

## Beijing will hope 'hot property' cools over the coming quarter

**"GDP is expected to come in a touch lower than in Q3"**

A wide array of economic data is released in China over the coming week, some with real relevance to the housing market. The usual suite of fixed asset investment, consumer and producer price inflation, industrial production, retail sales and urban property prices for December are released on Thursday 20<sup>th</sup> by the

National Bureau of Statistics (NBS). However, of particular interest will be the Q4 GDP number, released on the same day.

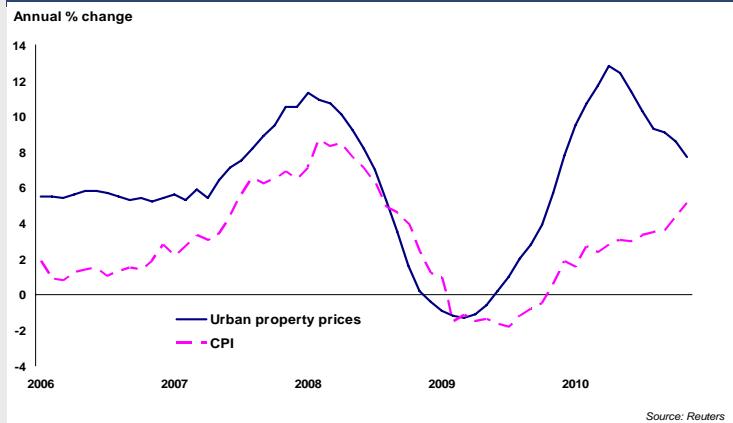
GDP is expected to come in marginally lower than the 9.6% in Q3, bringing average growth for 2010 to around 10%. The latest PMI survey eased to 54.4 in December (where a reading above 50 means expansion), showing a slowdown compared to the previous month. Despite this, annual growth in Q4 is still likely to be as high as 9%. Meanwhile, CPI rose to a 28-month high in November, but the increase was largely driven by a sharp increase in food prices (which make up a third of the CPI basket in China). Indeed, the November number proved to be too much for the Chinese authorities, who consequently raised the base rate on Christmas day for only the second time since 2009. A stabilisation in food prices over the last month should mean the figure falls back from its November peak, but it is still expected to remain above the 3% target.

On the property front, the urban property price index has slowed over the last three months, but the annual growth in prices was still 7.7% in November. Interestingly, there has been speculation that the much

touted property tax will be implemented from the end of the first quarter. No official details of the tax have been released from Beijing, but some sources report that the tax, to be trialled in Chongqing, will be roughly 1% and will only apply to high end residential property. Prices in December will have been unaffected by the rate hike. However, many will be watching with interest in the coming months to see what affect these latest cooling measures have on the real estate market.

**"There are reports that a 1% tax on luxury property may be trialled in Chongqing"**

### CPI jumped to a two year high



## Euro area construction output likely to be volatile in Q1 because of the snow

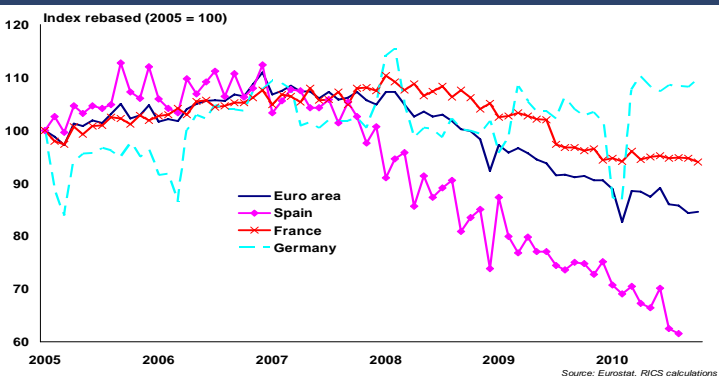
**"The snow hit the German construction sector hard in December"**

Official euro area construction output data for November is due on Wednesday 19<sup>th</sup> from Eurostat. To date, the recent trend in output at the headline euro area level has been weak; output is down by 7.5% on year ago levels and 24% below its December 2006 peak. However, these figures mask considerable variation at the country level; compared to a year ago, output is

down by 16.4% in Spain, 2.3% in France though up by 6.8% in Germany.

A large part of this divergence can be explained by differences in key macroeconomic drivers, such as the labour market but other factors that have played a role include lending conditions and the scale of overbuilding. Lower employment not only means less demand for new housing; it also means that less people will be occupying office or industrial space, or will be visiting retail stores. In Germany, the unemployment rate hardly deteriorated in the current crisis (it increased from 7.1% in December 2008 to 7.7% the following June) and has fully recovered since then, currently standing at 6.7%. Meanwhile, in France, the unemployment rate increased from its low of 7.6% (May 2008) to 9.8%, but in Spain, it has risen from 8% (May 2007) to 20.6%.

### Divergent trends in construction output in the euro area



Whatever the hard construction data shows at the headline level in November, it is certain to be a moot point. Survey indicators are already signalling that a major fall in construction output took place in Germany during December because of the snow. Indeed, the Construction PMI headline reading fell from 53.8 to 36.0, while the building activity (over the last three months) net balance in the EC Construction Survey fell from -3 to -15. Given this situation, the construction output data at the euro area level is likely to be extremely volatile during Q1, showing a strong weather related rebound driven by Germany. Beyond Q1, differences at the country level are likely to continue, ultimately driven by underlying economic conditions.

**"After weather related volatility in the hard construction data during Q1, recent country trends are likely to persist"**



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## Brazil set to raise interest rates

**“BCB set to raise the SELIC rate by 50bp to 11.25%”**

The Central Bank of Brazil (BCB) meets for its first monetary policy meeting of 2011 on Wednesday, 19<sup>th</sup>. The meeting will likely see a resumption of monetary tightening that has been put on hold since August 2010 on the back of rising inflation (5.91%), which is well above the 4.5% target rate. Additionally, the BCB has increased its 2011 inflation forecast

from 4.6% to 5%. Hence, the BCB will likely hike the SELIC rate by 50bp to 11.25% in the next meeting.

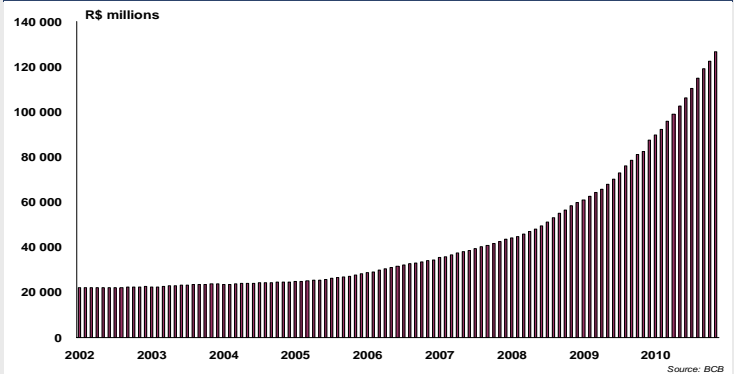
The BCB has a new Governor at the helm (Alexandre Tombini), appointed by a new government that has already signalled its intention to slow domestic demand in order to reduce inflation towards the target rate by 2012. To this end, the BCB is expected to hike the SELIC rate while the government has indicated plans to tighten fiscal policy and reduce credit growth. The tighter the fiscal and credit squeeze is, the fewer number of interest rate hikes will have to take place. Credit expansion has risen significantly over the last decade, with the stock of financial system credit doubling to 46.3% of GDP. This has been a major contributor to the robust domestic demand seen in the economy as well as the booming housing sector. Indeed, mortgage lending has seen a massive 53% rise in the 12 months to November. Additionally, government social programmes (which the new government is keen to continue) such as the ‘My house, My life’ programme (which aims to build 1 million homes and subsidise mortgages for low income families) will hinder any proposed tightening

in credit expansion; especially by state banks who fund the majority of social programmes.

Looking forward, with an estimated housing shortfall of over 8 million, the necessary financing required to do this looks set to continue to grow aggressively during the coming year. With the government keen to reduce the neutral rate of interest, it will be interesting to monitor the level of fiscal retrenchment in 2011.

**“Mortgage lending in November increased by 53% year on year”**

**Mortgage lending continues to expand**



## Japanese economic recovery should feed through to real estate sector

**“Survey indicators point to improvements in the economy...”**

Recent data is suggestive that the Japanese economy may be moving back onto firmer ground. Industrial production rose by 1% in November, the first month-on-month increase in six months, while the PMI survey for the service sector climbed in December to its best level since the early part of last year. More evidence that this is indeed the case is likely to be presented over

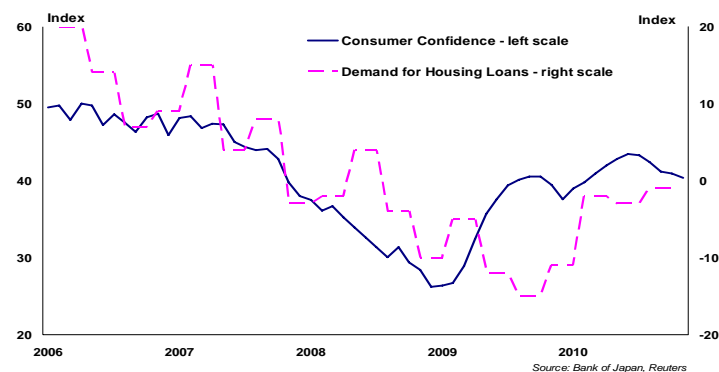
the coming week with the release of a string of closely watched indicators including consumer sentiment on Monday 17<sup>th</sup>, the tertiary sector activity index on Wednesday 19<sup>th</sup> and the Reuters Tankan on

Thursday 20<sup>th</sup>.

Just as significant for the real estate sector will be the results of the latest bank loan officers’ survey compiled by the Bank of Japan which is due out on Friday 21<sup>st</sup>. The previous survey, released in October, showed the index measuring the demand from households for home loans to still be in negative territory albeit much less so than during 2009 and the first half of 2010. Meanwhile, the appetite of the construction and real estate sector for debt was also rather less negative than previously was the case; the net balance index for large firms operating in this area climbed from -12 to 0.

Significantly, the October survey also pointed to an easing in credit standards with regard to applications from both households and businesses for loans. The spread between loan costs and banks’ costs of funds appears, moreover, to have begun to decrease. This more lenient attitude from banks, coupled with the better tone to the economy, is likely to manifest itself in a pick-up in loan demand as 2011 wears on. The real estate sector should gradually derive some benefit from this accommodating approach which is also likely to be reflected in a slightly firmer trend in land prices.

**“..provided the recovery is sustained, the real estate sector should be a beneficiary”**



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