

Signs that Canada may be moving past the worst

“The worst may be over for the Canadian economy”

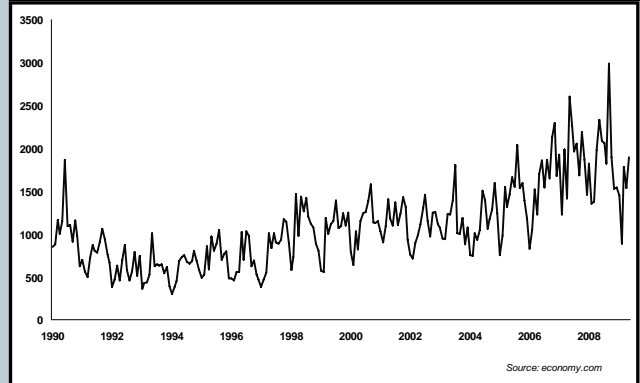
- It is too early to be talking about a recovery in the Canadian economy and property markets, but more upbeat data released over the last seven days suggests that the worst may be over. The Ivey PMI jumped from 48.4 to 58.2, although adjusting for seasonal factors reduces the strength of this result somewhat. On the property front, building permits (for May) surprised on the upside, leaping 14% m/m in value terms, more than reversing a 4.5% fall in April. In volume terms, that meant an improvement of 24% for non-residential building permits.

- The surge in non-residential building permits in May was largely driven by hospital and medical projects, offsetting weakness in other sectors. For example, office permits fell by 37% in volume terms. Nevertheless, the improvement at a headline level suggests that non-residential construction spending data, due for release on Tuesday 14th, may have edged-up in Q2. However, the sectoral breakdown is likely to reflect weakness in the commercial building permits. That would be consistent with the change in construction spending between 2008Q4 and 2009Q1: non-residential construction spending edged down by 0.8%, reflecting a 4% increase in institutional spending and falls in industrial and commercial construction of 4% and 2% respectively.

- Next week also sees the next release of the Bank of Canada’s Senior Loan Officer Survey on Monday 13th – a summary of lending practices over 2009 Q2. The Q1 survey reported that lending conditions were continuing to tighten, although the tightening had become less widespread. It seems likely that further small improvements in lending practices will be reported in the Q2 survey.

Improvement in non-residential building permits bodes well for construction spending

No. of non-residential permits, 000s



“Non-residential construction spending will have held steady in Q2”

Chinese stimulus to provide near term property support

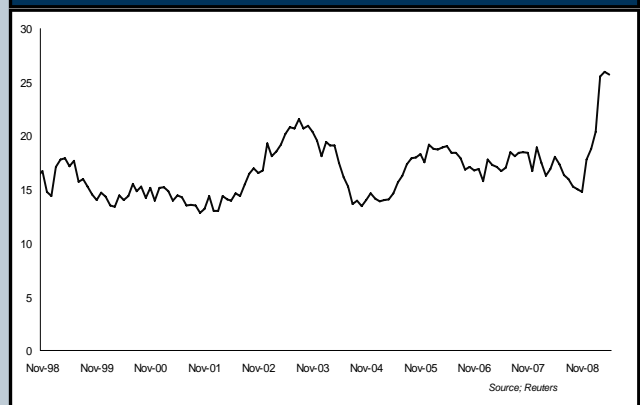
- House price data across 70 Chinese cities will be released by the National Bureau of Statistics in the coming weeks. Recent economic data points to some initial success in boosting momentum in the economy off the back of the Government’s 4 trillion Yuan stimulus package during the second quarter. Lead indicators of the economy such as the PMI survey of manufacturers have moved back into expansion territory over the last four months. As such Q2 GDP figures due on Thursday 16th should show some improvement.

virtually unchanged on a year earlier. The pick up in domestic demand is certainly encouraging. Fixed investment and consumption formed the lion’s share of China’s 9% growth in 2008 at around 4% each. As such, news that urban investment is on the rise is driving optimism that a V shaped recovery can be achieved although lax credit conditions may be stoking medium term challenges.

- Underpinning a return to growth has been a surge in lending by the state-dominated banking system, flooding the economy with liquidity and encouraging a rebound in domestic demand. The upcoming real estate data is likely to point to further upward momentum in house prices in June, extending the modest upturn in prices on the official measure in recent months. Credit extension and lower interest rates are filtering into property activity with sales up around 45% in the first five months of the year to 1 trillion Yuan which has started to support pricing.
- Real estate prices for ordinary residential buildings rose a monthly 0.8% in May for the second consecutive month. On an annual basis, declines in residential real estate prices have abated in recent months with prices in May

Money supply growth has surged since November 2008

Annual % growth



“Liquidity is boosting domestic demand...”

“..although the lax credit environment may be stoking future banking problems”

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Czech construction output to only recover slowly

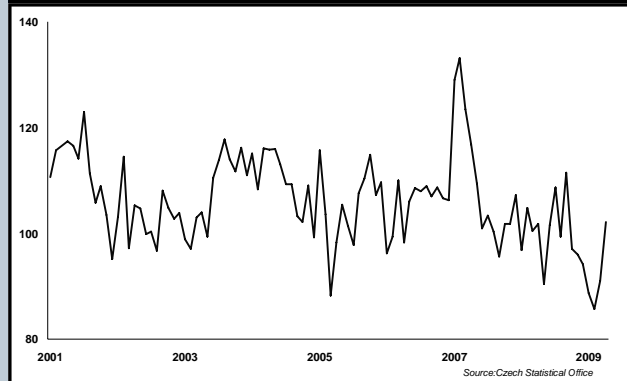
“April’s data was more encouraging following weak readings”

- The latest numbers on construction output in the Czech Republic are due for release on Monday 13th. The April data was a little more encouraging following weak readings during the early part of the year although the volatile nature of the series means that the figures need to be interpreted with some care. The improvement in the headline number was driven by the civil engineering sector while building construction continued to lag some way behind. This has been pretty much the case since the early part of last year. Not surprisingly, the more subdued trend in building construction has also been reflected in housing starts which in the first quarter of this year were significantly lower than in the comparable period of 2008.
- Surveys of the Czech economy are showing some tentative signs of improvement; the latest PMI report posted a rise from 40.5 to 41.9. This, nevertheless, still remains at a level consistent with falling output in the manufacturing sector. Indeed, provisional industrial production numbers for May put the year on year drop in output at 21.7%. Meanwhile, the trade data shows exports continuing to be squeezed by the weak global picture.
- At its last meeting, the Czech National Bank eschewed the opportunity to lower interest rates beyond 1.5%. June in-

flation did, however, post a further drop in the headline rate to 1.2% and the likelihood is that it could slip below 1% in the coming months. Given this prospect, a further easing in policy is still conceivable. Moreover, with growth heavily dependant on the fortunes of the euro area, the economic recovery is likely to be sluggish and the construction sector may lag overall economic growth.

Czech construction output picked up in April

Annual % ch previous year=100



“The construction sector will only slowly regain momentum”

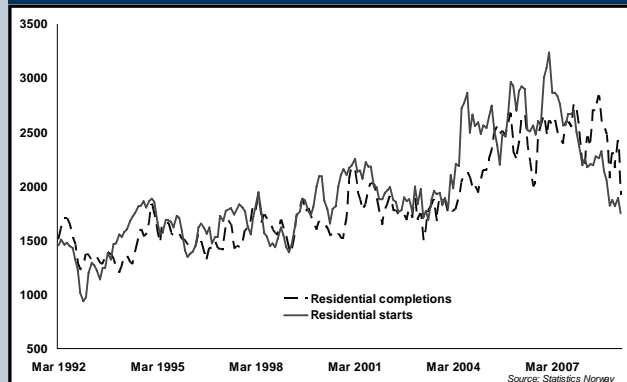
Norwegian home building activity to fall further

“Oversupply of new houses is the main issue...”

- Official Norwegian residential building activity data for May is due on Friday 17th. The data is released on a not seasonally adjusted basis and is currently showing that starts and completions are about 70% below their respective peaks. However, seasonally adjusting the data, in order to observe the underlying trend, shows that the figure is closer to 50%. In the UK, by way of contrast, starts and completions are 62% and 37% below their respective peaks (on a seasonally adjusted basis).
- Looking forward, the decline in Norwegian residential building activity probably has further to run. Oversupply of new houses remains an issue and, at the same time, demand is likely to weaken. GDP contracted by 0.4% in Q1 and unemployment, whilst still low at only 3.1% in April, has been rising gradually over the last twelve months.
- Although the peak to trough decline in residential building activity has been about the same on average in both countries, it has been driven by different factors. In Norway, activity has fallen mainly because of significant over building of new houses in recent years. Indeed, Norwegian residential investment as a share of GDP (14% in Q1 2009) has significantly exceeded its long run average (12.3% since 1990) since Q4 2005. Meanwhile, residential investment as a share of GDP in the UK has only sporadically edged above the long run average in recent years. Rather, residential building activity has fallen in the UK because demand has been hit so hard by the credit crunch. Net lending to individuals is currently running 1.2% y/y in the UK, whereas the comparable figure in Norway (credit to households) is still showing growth of 6.7% y/y.

Building activity has fallen mainly due to over supply

Number (seasonally adjusted)



“...but weaker demand will soon play a role”

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