

## Greek home building activity to fall further

“Modest bounce in Greek home building during November ...”

“... But falling economic growth and tax increases will see that this trend is short lived”

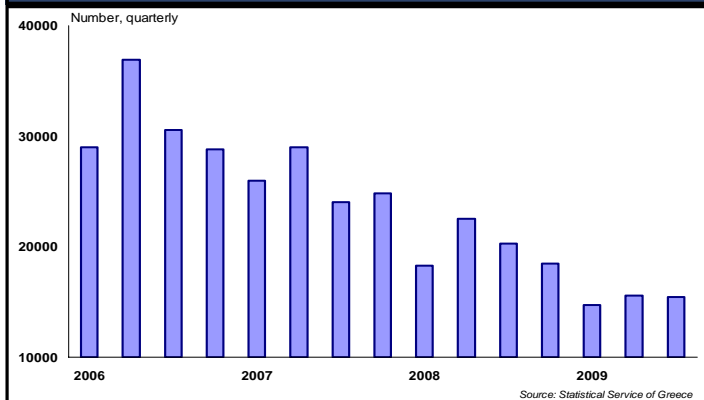
Official data on Greek dwelling completions for December are due on April 5<sup>th</sup>. In November, the number of completions increased by 2.5% to 5,071, the highest level since last July. However, the monthly data are volatile and the trend for some time now has, broadly speaking, been one of gradual decline; the number of permits has fallen from a total of 29,015 in Q1 2006 to 15,449 in Q3 2009 a fall of 47% (in Q4, the total for October and November was 10,017).

The decline in Greek house building activity, which predates the financial crises, coincides with two developments. First, annual growth in house prices peaked in Q1 2006 (at 13.7%) and it has declined more or less consistently since then, turning negative in Q1 2009; it is currently running at -3.5%. Second, annual growth in mortgage lending also peaked in Q1 2006 (30.9%) and has generally fallen consistently since then, currently running in the low single digits (2.7% in Q4 2009).

Notwithstanding last month’s modest bounce, home building activity will almost certainly come under renewed pressure. Not only is the macroeconomic picture deteriorating rapidly but the recently announced fiscal austerity package is likely to exacerbate the situation. Indeed, the economy contracted by an additional 0.8% in Q4 2009 and forward looking indicators of activity, such as the manufacturing PMI survey, suggest the official Q1 GDP

data will be even worse (the March figure fell to 42.9, an 11 month low). Interestingly, the detail of the PMI report highlighted the weakness of domestic demand (relative to the external sector). This is likely to get even weaker now that the Government has, amongst other things, just raised the general sales tax from 19% to 21%. At a time when the economy is contracting, the additional pain on households inflicted by the tax increase is likely to work against a sustained recovery in house building taking place.

### Dwelling completions are down 46% since Q1 2006



## Australian building starts fall again as cash rate normalises

“The biggest contributor to this was the fall in private sector other dwelling units”

“RBA officials are keen to stress that a return to normalisation in monetary policy is needed”

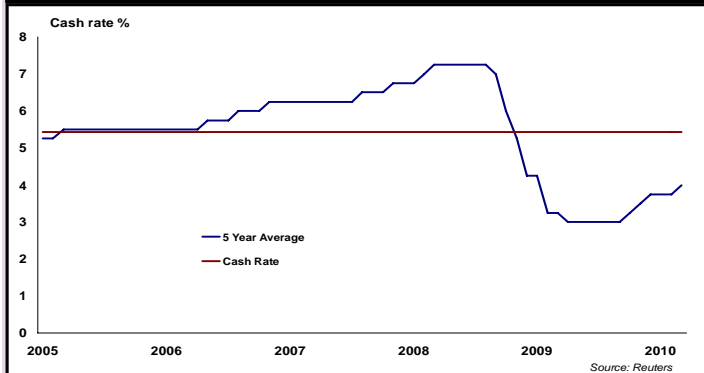
Tuesday 6<sup>th</sup> April sees the next meeting of the Reserve Bank of Australia (RBA) where board members will seek to reach agreement on the appropriate level of the cash rate. Following on from this, unemployment data is released on Thursday 8<sup>th</sup>, which will give an insight as to how the recovery in the economy is filtering through into the labour market.

From a property perspective, the recently released figures on building approvals are likely to attract the interest of the RBA. Following the fall in February of 3.3%, they have now declined for two consecutive months. The biggest contributor to the latest drop was the significant fall in ‘private sector other dwelling units’ (by 10.9%). This could be down to the withdrawal of government grants as well as the recent interest rate increases. Following three rate hikes in Q4 2009 the RBA surprised many commentators when they held policy steady in January and February. However, with RBA officials keen to stress that a return to normalisation in monetary policy is needed, it was unsurprising that rates were then raised in March (to 4%). Despite Governor Stevens recently reiterating his desire to see the cash rate return to the 5% area by the year end, it is unlikely that they will tighten policy again in April. Instead, RICS expects the next increase to come in May.

Turning to the labour market, unemployment has fallen steadily for several months before edging up slightly in January to 5.3%.

Indeed, it was the first increase since October 2009. Although it is still some way below the 20 year average of 7%, this might be another factor which encourages the RBA to hold fire for another month. Interestingly, the trade balance for February was released on April 1<sup>st</sup> and showed that the deficit widened over the month of February; it increased by \$74m on January’s figure to \$1,769m which is consistent with a stronger domestic economy. The deficit could, however, be set to narrow over the medium term following the recently announced iron ore export deal between Australia and China (worth \$A71bn).

### Australian interest rates look set to rise



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## UK construction sentiment remains negative as Bank keeps rates on hold

“Construction activity is still contracting and the approaching election is not helping”

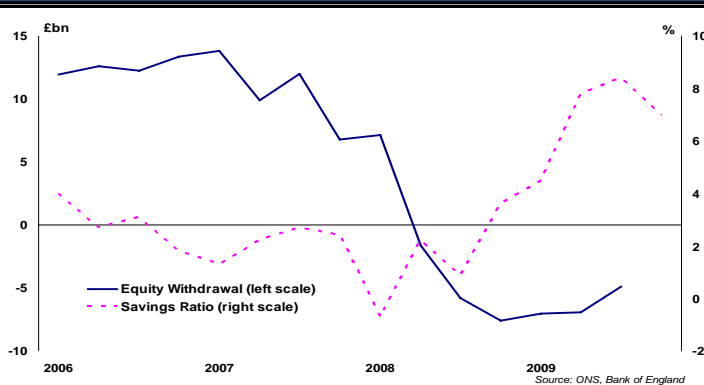
The latest indicator of sentiment in the construction sector will be released on Tuesday 6<sup>th</sup> from the CIPS. The February report had suggested that activity was still contracting and there is little reason to believe that the mood will have turned any more positive over the past month. Indeed, anecdotal evidence suggests that the approach of the general election is not only leading to some caution on the part of the developers but, more importantly, may be encouraging planners to drag their heels. Interestingly, the CIPS survey continues to indicate that while housing activity is edging upwards civil engineering remains under considerable pressure. It also suggests that jobs are still being lost across the sector.

“Base rates are likely to remain at just 0.5% until close to the end of the year”

A second release on Tuesday 6<sup>th</sup> is the Q4 Housing Equity Withdrawal (HEW) data from the Bank of England. HEW has now been negative in each of the last six quarters although the worst reading was in the final three months of 2008 and it has since then moderated. While the likelihood is that the latest number will again suggest that capital has been injected into, rather than withdrawn from the housing market, there are signs that the household sector is regaining some confidence. Significantly, the recently published National Accounts for Q4 show that the savings ratio, having peaked at 8.4% in the autumn of 2009, subsequently dropped to 7%.

Finally on Thursday 8<sup>th</sup>, the MPC will announce the outcome of its latest deliberations on both interest rates and the quantitative easing programme. RICS expects no change in either at this point. Indeed, our suspicion remains that the Bank will not begin to reverse the current accommodating monetary stance until the very back end of this year. According to the most recent Reuters poll of economists, this is now the consensus view. The median expectation is, meanwhile, that the base rate will only have risen to just over 2% by the end of 2011.

### Lower savings ratio in Q4 to lead equity withdrawal



## Higher Korean house prices insufficient to force the hand of the BoK

“Economic uncertainties remain a big issue for the Bank of Korea”

The Bank of Korea meets on Friday 9<sup>th</sup> to weigh up recent economic developments and reassess the case for an interest rate hike. At its March meeting, the statement accompanying the decision to leave policy on hold noted both the economic uncertainties that continue to weigh on the growth outlook and the signs that consumer price inflation appears to be decelerating. Reflecting this, the Monetary Policy Committee indicated that interest rates were likely to remain on hold for the time being.

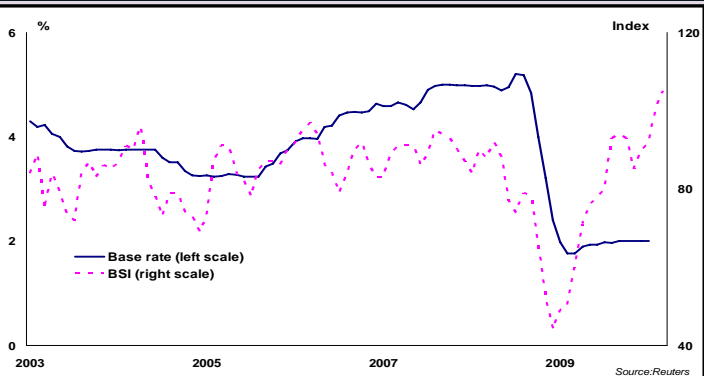
“Following the gain in March, house price inflation is now at its highest level since November 2008”

Significantly, more timely inflation data shows that the upward trend is continuing to reverse with the headline rate slipping to a five month low in March. On the other hand, the closely watched BSI manufacturing business survey climbed to its best level since the central bank started compiling the sentiment measure in early 2003. Even so, there are only just the initial indications that the firmer tone to the economy is having an impact on unemployment which still remains not far away from a ten year high.

The governor of the Bank of Korea, Lee Seong-tae, has recently been making attempts to play down the threat of an asset price bubble developing in the country while at the same time recognising the need to prevent household debt from increasing too rapidly. According to the latest figures from Kookmin Bank, the

country's leading mortgage lender, house prices rose a further 0.2% in March following a 0.3% gain in February. As a result of this, the year-on-year gain accelerated to 3.2% from 2.7%. Although this is the fastest pace of increase since November 2008, it has not led a material shift in sentiment in financial markets where the expectation is now that interest rates will not be raised to counter the rebound in the property market until the back end of this year.

### Sentiment rebounds strongly but rates remain on hold



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