

## Signs of less pain for the euro area construction sector

**“Euro area construction output is likely to fall further...”**

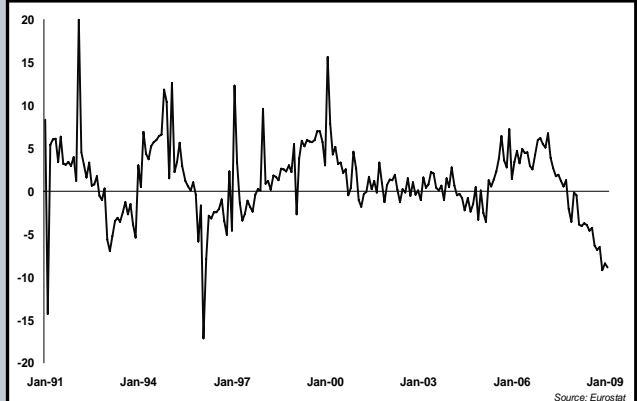
**“...but country level improvements are encouraging”**

- Euro area construction output data for March is due for release by Eurostat on Tuesday 19<sup>th</sup>. In February, output fell by 0.7% on the month, taking the annual growth rate to -8.9%, slightly above the 9.2% annual fall recorded in December last year.
- The downturn in the construction sector is being exacerbated by the wider economic downturn in the euro area. Economic growth fell by 1.5% in Q4 and unemployment is rising sharply, reaching 8.9% on the latest reading. House prices are also falling (the ECB's euro area house price series fell by 0.2% in H2 2008) as is mortgage lending. According to the April ECB Bank Lending Survey, this latter point appears to be driven by the cooling housing market and depressed macro expectations rather than access to funding.
- The near term outlook for the construction sector remains bleak. Indeed, sentiment remains at the lowest level since November 2007 according to the European Commission's monthly survey. However, there are some tentative reasons to expect that the pace of decline in output may begin to slow. Firstly, while overall credit conditions continue to tighten, they are doing so at a slower pace. Secondly, there have been some improvements on the global macro

front, with key indicators in the euro area such as the German IFO survey edging up from its recent low point along with improvements in the US ISM survey. Finally, at the country level, the pace of decline in construction output has begun to slow in Spain and France, while in Germany, growth actually turned positive in March. This should be reflected in Tuesday's number.

**Euro area construction output is down by 8.9% y/y**

Annual % change



## Boost for Australian first home buyers continues

**“So far, 59,000 grants have been claimed”**

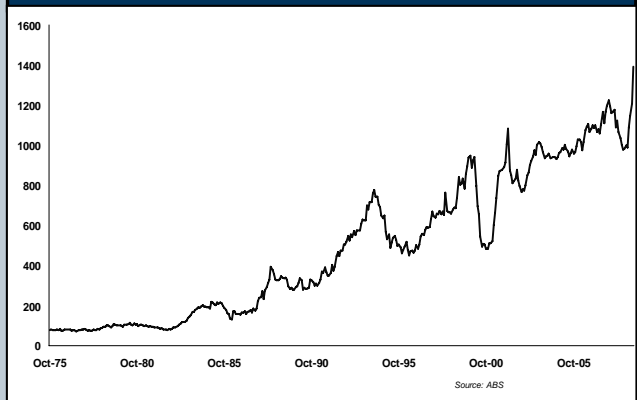
**“There are some concerns that the scheme is distorting the market”**

- Rugby league scandals aside, the big Australian news story this week has been the release of the 2009 Budget and the economic outlook over the next few years. A change in rebates for private health insurance will leave some high-earning singles as the 'losers'. There were also 'winners' in a budget that promised financial support for carers and paid parental leave from 2011. From the property market perspective, the highlight was clearly the extension of the First Home Owners Boost scheme, to be gradually rolled back between October and December 2009.
- The initial first home owners grant scheme offered \$7,000 for home purchases. The First Home Owners Boost extended this by offering an additional \$7,000 for purchase of existing homes and \$14,000 for purchase of new homes. From October 1, 2009, the Boost scheme will be reduced for existing and new homes by \$3,500 and \$7,000 respectively. So far, 59,000 grants have been claimed. The Government has credited the scheme with boosting both the housing and construction market. In March, there was a sharp increase (of 14% m/m and 24%y/y) in housing finance loans for home construction.
- On the other hand, there are some concerns that the scheme is distorting the market, pushing up prices at the bottom end while prices in more expensive suburbs have

continued to decline. That may be good news for people trying to sell their house. But if the Boost is transmitted directly through to house prices, rather than reducing the deposit and easing the burden of repayments, then first home buyers may find themselves in difficulty as the unemployment rate rises.

**Housing finance for new home construction at record high**

AUD, 000's



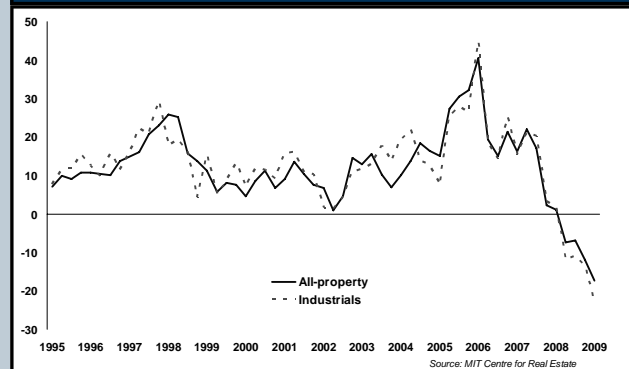
## US commercial property downturn continues

- The minutes of the most recent Federal Open Market Committee (FOMC) meeting will be released on Wednesday 20<sup>th</sup>. Of particular interest in this release will be an update of their economic projections. The last release of economic projections, in January 2009, showed that the FOMC had downgraded their expectations. Given that there have been some tentative signs that massive monetary and fiscal intervention are having some effect, the next release may show a modest improvement in the outlook for next year.
- However, the downturn in commercial property markets has shown no signs of abating. According to the recently released MIT transaction based index (TBI), transaction prices of commercial property sold by institutional investors fell by 6% in 2009Q1 while the price at which investors were willing to sell at actually edged-up. That is surprising given that investor demand and total returns fell by 12% and 4% respectively on the quarter. Total returns were 17% lower than a year earlier. The industrial sector has been worst hit, with total returns down by 23% y/y. In the retail sector total returns are only down by 3% y/y.
- To put this in context, the commercial property market did turn considerably after the housing market. The TBI

peaked in mid-2007, compared to the early 2006 turning point in the housing market. Nevertheless, the downturn now seems well entrenched. The RICS Global Commercial Property Survey, due out next week, will provide an important update on sentiment in the sector over the coming months.

### Total returns in industrial property are falling the fastest

Annual % change



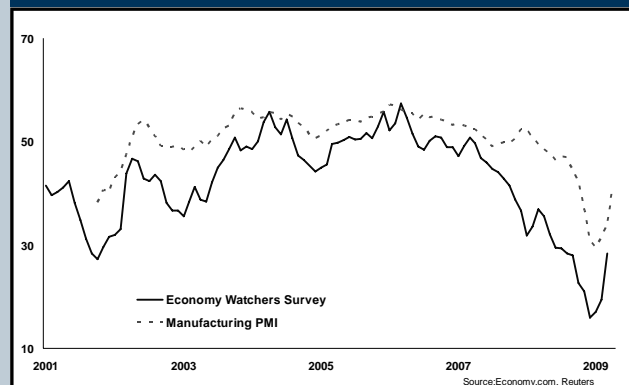
## Construction spending in Japan supported by public sector

- Figures on construction spending in March are due for release on Monday 18<sup>th</sup>. The last set of numbers highlighted a widening gap in spending between the public and private sectors. While the former was still posting a year on year rise of 1.3% in February, the latter recorded a twelve month drop of 2%. Private sector residential spending was particularly hard hit falling almost 6% over the same period. In the near term, the likelihood is that the diverging trend in construction spending between the two sectors will become more marked as the government's fiscal stimulus package begins to kick in. Infrastructure investment is a major beneficiary of this programme.
- The Bank of Japan (BOJ) meeting on Friday 22<sup>nd</sup> comes on the back of the publication of its half yearly outlook report on the economy. This suggested that the conditions are likely to continue deteriorating in the coming months before gradually levelling out. In the year to March 2010, it now expects the economy to contract by 3.1% compared with 2% previously. Against this backdrop, the key interest rate will be left unchanged at just 0.1%. At the April meeting, a decision was taken to expand the range of assets the BOJ is willing to accept as collateral for market operations. At next week's meeting, attention will be focused on how that decision is panning out.

- Significantly, the most recent high frequency indicators are now suggesting that the worst may be over for the economy. Both the service and manufacturing sector PMIs have begun to turn up (although they still remain in negative territory). Meanwhile, the 'economy watchers survey' has now recorded four consecutive monthly increases.

### Sentiment in Japan appears to be turning the corner

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“The commercial property downturn shows no signs of abating”

“All-property total returns are down by 23% y/y”

“widening gap in construction spending between the public and private sectors”

“high frequency indicators suggest worst over”

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