

## South African construction activity to edge higher

“Annual growth in construction output saw a sharp moderation in 2008.”

“...although some signs that the worst may be behind for the sector”

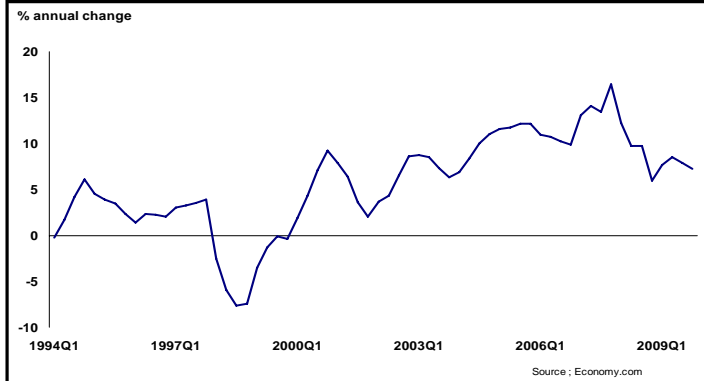
The South African economy emerged from recession during the fourth quarter of 2009 expanding by 3.2% on a seasonally adjusted and annualised basis. This improvement will come as welcome news to the property industry where despite the imminent world cup, construction activity has been hit hard by the effects of the global credit crunch. Having expanded at a generally increasing pace since 2000, annual growth in construction output saw a sharp moderation at the beginning of 2008 with the annual growth rate falling from 16% to 6% over the course of that year.

The lagged impacts of a slowing economy on the house building sector meant that the housing construction downturn only really gathered steam during 2009, when completions fell well below the long run monthly average. That said, the declines reached a nadir in May and have since retraced some of the lost ground. Indeed, based on annual comparisons (to eliminate the effects of seasonal variation) growth in housing completions actually turned positive in December 2009, rising by 16% which was the first positive outturn in over 6 months.

A similar trend has also been apparent in the commercial property sector. The latest RICS Global Commercial Property Survey reports that the number of project completions appear to be bottoming out in the office and retail markets having seen consistent declines since 2008. Whilst starts across all sectors continued to

fall back in Q4 2009 the pace of that decline has slowed markedly since Q3. Encouragingly, agents now expect lettings demand for commercial property to begin to edge up, which could start to add support for commercial construction activity as the year progresses. This should be further aided by a fall in unemployment and improved news emanating from business surveys such as the recent business confidence index. Retail sales data on Wednesday 17<sup>th</sup> may provide some clues as to whether the budding recovery is spreading to households.

### South African construction has shown a mild recovery



## Australia builds for future amid strong recovery

“Australia has come through the downturn in better shape than most other advanced economies..”

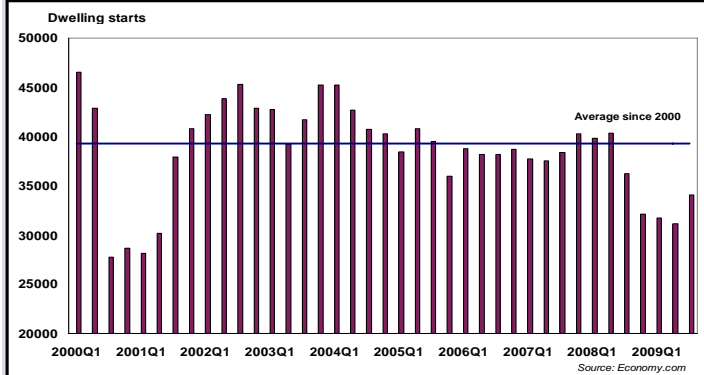
“..assistant governor at the RBA talked about the importance of increasing the supply of homes...”

The latest figures on dwelling starts in Australia are released on Wednesday 17<sup>th</sup>, and should provide an insight into national building activity. It has been well documented that Australia has come through the downturn in better shape than most other advanced economies and RICS expects the house building recovery to remain on track in 2010. An improved labour market with unemployment at its lowest for 12 months should also add support to the housing market over the course of the year. This steady recovery has prompted the Reserve Bank of Australia (RBA) to raise interest rates 4 times in the last 5 months.

Dwelling starts fell for four consecutive quarters before the Q3 2009 figure rose to 34,082 (up from 30,411 in Q2); a rise of 9.4%. Indeed, this was the first rise since the peak in Q2 2008. New private sector house starts rose 8.1% in September, with other residential building starts rising by 9.0%. These both showed a rise on the previous quarter, up 24,570 from 22,347 and 7,699 from 6,741 respectively. This pickup in dwelling starts will hopefully mean that they have bottomed out, however, the turnaround still has room to gather pace, as it is still a low figure when compared with the pre crisis 10 year average of 39,240 (per quarter). This subject has been in focus recently, as only this week RBA assistant governor Philip Lowe talked about the importance of increasing the supply of homes to accommodate the expanding population. With this in mind it would be a surprise if the dwelling starts data showed a fall on the Q3 figures.

Interestingly, when compared to other recession hit economies, the number of new housing starts in Australia has held up rather well. The peak to trough fall in Australian dwelling starts registered at 24%, which in contrast with some other countries seems relatively small. The peak to trough fall in the US was 75% (from a high in Q1 2006, to a low in Q1 2009), and in France it was a fall of 50% (from Q3 2007 to Q1 2009). This gives some global perspective to the figures and shows how Australia is measuring up.

### Australian housing starts appear to have bottomed



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## US housing still in trouble despite pick-up in new starts

“January housing starts hit their best level in six months...”

The latest guide to the mood amongst US homebuilders will be released on Monday 15<sup>th</sup> as NAHB announce March figures. The headline February results edged up from 15 to 17, the first rise since September. Even so, this improved outturn is still consistent with a poor backdrop for the sector; anything less than 50 indicates that more builders view sales conditions as deteriorating rather than improving. Significantly, the index has not been above this level since April 2006. Although the measure of prospective buyers was unchanged in February, expectations for home sales over the next six months did edge up from 26 to 27.

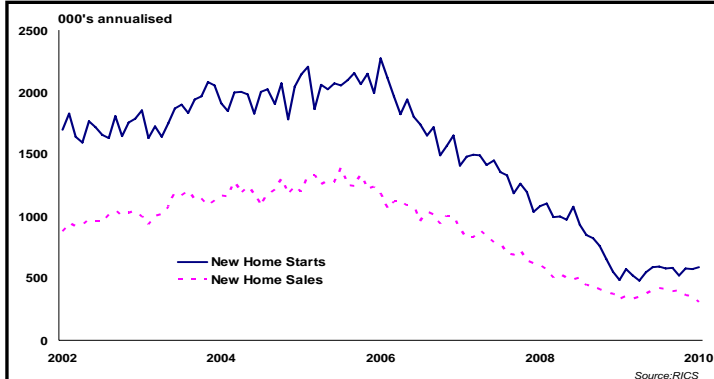
Following on from this, the February housing starts numbers are published on Tuesday 16<sup>th</sup>. The January figure was actually the highest in six months at 591,000 on an annualised basis. While encouraging, some of the improvement on December may have had something to do with the weather during the month which was generally quite good after a stormy end to 2009. Moreover the generally disappointing homes sales data casts doubt on whether the firmer trend on starts is likely to be sustained. Indeed, new home sales are particularly weak at present and hit a record low in January.

Later on in the day, the Federal Reserve will announce the outcome of its latest round of deliberations on the monetary stance. The February data flow will have been affected by the snow-

storms across much of the country. Significantly, the manufacturing ISM index slipped back over the month but this was offset by an improvement in the non-manufacturing ISM. Arguably even more relevant is the fact that the employment component of both series continued to edge upwards. Nevertheless, there is little reason to believe that the Fed will do anything other than sit on its hands for the time being. Indeed, RICS expects the key funds rate to remain on hold until at least the early part of 2011.

“...but new homes sales have dropped to a record low”

### US home starts continue to outpace new home sales



## Modest recovery in German economy likely to keep house prices flat

“Existing homes are selling for around 2.5% less than a year ago”

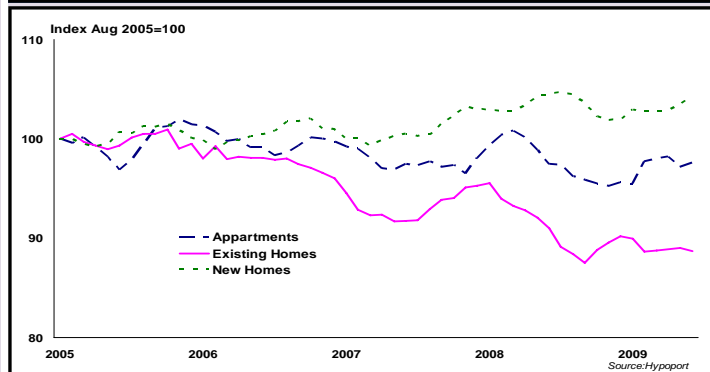
The latest German house price numbers from Hypoport are due in the coming week. The hedonic data for January showed apartment and new home prices little changed from a year ago but existing homes on average selling for 2.5% less than in the early part of 2009. New homes on this index have actually been pretty stable through the economic downturn but there has been a little more volatility in terms of the other two categories of accommodation. However, the falls were relatively modest compared with most other countries.

“The forthcoming ZEW survey will reinforce the picture of a modest recovery in activity”

Part of the reason for the generally flat trend in prices is the country's mortgage market which has not been subject to any significant structural or competitive changes in recent years. As a result, borrowing terms were not loosened much and the credit surges seen elsewhere did not occur. In addition, new supply of property seems to be relatively elastic and plentiful by European standards while the disproportionate role played by renting as the tenure of choice has also been a factor. Given the current state of the economy and plentiful housing supply, except in a few cities, the prospects are for only limited house price changes over the next few years.

The ZEW investor survey for March, released on Tuesday 16<sup>th</sup>, is likely to reinforce the picture of a generally moderate recovery in the German economy. Growth stalled in the final quarter of last year and subsequent news flow has been patchy reflecting the harsh weather conditions experienced in the early part of 2010. The headline ZEW index has actually slipped back in each of the last five months while the most recent IFO report also disappointed.

### After a modest decline German home prices have steadied



RICS UK  
T +44 (0) 20 7695 1682  
pressoffice@rics.org

RICS Europe  
T +32 2 733 1019  
ricseurope@rics.org

RICS Americas  
T +1 212 847 7400  
ricsamericas@rics.org

RICS Oceania  
T +61 2 92162333  
ricsoceania@rics.org

RICS Middle East & Africa  
T +971 4 375 3074  
ricsmiddleeast@rics.org

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