

## Singapore real estate market to remain firm

**“Measures have been recently put in place to help ‘maintain a stable and sustainable property market’...”**

Data releases over the coming week will provide a further snapshot of current state of play in the Singapore economy. Amongst the indicators likely to attract particular attention are the fourth quarter unemployment figures and the results of the Q1 2011 business expectations survey, both due out on Monday 31<sup>st</sup>. Also of note is

the January PMI report which will be published on Tuesday 1<sup>st</sup>. The unemployment rate, having spiked up above 3% in 2009, has since fallen back towards the 2% area as the economy has rebounded and it should continue to decline.

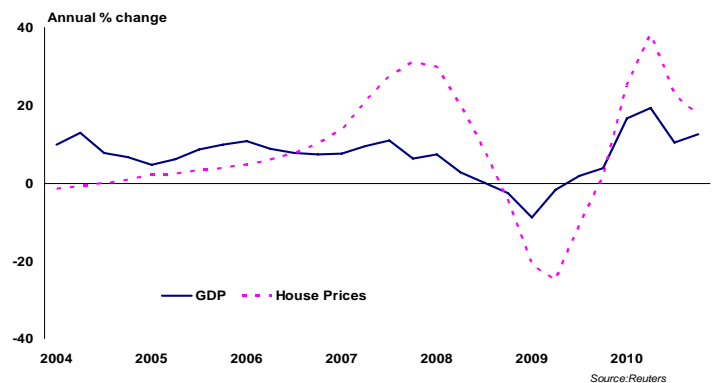
More interesting from a forward looking perspective may, however, be the two business sentiment reports. Both are currently suggesting that some of the momentum driving growth may be fading. But given that the economy expanded by almost 7% in the final quarter of last year, and by a remarkable 14.7% during the whole of 2010, this is hardly surprising. Our suspicion is that economic growth in 2011 will be nearer the 5.5% mark. In any event, policymakers are likely in the near term to be more exercised by developments on the inflation front which rose to 4.6% in December compared with the target of 2% to 3%. As things stand, it is probable the Monetary Authority of Singapore will tighten policy further in April.

The firm economic backdrop is continuing to translate into a vibrant property market. The URA estimates that prices rose by 2.7% in the final part of last year and by more than 15% during the whole of 2010.

A number of measures have been recently put in place to help ‘maintain a stable and sustainable property market’. These include lowering loan to value ratios for certain categories of purchaser and increasing the holding period for imposition of Seller’s Stamp Duty from the current three years to four years. This is unlikely to reverse the buoyant trend in the real estate sector but could help lead to a moderation in house price growth to the 10% area during 2011.

**“...these could help lead to a moderation in house price growth to the 10% area during 2011”**

### Singapore real estate is underpinned by strong economy



## ECB turns more hawkish on above target inflation

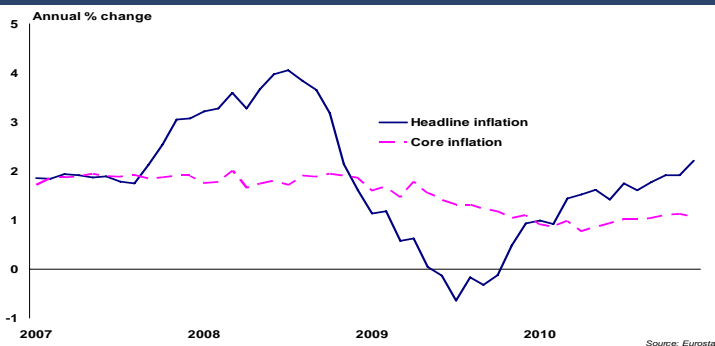
**“Upside risks to the euro area interest rate outlook”**

Eurostats’s flash January inflation estimate for the euro area is due Monday 31<sup>st</sup> and the next ECB interest rate announcement is due Thursday 3<sup>rd</sup>. The December inflation reading increased from 1.9% to 2.2% (largely due to energy prices) breaching the ECB’s target of ‘below but close to 2%’. In the event, the ECB announced unchanged rates (1%) at its last

meeting. However, in the accompanying statement, it upped its anti-inflation rhetoric, signalling upside risks to the interest rate outlook.

Looking forward, it is fair to say that the risks to headline inflation in

### Euro area headline inflation is above target at 2.2%



the euro area, at least in the short term, are skewed to the upside. These risks stem mainly from energy and commodity prices, largely driven by external developments i.e. strong growth in emerging markets. Presently, there is little evidence that higher headline inflation is feeding through to core inflation or resulting in second round effects. Indeed, core inflation remains relatively subdued at 1.1%, whilst breakeven spot and forward rates are around 2%. Moreover, the degree to which potentially higher inflation expectations translate into increased wage pressures is still likely to be limited by the high amount of slack that currently exists in the labour market (unemployment in the euro area is 10.1%). Therefore, in spite of the ECB’s heightened rhetoric, it is unlikely to raise official rates in the short term. However, should either of these factors materially deteriorate, the ECB is more likely to tighten monetary policy.

Regardless, the risks to the property market outlook across the region are already shifting further to the downside, though more so in the peripheral economies. Market based short term interest rates have already picked up, which will feed through to higher mortgage costs in those markets where funding is heavily dependant on short term rates (most notably Portugal, Ireland, Greece and Spain). Moreover, even if the ECB tolerates higher headline inflation in the short term, real disposable incomes, consumer discretionary spending and by implication the retail property sector is likely to suffer as a result.

**“Downside risks to the property market outlook”**



**RICS**

the mark of  
property  
professionalism  
worldwide

[rics.org/economics](http://rics.org/economics)

## US construction being held back by lack of finance

**“Housing vacancy rate for Q3 2010 was 2.5%”**

The coming week sees a raft of economic data being published starting with housing vacancies (Q4 2010) and the federal senior loan officers survey on Monday 31<sup>st</sup>. This is followed by construction spending (December) the following day and finally non-farm payrolls (December) on Friday 4<sup>th</sup>.

Currently, the vacancy rate stands at 2.5%, with an estimated 500,000 excess housing units in the market. Research shows that a vacancy rate of about 1.7% will occur once all these excess units are absorbed into the market and this in turn will help stabilise house prices. Employment will be the main determinant of how quick these excess units can be absorbed into the market. Non-farm payrolls came in at 103,000 in December, up from a dismal 71,000 the previous month. Various forecasts predict that job creation will average between 150,000 and 180,000 in 2011. To put this into context, there were around 8 million jobs lost during the recession, so if 180,000 jobs are created every month, it would take just under four years to bring the unemployment rate back to the 5-6 % range *ceteris paribus*.

Indeed, the construction sector is one of the worst hit sectors, with over 3.5 million jobs lost from the peak in December 2006. Construction spending in November (\$861 million) was down 6% on the year, while the residential construction sub-component was down 4% year on year. A major factor holding back construction according to the NAHB housing market index is the severe lack of construction finance available to builders. The upcoming federal senior loan officers

survey should shed some light on whether the still tough lending conditions being imposed by banks are easing. The October survey indicated that banks loosened in a modest way the standards and terms on some categories of loans to households and businesses. However, substantial fractions of banks reported that standards for many categories of loans would not return to their longer-run averages for the foreseeable future.

**“Residential construction spending 34% below long run average”**

Construction sector bottoming out



## RBA likely to remain on policy sidelines in light of flooding

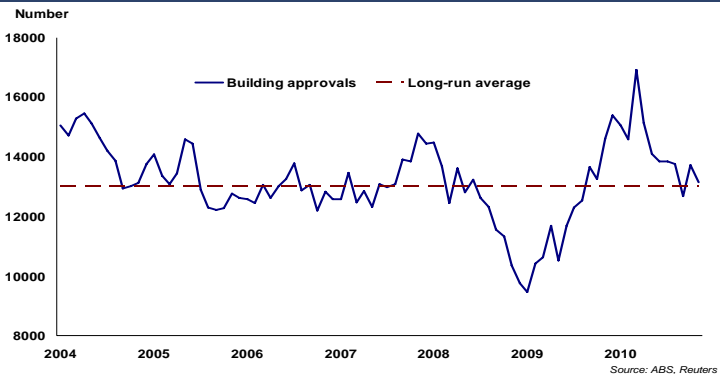
**“The RBA is unlikely to resume its tightening cycle this month”**

The Reserve Bank of Australia (RBA) will announce the latest decision regarding monetary policy next week on Tuesday 1<sup>st</sup>. Rates have been on hold since November, when a 25 basis point hike returned the cash rate to 4.75%. Inflation data for the final 3 months of the year undershot expectations, rising 0.4% on the quarter compared with 0.7% in Q3. The year on year change of 2.7% is below the target range of 3% and, coupled with low consumer confidence following extensive flooding in the Queensland state, means the RBA is unlikely to resume its tightening cycle this month.

Looking past the inevitable spike in food and electricity prices, underlying inflationary pressures remain, and will force the RBA to act in the medium term. Assuming there is limited further impact from flooding then a quarter point rise to 5% by May would not be inconceivable.

Following this, the Australian Bureau of Statistics release building approvals data for December on Thursday 3<sup>rd</sup>. Approvals have been falling in the past 6 months, as rate hikes feed through into mortgage interest rates. Indeed, while base rates remain below what the RBA would deem 'normal' levels, the spread between the SVR and cash rate has widened to 310 basis points from 180 at year end 2007. Approvals stood at 13,158 in November, just above the long run average of 13,000. Given the proximity of this data relevant to the last rate hike in November, it would be surprising to see significant improvement on this number.

Building approvals have fallen over the last 6 months



Despite the tightening bias towards future policy, the outlook for housing construction may not be as bad as it seems. Building approvals may well pick up, regardless of future rate hikes, as house building becomes more necessary; this is especially likely to be relevant in Queensland as the state starts to replenish the lost housing stock.

**“Building approvals have fallen for the past 6 months, as rate hikes feed through”**

**RICS UK**  
T +44 (0) 20 7695 1682  
pressoffice@rics.org

**RICS Europe**  
T +32 2 733 1019  
ricseurope@rics.org

**RICS Americas**  
T +1 212 847 7400  
ricsamericas@rics.org

**RICS Oceania**  
T +61 2 92162333  
ricsoceania@rics.org

**RICS India**  
T +91 124 459 5400  
ricsindia@rics.org

**RICS Middle East & Africa**  
T +971 4 375 3074  
ricsmiddleeast@rics.org

This newsletter contains economic and property news and analyses, edited by RICS. It should not be relied upon as professional advice and RICS accepts no liability for reliance on its contents.



**RICS**

the mark of  
property  
professionalism  
worldwide

rics.org/economics