, taking its toll on SA's highly export-dependent economy. Locally, we are also well aware of the ongoing structural constraints that keep SA's long term growth potential low even in the good global economic times.

This all points to the likelihood of more slowing in growth in the value of new Household Sector Mortgage Advances, something that appears to have already started back in the 3rd quarter of 2015.

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