

## Singapore residential market to show moderate gains in 2010

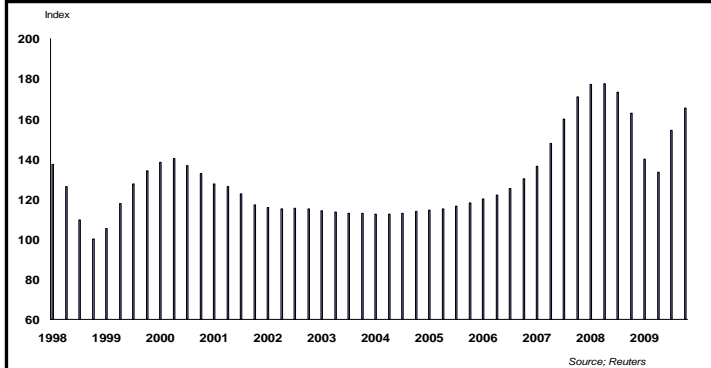
“Residential prices ended the year marginally higher”

“..although reining in the stimulus is likely to slow the market in 2010”

- Real estate statistics for the Singapore property market are due on Friday 22nd. The Urban Redevelopment Authority (URA) publishes its quarterly release which should confirm that the rebound in residential property prices is moderating. Indeed, the provisional estimate for Q4 shows that residential prices rose at less than half the pace of the previous quarter at 7.3% (compared to 15.8% in Q3). The property report breaks the price trends down between 3 geographical regions for non-landed residential property. Initial estimates saw price growth of 7.1% in the Core Central Region, 9.5% in the Rest of the Central Region and 5.8% in the Outside Central Region. Residential house prices have recovered sharply since collapsing in the early part of the year and are expected to end 2009 marginally higher than in Q4 2008.
- The strength of the rebound in economic activity in Singapore appears to be tempering somewhat. The latest GDP data for Q4 2009 undershot market expectation showing an annualised contraction in GDP at 6.8% compared to 18.25% average growth in the two preceding quarters. Whilst activity remains higher on a year ago basis, the weaker than expected figures provide a gentle reminder to policymakers that a heavy reliance on export demand presents greater risks in Singapore than other economies in the region (which derive a bigger share of their growth from domestic demand).

- The Government has forecast GDP growth in 2010 in the region of 3-5% which should support further increases in house prices via the effects on incomes and employment growth. Indeed, the latest bank lending figures saw a 2% rise in housing loans in November to S\$91 bn. However, a moderating price trend in the residential market is likely as the year wears on as government stimulus measures are reined in.

### Singapore house prices recovery is expected to moderate



## Euro area construction output continues to languish

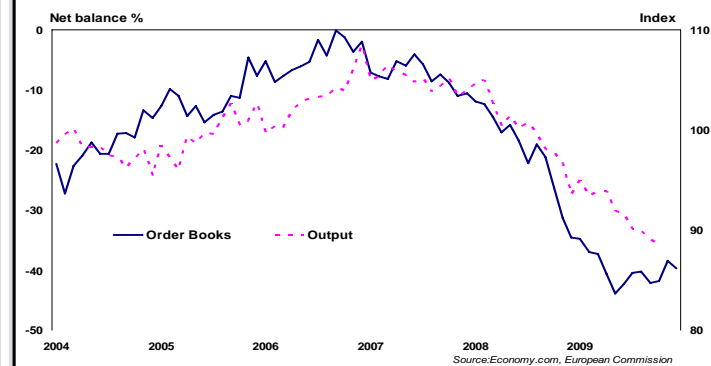
“The latest EU building sentiment survey provides no reason to expect a material upturn in activity...”

“..although other measures of confidence in the euro area continue to improve”

- The November euro area construction output data is due for release on Tuesday 19<sup>th</sup> with a range of business sentiment indicators to follow later in the week. The October numbers showed a further drop in the volume of work in the construction sector. As a result of this, output is now down by close to 18% from a high point in the cycle. Meanwhile, compared to the same month a year ago, construction production has fallen by 7.7%. This headline decline masks a significant divergence in the performance of the sector in individual countries across the euro area. Germany, for example, has actually seen a small increase in construction output over the past twelve months, France a drop of 5%, Spain a 12% fall while both Slovenia and Slovakia have recorded slides in production in the sector of around one quarter.
- Disappointingly, the latest survey of the building industry from the European Commission provides few grounds for anticipating an early or material turnaround in activity in the sector. The response to the question on the state of order books across the euro area is still strongly negative with the December net balance reading of -40% being not far away from the low of -44% touched in May. Indeed, the most recent report shows the number of respondents blaming insufficient demand for the poor state of order books climbing to a new high. Reflecting this, it is likely that the December construction output number will extend the negative trend.

- Although recently released provisional GDP results suggest that the German economy may have stagnated in the fourth quarter of last year, most high frequency sentiment indicators (outside of construction) are telling a more positive story. Flash PMI reports for Germany and France as well as the closely watched Belgian business confidence indicator are all released on Friday 22<sup>nd</sup>. The latter, which has often been seen as something of a bellwether of the mood in Europe, actually climbed to a 15 month high in December.

### Construction orders not yet pointing to recovery in output



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## US housebuilding sector remains subdued

“House-builders sentiment expected to remain subdued...”

“...that is likely to keep housing starts at low levels”

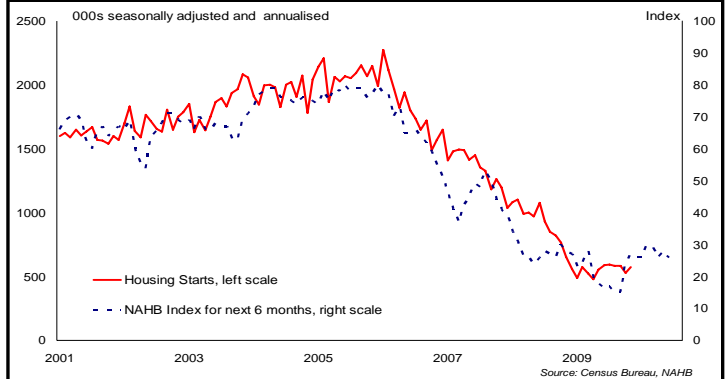
- The coming week will provide an update on the state of the US housebuilding sector with the release of the NAHB survey for January on Tuesday 19<sup>th</sup> and December’s housing starts data on Wednesday 20<sup>th</sup>. Housebuilders’ expectations remained downbeat at the end of last year, with the headline index slipping from 17 to 16 in December. That was driven by a fall in the balance for expectations over the next six months from 28 to 26. January’s data may have a more positive tone, reflecting the decision to extend the tax credit for first time buyers. But the end of the Fed’s purchasing of mortgage backed securities in March this year is likely to push mortgage interest rates up. Some analysts suggest that 30 year mortgage interest rates could rise from 5.1% to 5.8% during 2010, which will present another challenge to housing market activity.

- Given the deflated level of housebuilders’ sentiment in December, it seems likely that the actual level of housing starts will have remained depressed at the end of 2009. Both housing starts and building permits increased in November, by 9% m/m and 7% m/m respectively, but that was mostly reversing sharp declines in the previous month. Housing starts have been below 600,000/month (seasonally adjusted and annualised) since November 2008 and that trend seems unlikely to have been broken in December. Moreover, given the depressed tone of recent NAHB surveys, housing starts are likely to remain sub-

dued for the next few months.

- The outlook for the housing market going forward will also depend on the wider economic recovery. The ‘Leading Economic Index’, produced by the Conference Board, is due out on Thursday 21<sup>st</sup> and that will provide a flavour of the prospects for the economy. Although GDP in Q3 2009 did grow by 2.2% on an annualised basis, more recent commentary has questioned the resilience of the recovery over the next 12 months.

### NAHB index points to continuing low levels of housing starts



## Japan Loan Officers survey to show demand for finance is still modest

“Bank lending in December posted its first year on year decline since early 2006...”

“...as deflationary pressures intensify”

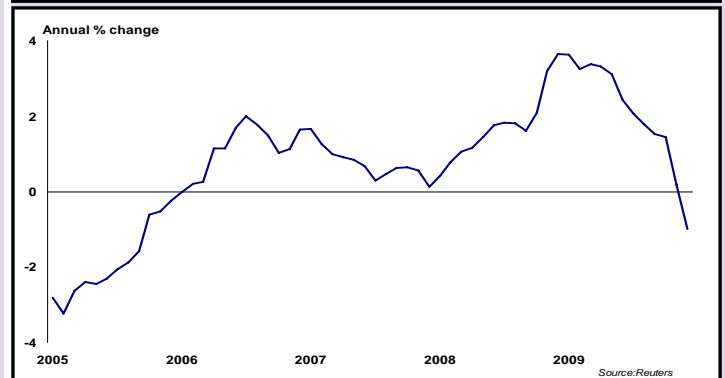
- The January Senior Loan Officers Survey is due for release on Thursday 21<sup>st</sup>. The results of the report will be particularly interesting in the light of the recent news that bank lending in Japan actually posted its first year on year fall in four years in December. The October survey suggested that the demand for loans was continuing to weaken from both businesses and households although the former was expected to stabilise into the year end. In an effort to counter these adverse developments, the Bank of Japan took steps last month to try and encourage banks to provide more finance by offering another batch of cheap finance to lending institutions

- Significantly, the responses to the questions regarding real estate loans in the October survey were generally weaker than the responses for the wider economy. The negative reading for the construction sector was greater than for either the manufacturing and non-manufacturing sectors. Meanwhile for households, demand for lending related to housing was softer than for traditional consumer loans.

- A key challenge for the authorities in getting finance flowing again is the deflationary climate now gripping Japan. Encouraging borrowing in an environment when the real value of outstanding debt is actually rising is never going to be easy. The

December headline inflation number for Tokyo was negative to the tune of 2.3% with the core rate standing at -1.9%. Meanwhile, the nationwide data (for November) was not very different. Naoto Kan, the new finance minister, has already raised a question mark over the strength of the yen which continues to trade around 91 against the dollar. Moreover, there is a risk that the tentative signs of an improvement in economic activity could fade in the spring as the fiscal stimulus measures put in place by the previous administration wane.

### Bank lending growth in Japan has turned negative



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