

US housing market activity shows further signs of recovery

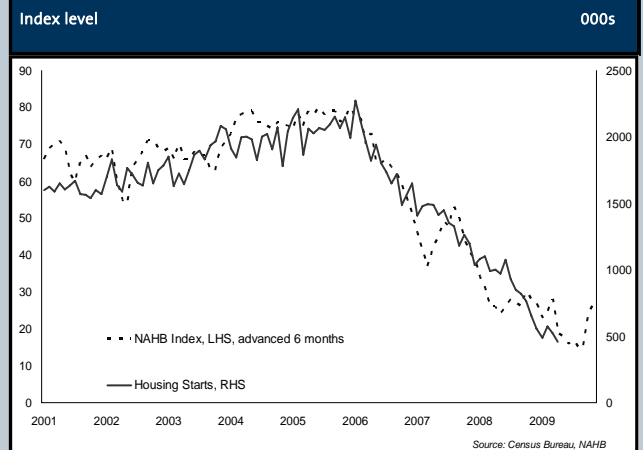
“ The NAHB index is likely to edge up again in June...”

“ ...which suggests that housing starts will also recover gradually ”

- The closely watched NAHB housing market index is due for release on Monday 15th. In May, the headline reading rose to 16, from a low of 8 in January. The forward looking component (expectations over the next six months) reached 27, from a low of 15 in February. Nevertheless, the sector is rebuilding from rock bottom – the index is still significantly below the lows of the early 1990s recession. Given that other sentiment indicators, such as consumer confidence and the ISM manufacturing and non-manufacturing indices, have all continued to improve this month, the NAHB index is likely to edge up again in June.
- Following on from this, the latest housing starts data will be published on Tuesday 16th. After brief signs of an improvement, when the February number jumped by 18%, housing starts in April fell sharply to 458,000 (seasonally adjusted and annualised). That was a new record low for the series and reflected a dramatic drop in multifamily homes – this has been the more volatile component in recent months. Single family homes have been relatively stable, even edging up slightly, since February.
- Historically, the NAHB forward looking index has been a relatively good lead indicator of housing starts in the coming six months. That relationship suggests that starts will

hover around 500,000 per month (seasonally adjusted and annualised) for the next few months, gradually trending upwards after that. That would be consistent with other tentative signs that the housing market activity cycle may be moving past the worst. Existing and new home sales have held steady in recent months and pending home sales jumped 6.7% in April.

NAHB index points to gradual recovery in housing starts



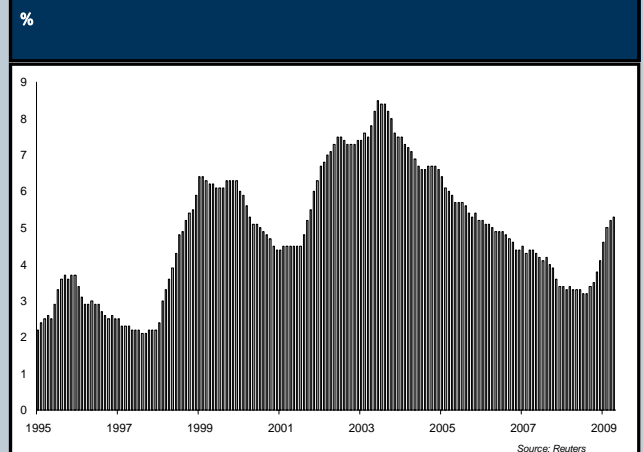
HK unemployment to signal sharper commercial rent falls

“Some improvement in global trade data ”

“although higher unemployment likely to see commercial rents sharply lower”

- Figures on the state of the Hong Kong labour market are due out on Tuesday 16th. The unemployment figures are a key barometer to watch for the property market across both the residential and commercial sectors. Employment underpins demand for residential housing and correlates closely with rental trends in the commercial property sector. Significantly, the unemployment rate has picked up sharply since last summer, rising from 3.2% to 5.3% in the 3 months to April. This has prompted continued downgrades to surveyors’ expectations for the rental outlook across the HK territories in the latest RICS Global Commercial Property Survey for Q1 2009.
- Interestingly, however, the pace of acceleration in unemployment moderated in the most recent period, suggesting that the worst of the labour market shakeout may be behind us. Furthermore, residential mortgage applications have rebounded and some leading indicators are suggesting that the contraction in the HK economy is abating. The latest PMI survey showed an improved reading for the sixth consecutive month with demand from mainland China moving into expansionary territory for the first time in 11 months. Support for the HK economy will be tied to the fortunes of global trade where some improved signals have been emanating of late.
- There are some hopes that the foundations are being set for a recovery in global growth conditions. A thawing in credit markets has helped lift financial shares with survey indicators pointing to improvements in industrial production across most major economies. Despite some encouraging signs, unemployment could rise as the lagged impacts of sharply lower growth feed through.

Unemployment may rise a little further



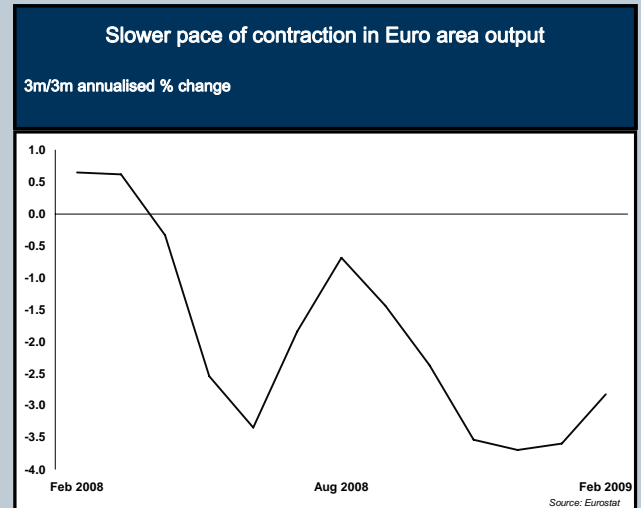
Tentative signs of recovery in Euro area construction sector

“Signs of stabilisation emerging in construction output...”

- Euro area construction production data for March is due on Wednesday 17th. Output is down 9.4% from its peak (Feb 08), but there are some signs in the data that the underlying trend is beginning to stabilise. At 2.8% in February, the 3m/3m annualised growth rate is now up from its low of -3.7% in December 08. Moreover, this is supported by the country level data already released for March, which on balance, may lead to a modest increase on a monthly basis at the euro area level.
- At the country level, the data has been strongest in Germany, with construction output increasing for two consecutive months and by 7.6% in March alone. Although the data can be volatile on a monthly basis, the underlying trend stabilised last August with the 3m/3m annualised growth rate broadly flat since then. In France and Spain, the underlying trend is still one of contraction. However, in Spain, the pace of contraction has slowed markedly with the 3m/3m annualised growth rate currently standing at -1.1% versus -4.7% in November 2008.
- Recent improvements in the euro area construction data have been encouraging. But it is still too early to call a bottom. Firstly, house price falls have been gathering momentum in Spain, France, and indeed Germany. Secondly,

“...but it is too early to call a bottom”

although sentiment in the construction sector has improved slightly in Spain it is still very weak. In Germany and France, sentiment has fallen on the latest readings to the lowest levels since January 06 and September 97 respectively. In the coming months, these indicators will have to show signs of stabilisation as well before a recovery takes hold.



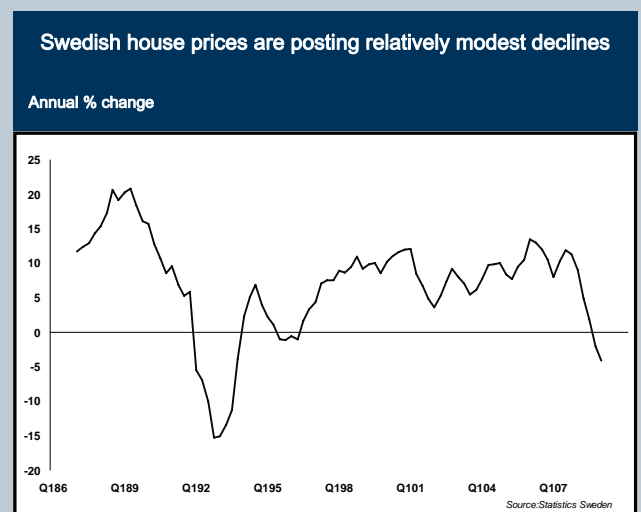
Swedish unemployment to show economy stabilising

“house prices have now fallen for two consecutive quarters”

- Concerns over the state of the Swedish banking system have resurfaced as fears have grown over the prospect of a devaluation in the Lat. This prompted an unusual response from the ECB which this week provided a Euro3bn loan to the Swedish central bank, a rare example of support for a country outside the currency bloc. The measure has helped to restore some level of confidence in the markets. Significantly, although Swedish banks account for around two-thirds of cross border lending into the Baltics, this component of their loan book only amounts to around 10% of total lending.
- Recently released figures show that residential property prices have now fallen, albeit relatively modestly, for two consecutive quarters. As a result, the headline index compiled by Statistics Sweden currently stands around 7% down on the high water mark reached in the third quarter of last year. The index covering multi-dwelling and commercial property produced by the same authority has posted a rather bigger drop and is now at its lowest level since the final three months of 2007.
- Unemployment data, due out on Thursday 18th, will shed further light on the economy. The April figures showed the jobless total unchanged at 8.3%, however as recently as last August, the unemployment rate was just 5.2%. The

“Sweden better placed to enjoy a material recovery”

Swedish economy has now contracted for three consecutive quarters but it is better placed than many other European countries to enjoy a material recovery. Alongside a significant macro stimulus, the weaker currency and the healthy state of private sector balance sheets should help support a pick-up in business activity as the year progresses.



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