

Singapore property market cooling, but is it enough?

“Housing costs picked up by 3.5% in October”

The Singapore Department of Statistics release CPI inflation data for November on Thursday 23rd. Consumer prices in October rose by 3.5% compared with a year ago, with the gains owing to higher costs of transport, housing and food. Indeed, housing costs, which make up 25% of the total CPI basket, picked up by

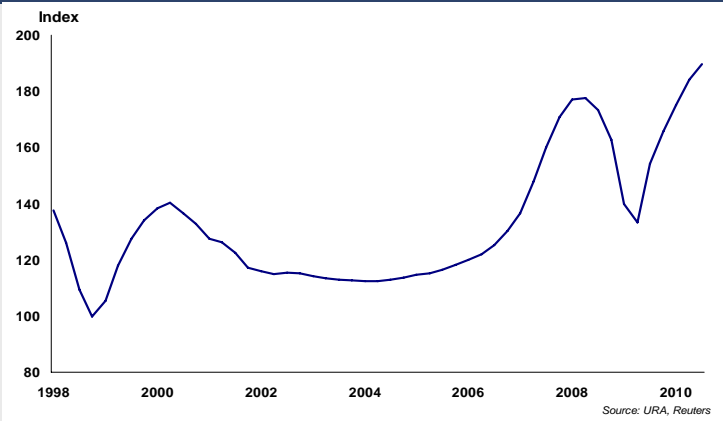
3.5% as energy costs increased. According to the Department of Statistics, housing costs have increased on a year on year basis since April and peaked in September at 4.7%. The Monetary Authority of Singapore set policy to target inflation between 2.5 and 3%, so could be forced into tightening policy in the new year if above target inflation persists.

Interestingly, the Urban Redevelopment Authority (URA) will be releasing the flash estimate of its property index for Q4 in the first week of the new year. This is likely to be monitored to see how government measures aimed at curbing speculative buying have affected the market. Indeed, the government raised down payment requirements in August for second mortgages and imposed a stamp duty on homes held for less than three years to curb speculation after prices saw heavy increases in the previous 12 months. The effects of such measures may not have had sufficient time to impact seriously on the Q3 reading. Despite this, the Q3 index picked up by 2.9%, the slowest growth rate seen since Q3 2009, while the year on year growth rate also slowed, easing to 22.9% from 38.2% the previous quarter.

Looking ahead, the government will be hoping their recent measures will result in a more sustainable trajectory for house prices. If they don't, further incremental measures are likely to be implemented. However, the authorities are likely to wait until the Q4 house price data has been released before they make further announcements.

“The effects of government measures should be seen in the Q4 flash estimate”

House prices have risen quickly



Central banks in Hungary, Poland and Czech to hold policy steady next week

“The MNB is likely to tighten again in the first quarter of 2011”

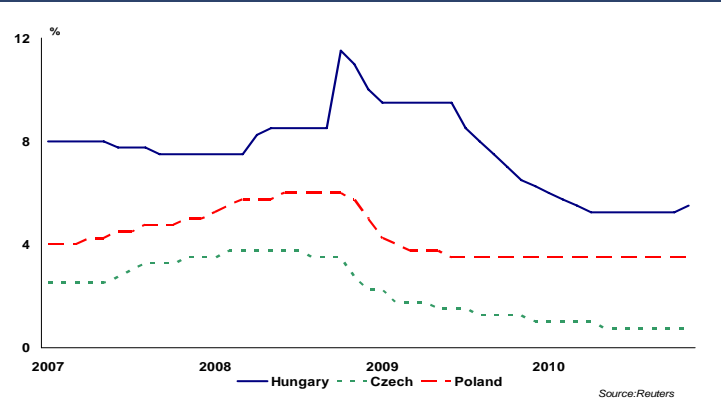
A series of central bank meetings are due to take place over the coming week in central and eastern Europe. On Monday 20th the Hungarian central bank (MNB) will reassess its monetary stance having raised interest rates by 0.25% to 5.5% in November. It would not come as a surprise to see the MNB take further action to address the overshoot of inflation (currently 4.2% against a target

of 3%) although our suspicion is that this is more likely in the first quarter of 2011 than at the December meeting. This will be followed on Wednesday 22nd by the deliberations of the Czech (CNB) and

Polish (NBP) central banks. Both the CNB and the NBP have been able to keep interest rates steady in recent months; indeed, in the case of the latter the key policy rate has been on hold since the middle of last year. We see little reason to anticipate an early shift in this position.

A critical issue facing the MNB is the threat by the government to reconfigure the nomination rules for policy makers which could compromise its autonomy. Following the latest interest rate hike, government officials called the move unjustified leading the ECB to step into the fray and demand respect for the independence of the central bank. So far this spat has had little impact on the exchange rate, although the risk is that it could have more meaningful consequences if a new look body were to pursue a looser monetary stance than is warranted by macro fundamentals.

Interest rates only rising in Hungary at present



Of the three countries, Poland looks set to record the strongest economic performance over the coming year with growth in excess of 4%. The news flow on the commercial property sector broadly seems to reflect this probability. The Q3 RICS Global Commercial Property Survey suggested that sentiment towards both rents and capital values was relatively upbeat in Poland. That said, there does also appear to have been an encouraging shift in the mood music in Hungary. This arguably reflects the faster than expected recovery in the economy over the past year.

“Sentiment towards commercial property is relatively upbeat in Poland”



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Japanese growth to slow; to weigh on real estate markets

“Economy set to weaken as stimulus wanes”

Several important economic events take place in Japan next week. The Bank of Japan (BoJ) begins their monetary policy meeting on Monday 20th with a decision being announced the following day. Also due on Tuesday 21st is the latest all sector activity index. Wrapping up the week, key trade data is due on Wednesday 22nd alongside the latest

(BoJ) monthly economic report.

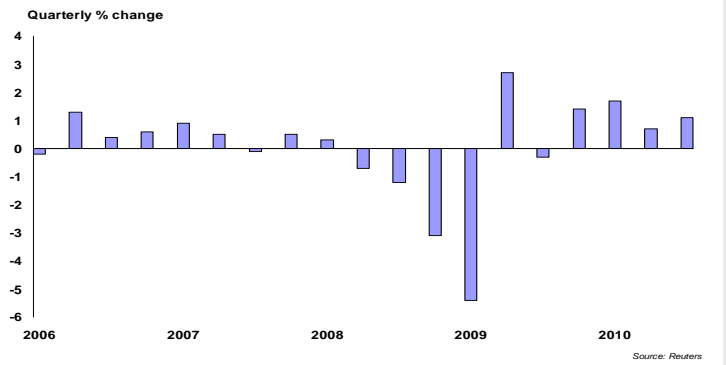
The latest economic data to arrive from Japan has been mixed. Third quarter GDP rose a stronger than expected 1.1% boosted by government stimulus measures which have bolstered consumption. These measures include government subsidies for purchases of low emission cars which helped the auto industry in Q3, although expired in September. Other measures, more specific to the property sector include government subsidies and tax breaks for purchasing energy efficient homes. Whilst third quarter annualised growth has surpassed 4% this is likely to signal a high water mark for growth.

Last week's closely watched Tankan report showed that large manufacturers have become less optimistic for the first time in 7 quarters. A contraction in export orders and worries over the impact of further tightening measures in China appear to be weighing on sentiment. Business surveys of the manufacturing sector such as the Nomura PMI showed that export orders contracted at their fastest pace in 19 months in November. In the property market, housing starts data are due on Monday 27th and have edged gradually higher to over

70,000 over the last three months although remain around 25% below decade averages. Construction orders remain 5.6% below levels a year ago and could fall back looking ahead. Indeed, some analysts anticipate a renewed technical recession in Japan in the coming two quarters with front loading effects set to wane as stimulus measures expire. Any fall back in the economy will further weaken employment growth and property market activity in both the residential and commercial sectors.

“China tightening is also weighing on sentiment”

Quarterly growth in GDP to turn negative in Q4 2010



Euro area mortgage lending outlook is positive, but risks remain

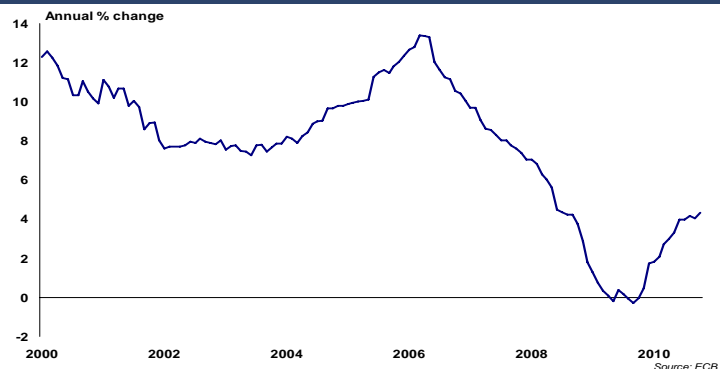
“Annual growth in euro area mortgage lending was 4.3% in October...”

Euro area M3 lending data for November is due from the ECB on Wednesday 29th. M3 lending fell by 0.3% in October, but annual growth is still positive, albeit barely at 1% (compared to the peak of 12.4% in October 2007 and the long run average of 7.2% since 1981). One of the key components of the M3 release is lending (outstanding) for home purchase. At the

euro area level, this increased by 0.5% in October, marking the eighteenth consecutive monthly increase, pushing the annual growth rate up to 4.3%, the highest since July 2008.

At the country level, the ECB data shows marked and in some cases, surprising variation in mortgage lending. Indeed, Ireland and the Netherlands are currently the only countries within the region where annual growth in mortgage lending is negative (at -2.4 and -5.2% respectively). Meanwhile, the ECB data shows annual growth in Greek mortgage lending is running at 18.6%. The relatively mild weakness in the Irish data and the extreme strength of the Greek data seems at variance with prevailing wisdom. Cross-checking the data with national sources reveals our suspicions are partly warranted. Indeed, the Irish numbers in the ECB data are more or less in sync with the Irish central bank data (-2% in Q3). However, the Bank of Greece data shows the equivalent figure at -36%, which seems far more plausible.

Euro area mortgage lending is gradually recovering



Looking forward, the outlook for mortgage lending in the euro area as a whole is positive. Tailwinds come from Germany and to a lesser extent France, which together account for just under 50% of the total mortgage stock. Indeed, German unemployment is currently at its lowest level since May 1992 (6.7%), while consumer confidence reached its highest level on record in November (since 1985). French unemployment has also started to edge down and consumer confidence is rising. However, headwinds remain in light of the European sovereign debt crisis. Contagion fears and more fiscal austerity are likely to constrain mortgage lending in the region's peripheral economies.

“..improving fundamentals in Germany and France, should lift this higher in 2011”

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