

Germany economy performing strongly; positive for housing

“Strong manufacturing sector feeding through to labour market and consumer confidence...”

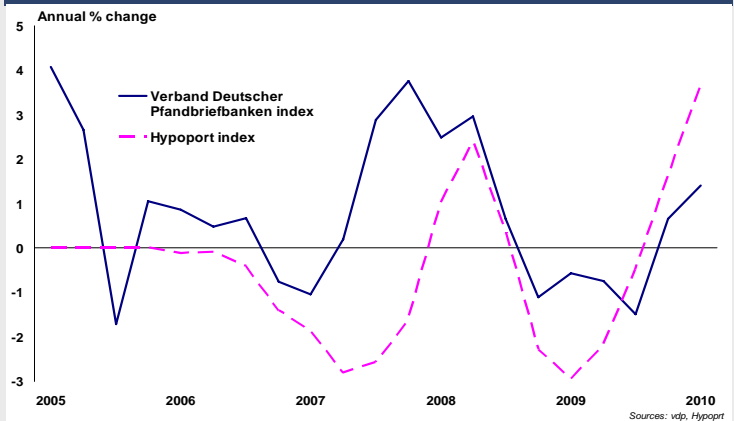
German manufacturing and inflation data are due next week, with the October manufacturing orders on Tuesday 7th, October industrial output on the 8th and November consumer price inflation on the 9th.

The recent performance of the manufacturing sector has been strong, though it is now on a slowing trajectory, with annual growth in output currently running at 8.9% compared to its April peak of 14.9%. Nonetheless, the sector's robust performance is feeding through to the labour market, which along with the government's worker support measures, is lifting consumer confidence and spending. Indeed, the European Commission's November monthly sentiment survey shows that consumer confidence reached +11, the highest level in the survey's history (1985). Meanwhile, the slightly less timely retail sales data conveys a similar picture, with annual growth posting a healthy recovery during the second half of this year (currently 2.7%). On the surface, the recovery in the economy appears to have driven inflation higher, with the latest reading at 1.3%, the highest since November 2008. However, core prices remain subdued at 0.6%. Interestingly, although the inflation picture remains muted, there is some evidence to suggest the stronger performance of the economy is beginning to provide support for the housing market. Indeed, the Association of German Pfandbrief Bank's Q3 house price index (for single family homes) is now 2.1% above year ago levels (highest since Q2 2008), while the Hypoport Q3 composite index is now 3.7% above year ago levels (the highest since the index began in 2005).

Looking forward, the outlook for the economy and therefore the housing market is positive, but key indicators are sending mixed signals. Industrial orders fell by 4% on the month and manufacturing orders fell by 2% (in September). However, the more timely survey indicators are rather more positive; the IFO's headline index and expectations sub-component both hit all time highs in November, while the Manufacturing PMI index reached a three month high (of 58.1).

“...there has been an uplift in prices”

Germany house price growth is positive



Korea interest rate decision finely balanced

“The commercial property market was sluggish in Q3”

There are several key economic events in South Korea next week important to the outlook for the property industry. Money supply figures are due on Wednesday 8th providing an update on the lending environment, whilst the Bank of Korea are due to meet on Thursday 9th to set interest rates. RICS expects next week's decision on rates to be finely balanced due to a softer tone in

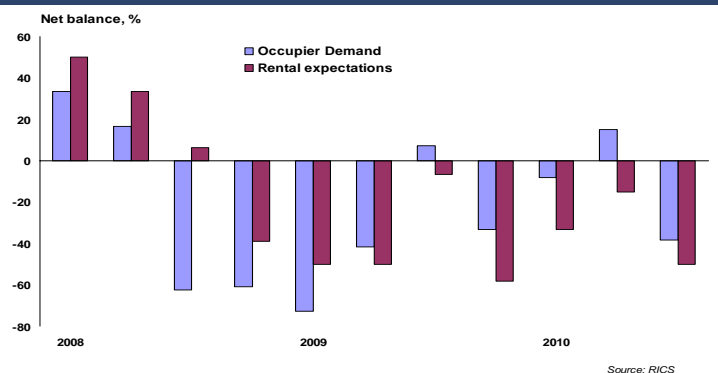
last week's inflation and industrial output data and the escalation of political tensions in recent weeks with North Korea.

Having raised interest rates only twice in the wake of the global credit crunch, the Korean Development Institute (KDI), a respected state run economic think tank, voiced their concern last week that monetary policy remains too loose with interest rates set at 2.5%. Indeed, hard data such as unemployment and exports continue to show improving trends with lead indicators also displaying a turnaround of late. Unemployment fell to 3.6% in October down from 3.7% in September and a January peak of 4.8%. Similarly, November exports rose a better than expected 25% on year ago levels and house prices climbed at their fastest pace in 13 months according to Kookmin Bank.

However, not all economic indicators are strengthening. Industrial output has been falling over the last 3 months, and at the fastest monthly pace in 2 years in October. Indeed, the latest data on the commercial property market from RICS remains tepid. Agents reported that occupier demand fell back in Q3 across the retail and industrial sectors with rents expected to decline at faster pace across all three sectors into Q4. Agents also reported that capital values fell in Q3 with investment transaction activity falling for the second consecutive quarter. Despite this, lead indicators offer more encouragement in the run up to December. The latest manufacturing index reversed a six month streak of falls in November, whilst the central bank's consumer sentiment index for November rose to a three month high. With the data still mixed RICS expect no change to rates next week

“although leading indicators are picking up”

South Korean commercial property market weakened in Q3



Canadian housing market reaches plateau

“Housing investment made a negative contribution to growth for the first time since Q1 2009”

The coming week will see a couple of pieces of property market data published starting with the housing starts figures for November on Wednesday 8th. This will be followed by October home prices on Thursday 9th. The recently released GDP figures for Q3 showed growth of 0.3% on the quarter, compared to 0.6% in Q2. Significantly, housing investment

made a negative contribution to growth for the first time since Q1 2009, dropping 1.3%. Indeed, with housing starts decreasing 9% in October alone (168,000 units annualised) and currently standing 18% off the 2-year high reached earlier this year, the cooling in demand for housing appears to be followed by a slackening in house building activity.

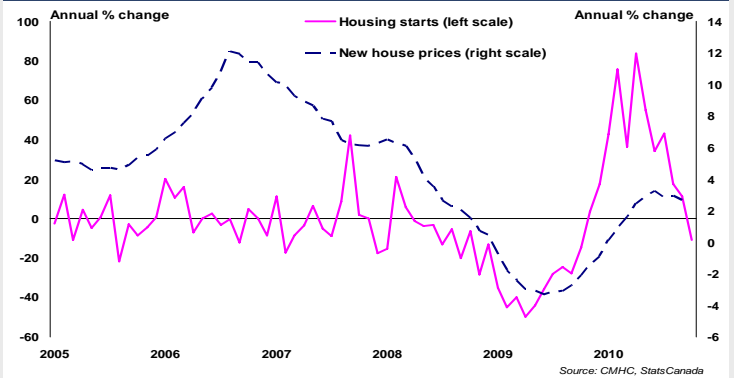
The slowdown in the economy is also reflected in October's PMI (Ivey), which declined from 70.3 to 56.7, erasing all the gains from the previous two months. With most indicators pointing to a cooling in the economy, it is highly unlikely the Bank of Canada (BoC) will hike interest rates in its next monetary policy meeting on Tuesday 7th. The BoC paused its monetary tightening cycle last month by keeping rates on hold after 3 consecutive hikes. The minutes of the last meeting were quite cautious, stating that any further reversal in the stimulus being provided by monetary policy would need to be carefully considered.

Indeed, with the slowdown south of the border adversely affecting Canadian exports, which declined for the first time in over a year in

Q3, the BoC will likely keep rates on hold at least into the early part of next year. And while inflation did unexpectedly jump to a 2-year high of 2.4% in October, core CPI is still below the target of 2%. Looking ahead, the BoC will welcome the slowdown in home price growth as it has previously expressed some concern about inflationary pressures from the housing sector.

“With indicators pointing to a cooling in the economy, it is unlikely the BoC will hike interest rates”

House building is reacting to falling house prices



Mortgage approvals rise but future uncertain

“The recent news flow from Australia has been unusually downbeat”

The Reserve Bank of Australia (RBA) meets next week to announce the latest cash rate on Tuesday 7th, while the Australian Bureau of Statistics (ABS) follow this by releasing housing finance commitments for October on Wednesday 8th. The recent news flow from Australia has been unusually downbeat; retail sales fell in October for the first time since February (and only

the second time this year), while the Q3 GDP release surprised many as it came in below market expectations. Indeed, the economy grew by just 0.2% on the quarter (compared with a projected increase of

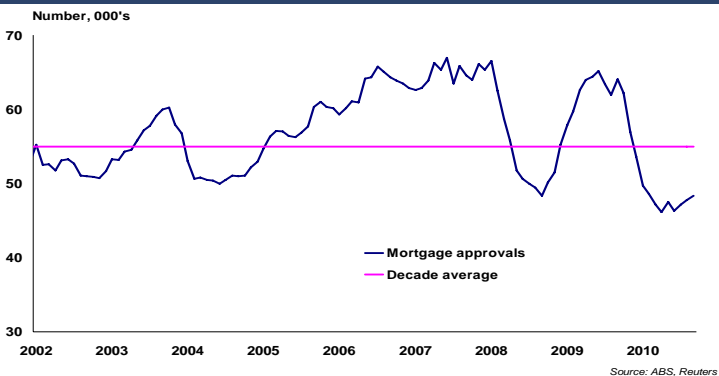
0.5%); this was the slowest pace in 2 years. This, with the fact that CPI inflation eased to 2.8% in Q3 (below the top of the RBA's 3% target range), means that rates are likely to remain on hold at 4.75% into the New Year.

The rate hike seen at the beginning of November is unlikely to have had sufficient time to impact on the number of mortgage approvals, but even so the housing finance number is likely to attract interest when announced by the ABS. Of late, the number of home loan approvals has improved rising in each of the last 3 months; they picked up from 47,710 in August to 48,333 in September. However, this number is some way down compared to September 2009 (64,062) and is still below the decade average of 55,000. Interestingly, the number of loans approved for purchase by first time buyers actually improved, for only the fourth time this year, after falling sharply in January at the expiration of the first home buyer credit. Elsewhere in the residential sector, building approvals for October, released on Tuesday 30th, showed a marked improvement. The number of approvals picked up 9% in September to 13,541.

Looking ahead, housing finance commitments may fall back from last month's number, but the minutes (more than the outcome) of the upcoming RBA meeting should give the best indication of monetary policy, and mortgage market conditions, in the new year.

“the number of loan approvals picked up to 48,333 in September”

Mortgage approvals are near all time lows



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