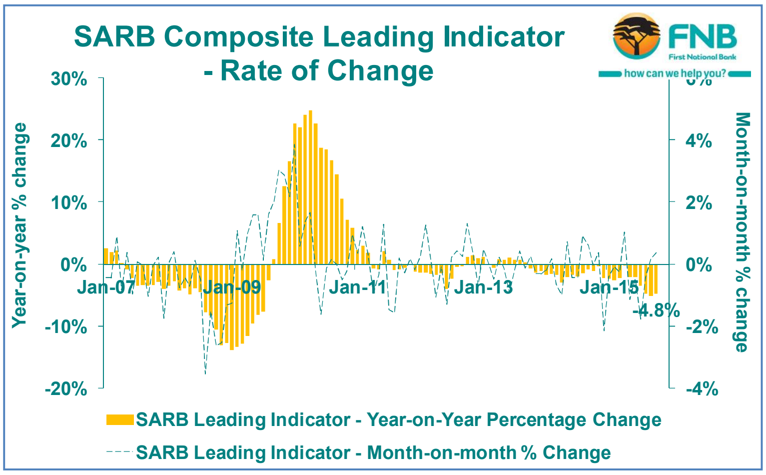
PROPERTY BAROMETER –COMPOSITE BUSINESS CYCLE INDICATORS

October Composite Business Cycle Indicators continued to point to "economic misery" as we head towards 2016. There may, however, be a vague hint of "bottoming", but a lack of jobs remains the big concern

The year-on-year rate of change in the SARB Leading Business Cycle Indicator remained firmly negative, but was slightly less negative in October compared to September, while the more volatile month-on-month rate of change was actually positive.

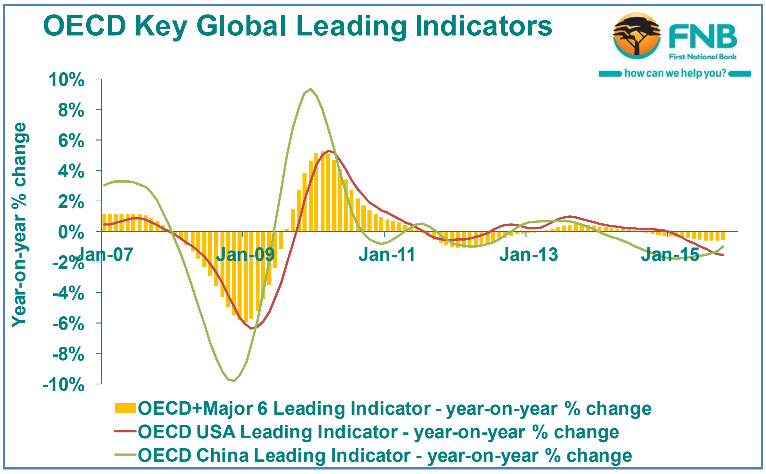


Year-on-year, the SARB Leading Indicator declined by -4.8% in the month of October. This is a slightly less extreme decline than the revised -5.2% year-on-year decline for September, but nevertheless remains dismal.

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 positive month-on-month growth, and smaller magnitude of year-on-year decline, may however suggest that some slowing in the pace of South Africa's pace of economic deterioration is approaching, but we should probably not place too much hope on this just yet.

Of the available indicators that are used in the overall Leading Indicator, noteworthy was that the Leading Indicator for South Africa's Major Trading Partners was on the list of positive contributors. This may reflect signs that China's economic weakening may be starting to bottom.



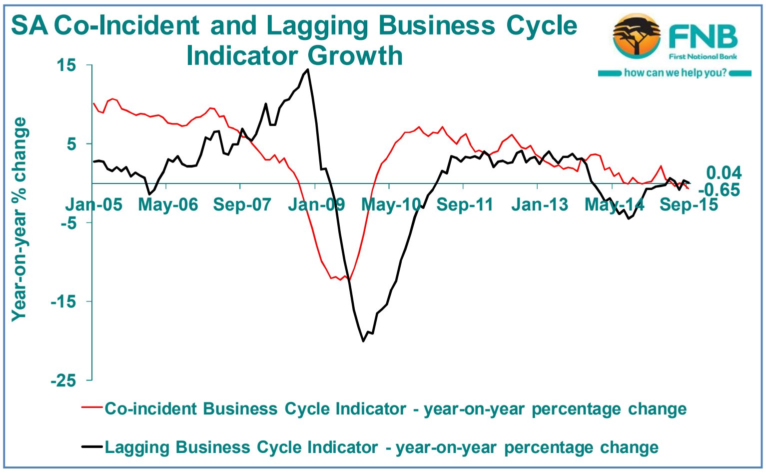
This "bottoming" comes through in the OECD's October Leading Indicators, where both the Chinese and OECD+Major 6 Economies' Leading Indicators recently began to show a mildly slower pace in year-on-year decline.

All is far from well in the World Economy,, however, with the OECD US Leading Indicator still having picked up downward year-on-year speed as at October, and of course we await the start of US Fed interest rate hiking.

But the reason why we don't read too much into the slight shrinking in the year-on-year decline of the SARB Leading Indicator in October is due to the fact that the 2 Manufacturing Sector component series, namely "Average Hours worked per Factor Worker" and "Volume of Orders", were said to be positive contributors to the overall Leading Indicator in that month. Why we don't yet get excited about this is that we already know that the Barclays Manufacturing Purchasing Managers Index for November experienced a sharp drop, suggesting that *these 2 positive contributors could quite easily move to the list of negative contributors list when the November Leading Indicator gets compiled.*

On the list of negative contributors to the overall Leading Indicator, notable were Commodity Prices for South Africa's exports, suggesting that the news from the world economy was mixed, with one indicator a positive and the other still a negative.

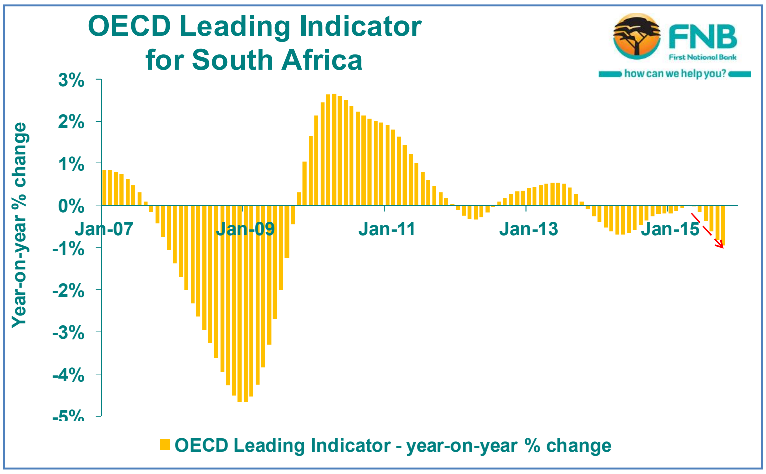
However, the huge concern remains the Job Advertisements component of the Leading Indicator, which remains stubbornly on the Negative Contributors list. This is the lagged response of the Commercial Sector to a number of years of above-inflation wage increases, and suggests that 2016 will be a bleak year on the jobs front. This, in turn, could mean a renewed flare up in social tensions and instability. This component of the Leading Indicator is arguably of the most concern.



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 August's -0.2% year-on-year decline the Co-Incident Indicator's rate of decline accelerated to -0.65% in September, while the Lagging Indicator's slightly positive growth slowed from 0.3% year-on-year to 0.04% over the same 2 months.

CONCLUSION

One month of slightly less extreme rate of year-on-year decline in the SARB Leading Indicator is of little significance at this stage. Signs of a bottoming Chinese economy may see the global economy beginning to strengthen its contribution to South Africa's ailing economy in the near future, but a -4.8% year-on-year rate of decline in the SARB Leading Indicator remains dismal.



The Job Advertisements component's weakness is of particular concern, due to a lack of job creation having the potential to further fuel an already high level of social tensions. In addition, the slight "turn" in the SARB Leading Indicator's rate of decline is not yet seen in the OECD's version of the Leading Indicator for South Africa. This alternative version's year-on-year rate of decline was still picking up downward speed as at October

JOHN LOOS:
HOUSEHOLD AND PROPERTY SECTOR STRATEGIST
MARKET ANALYTICS AND SCENARIO FORECASTING UNIT: FNB HOME LOANS
Tel: 087-328 0151
John.loos@fnb.co.za