

Singapore commercial property recovery belatedly springs to life

“Singapore acts as a barometer for the health of the global economy.”

An update on the state of the Singapore residential property sector is due next week alongside the release of the latest PMI manufacturing business survey. The URA release its flash estimate for Q3 property prices imminently with RICS expecting a further slowing in the pace of growth from the 5% average of the last 2

quarters. The latest numbers come off the back of previous manufacturing and export data which have painted a mixed picture as to the health of the global recovery in recent months.

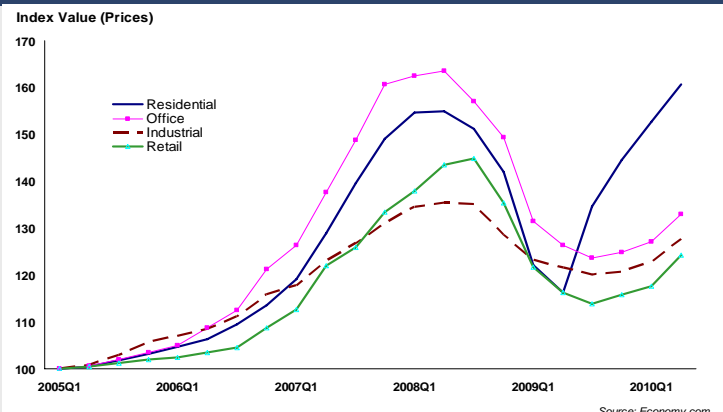
As one of the most open economies in the world, recent news that Singapore exports picked up sharply in August comes as a welcome relief to global recovery bulls. The largely unexpected 10% monthly rise in non oil exports was the biggest rise since February and it reversed three previous months of declines. This is particularly significant given the poor outturn of the previous PMI survey of manufacturing which fell to 49.4 in August. This was the first time that this indicator had breached the 50 mark since April 2009 indicating contracting rather than expanding activity.

Turning to the real estate market, recent data from the residential property sector continues to point to further gains in property prices in the near term. Consumer housing loans showed a 1.5% monthly rise to S\$105bn in July. Indeed, having dropped sharply in response to the global economic crisis, residential property prices in Singapore have risen 38% in the last year and are now 4% above their pre crisis peak

in nominal terms. In the commercial real estate sector, the recovery has been more belated although the RICS survey of agents suggest that both the investment and occupier recovery has been gathering momentum and most notably in the office sector. Overall, RICS expects the commercial property recovery to continue into Q4 although affordability constraints may start to slow the pace of the residential recovery further.

“...with mixed signals emanating from the macro data in recent months”

Commercial price recovery has been lagging residential



Canadian homebuilding activity slows

“Housing starts decline 3% month on month”

Statistics Canada release their building starts data for August on Thursday 7th, while the following day the Canadian Mortgage and Housing Corporation (CMHC) publishes housing starts for September. The value of Canadian building permits issued in July dropped by 3.3% from June, on weaknesses in both residential and non-residential sectors. Although building permits can

be volatile, the figures reflected recent data showing the pace of Canadian growth is tapering off after a fast start to the year. Housing

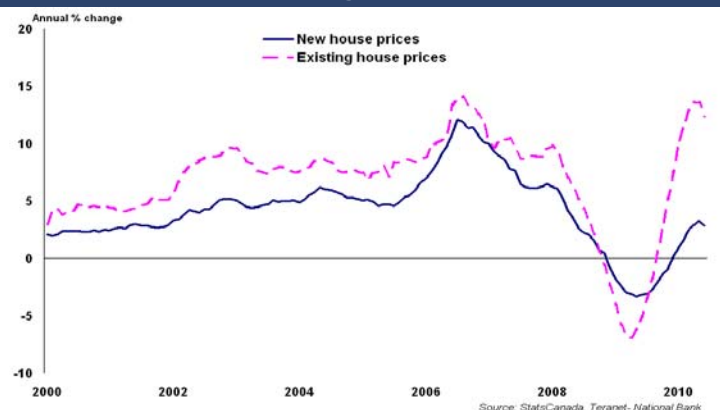
starts suffered a similar fate declining in August by 3%, its fourth consecutive monthly fall.

This slowdown in house building activity broadly reflects the general slowdown in the housing market, which has been an important driver in leading Canada out of the recession. Indeed, the new house price index edged lower in July (-0.1%) for the first time in 13 months, while the pace of the annual growth rate of both new and existing house prices slowed for the first time since the credit crisis. The general cooling in the housing market can be attributed to two main reasons. Firstly, the Bank of Canada (BoC) last month raised their key policy rate for the third time this year, bringing the overnight rate to 1%; increasing short-term borrowing costs. Secondly, Canada's largest trading partner, the US and the global economy has been going through a soft patch in the recovery leading to weak demand for Canadian exports. Recently, the Canadian finance minister stated he was concerned by the trade deficit and he called on the private sector to step up investment. Still, he said the relatively strong performance of the economy means Canadians have every reason to be confident despite global economic uncertainty.

Indeed, despite the slowing of the housing market, the Ivey PMI measure of economic activity (covering a broad cross-section of industries in the economy) surged in August, from 54 to 65.9 suggesting robust expansion in economic activity during the month.

“New house prices decline for first time in 13 months”

House price growth moderates



RICS

the mark of
property
professionalism
worldwide

rics.org/economics

Key data could force the hand of the Reserve Bank of Australia

“Rates have been on hold for the past five months but recent news flow has been positive”

Tuesday 5th will see all eyes on the Reserve Bank of Australia (RBA) as they announce their latest cash rate decision. Rates have been on hold for the past five months but recent news flow has been positive; second quarter GDP exceeded market expectations posting 3.3% annual growth while the unemployment rate eased further in August. Released the same day are

retail sales data for August and results of the NAB business confidence survey for September.

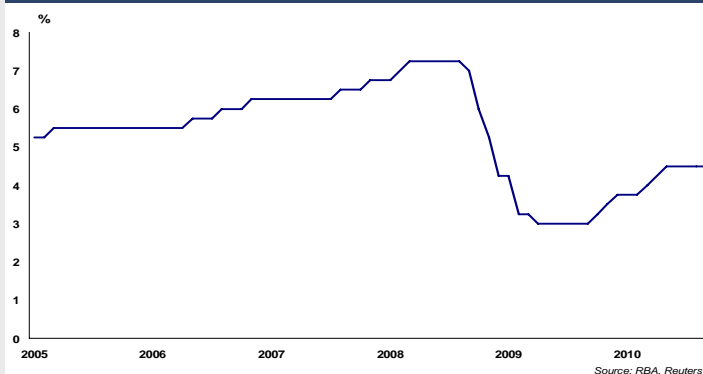
The RBA raised rates aggressively at the back end of 2009 and first half of 2010 in an attempt to return the cash rate to what board members deemed a more ‘normal’ level. The pause in tightening policy since May occurred as RBA officials took stock on the impact of previous rate increases on the economic indicators. However, the continuing resources boom is putting upward pressure on inflation, which is currently at the top of the RBA target range (3.1% year on year). RICS believe that a quarter percent increase in the cash rate is likely before the year end as a result. Notwithstanding this, there are some obvious potential downside risks to the ongoing recovery, chief among them the worry that a slowdown in China could lead to softer export growth of Australia’s plentiful commodities.

Despite previous increases in the costs of lending, consumer demand has held up with annual growth in retail sales hitting 4% in July; this was the seventh consecutive monthly increase. However, annual

growth in retail sales remain some way off pre crisis average of 5.6% (back to 1990). There is also evidence of a recent rebound in the corporate sector. Business confidence jumped in August to the highest level since February; the net balance improved to +11 from +2. The results suggest that businesses are proving resilient in the face of rate hikes and an overall softer tone for the global economy.

“The latest signals are that a quarter percent increase will occur before the year end as the economy maintains its robust upswing”

RBA have sat on the policy sidelines since May



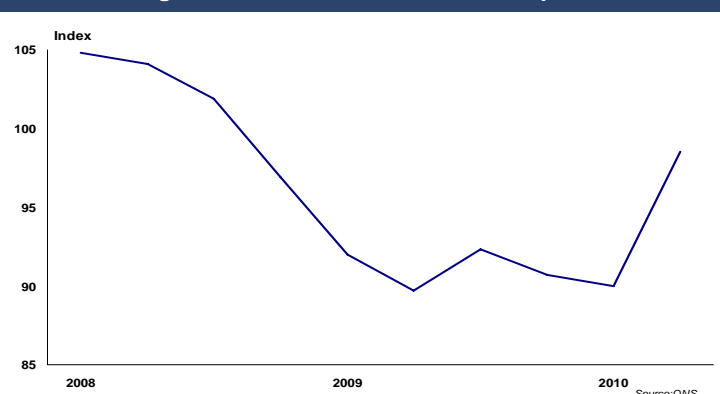
Rebound in UK construction output set to moderate

“The PMI survey is pointing to slower growth in construction output after the strong Q2 gain”

The September PMI Construction Survey is due for release on Monday 4th. The headline business activity index remained above 50 in August but has now slipped back for three months in succession. The more modest growth in the sector implied by recent surveys has been driven, in particular, by a softer trend in housing activity which was one of the stronger areas of construction

according to the PMI numbers earlier in the year. Significantly, at a headline level new orders do still appear to be rising albeit at a slower

Strong rebound in UK construction output in Q2



rate than previously was the case while the pick-up in workloads since March has been insufficiently strong to encourage any optimism on the employment picture; more jobs are continuing to be shed in the construction industry.

RICS sees little reason for the flatter trend in the headline PMI Construction Index to be reversed in September. Indeed, it is quite conceivable that that it slips back from its previous reading of 52.1 to something close to 50 which is the level consistent with a stagnant level of output. This suggests that the strong contribution construction made to GDP in the second quarter of the year (almost half of the 1.2% gain), which was confirmed in National Accounts data released earlier this week, will not be sustained over the balance of this year. Indeed, the likelihood is that the sector will face renewed challenges in 2011 as the looming cuts in public spending particularly in the capital spending budget begin to bite.

The Bank of England will, meanwhile, announce the outcome of its latest deliberations on Thursday 7th. Little news is likely to emerge from this meeting but the recent speech by MPC member Adam Posen ‘The Case For Doing More’ suggests that a lively debate will take place as Andrew Sentance continues to make the case for beginning to rein in the accommodating monetary stance.

“The debate over the future course of monetary policy at the Bank is set to become more polarised”

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 India
T +91 124 459 5400
ricsindia@rics.org

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

This newsletter contains economic and property news and analyses, edited by RICS. It should not be relied upon as professional advice and RICS accepts no liability for reliance on its contents.



RICS

the mark of
property
professionalism
worldwide

rics.org/economics