The Financial Cycle

Per cent, 4-quarter changes

Legend:
- Downward phases of the business cycle
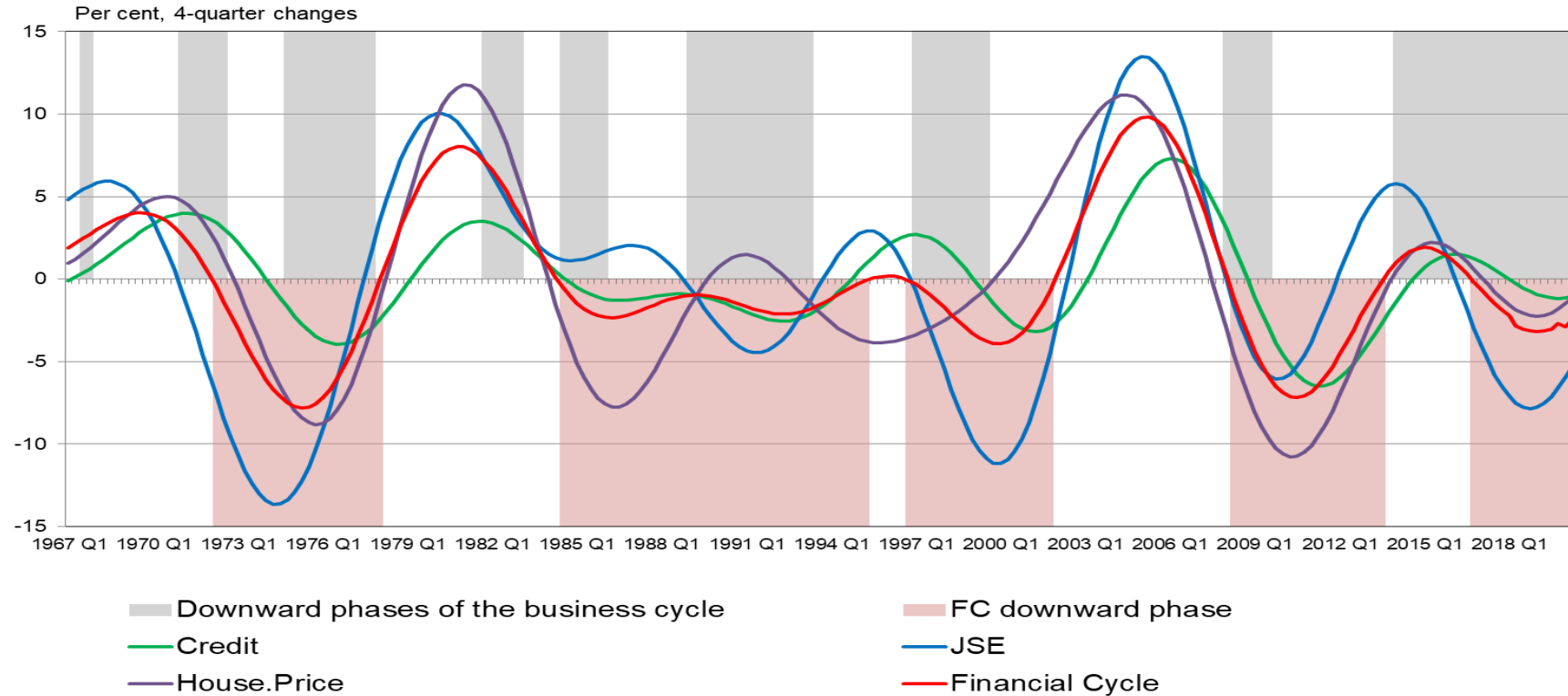- FC downward phase
- Credit
- JSE
- House.Price
- Financial Cycle

Financial cycles are generally measured by the co-movement of a broad set of financial variables. In this graph, Christiano-Fitzgerald band-pass filters (that aim to allow frequencies of 32-120 quarters and attenuate all other frequencies) have been applied to constant price data to extract the medium-term cycles in credit, equity prices and house prices. These are then averaged to obtain an estimate of the financial cycle (the thick red line). The pink shaded areas represent downward phases in the financial cycle. The financial cycle has been in a downward phase since the fourth quarter of 2016. All three subcomponents are in a downward phase, suggesting that the Covid-19 shock has not come at a time of excessive risk taking. The downward phases of the business cycle, as calculated by the SARB, are shown by the grey shaded areas.

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