

## Australian building approvals pick up as conditions improve

**“Approvals improved from February by 15.3% to 16,383...”**

A number of key indicators are released in Australia next week that will provide the latest evidence on both the state of the economic recovery and the health of the property market. House building approvals data for April are released on Tuesday 1<sup>st</sup>, while the Reserve Bank of Australia (RBA) will meet to determine the cash rate on the same day. Retail sales for April are also released on Tuesday and finally Q1 GDP is published on Wednesday 2<sup>nd</sup>.

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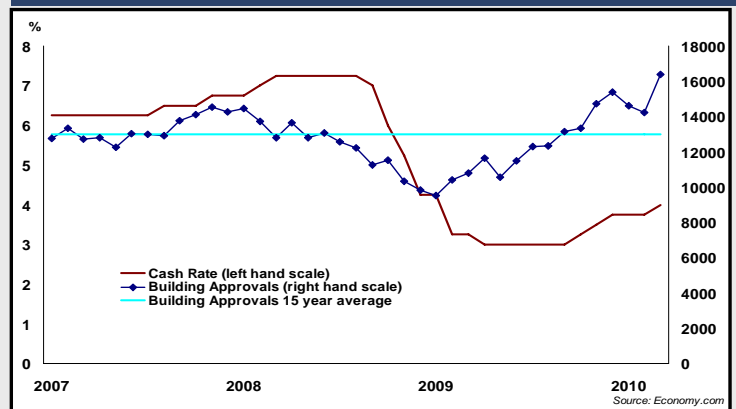
Approvals fell for the first two months of the year when the first home buyer credit ended and the RBA raised rates aggressively, but they rebounded sharply in March showing that demand hadn't been dampened too much by the tightening of policy. Approvals improved from February by 15.3% to 16,383, while they were 51.6% greater than in March 2009. This was the highest number of approvals since October 2003, and the greatest month on month increase since October 2002. Notwithstanding the earlier declines in building approvals, the headline number has remained above the 15 year average of 12,994 since August 2009 and is unlikely to drop lower than 13,000 per month in 2010.

The RBA raised rates in May to 4.5%, the sixth hike in seven months. RICS expects a pause in June as there is some evidence that policy is starting to affect behaviour. Indeed, retail sales have been subdued lately whilst home loan approvals have also been faltering. Retail sales data for March showed only a modest increase, improving 0.4% month on month providing further evidence that the RBA's monetary policy is affecting

consumer expenditure. However, with lower than expected unemployment and ever improving terms of trade due to increasing Chinese demand for raw materials, it is likely that inflationary pressures will continue to weigh on the minds of policymakers, who are expected to raise rates to 5% by the year end. The Q1 GDP release on Wednesday is expected to show improvements on Q4's 2.7% year on year gain. This will confirm the recently revised growth outlook in the federal budget.

**“inflationary pressures will continue to weigh on the minds of policymakers...”**

**Approvals remain above the long run average**



## India Q1 GDP to show stronger trend but rates may remain steady till July meeting

**“Indian Q1 GDP is likely to show a sharp acceleration from the Q4 2009 number”**

Indian first quarter GDP growth is due for release on Monday 31<sup>st</sup>. This is likely to show a significant acceleration from the 6% year on year gain racked up in the final three months of 2009; the median expectation in a recent Reuters poll is for an increase of 8.7% although the range is fairly wide extending from 7.3% to 9.4%. The stronger performance from the economy in the early part of this year is a

reflection both of the healthier trend in manufacturing output (up 14.3% over the last twelve months) as well as the emerging evidence of a pick up in consumer spending. An increase in Q1 GDP of around 9% would leave

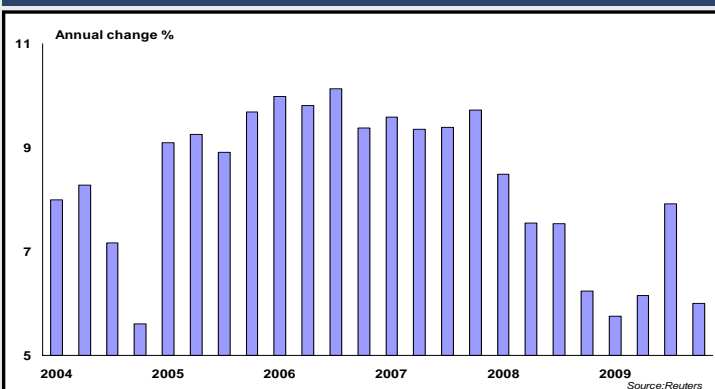
the outturn for FY2009/10 at 7.2%.

Data on infrastructure output is also due for release on the same day. The March reading came in just over 7% year on year driven by strong contributions from finished steel and cement and the positive trend is likely to gather pace over the coming months. Following on from this, the HSBC/Markit Manufacturing PMI is published on Tuesday 1<sup>st</sup>. Although this important guide to sentiment has slipped back recently, it still remains at a level consistent with healthy growth; our suspicion is that the May reading will remain close to 57.

Reserve Bank of India (RBI) Deputy Governor, Duvvuri Subbarao, recently gave a strong hint that the central bank has more work to do in terms of exiting from its accommodative monetary stance stating that 'we have begun policy exit; we have to traverse down that line'. April WPI inflation was a little lower than the March number (9.6% compared with 9.9%) but the core measure actually accelerated from 5.2% to 6.2%. Whether the RBI chooses to hike interest rates again before the July policy review may, however, depend rather more on global developments. Increased uncertainty surrounding the European sovereign debt crisis has begun to push up risk premiums with the one year overnight index swap rates in India climbing 20 basis points over the past week and a half. Unless this pressure eases, the authorities may feel that it is better to sit tight rather than act prematurely.

**“Rising risk premiums may dissuade the RBI from raising rates before the next formal meeting”**

**Q1 Indian GDP growth is set to come in at close to 9%**



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## US construction sector on the cusp of a recovery

**“ISM manufacturing index continues its robust positive growth”**

The April data for construction spending in the US are released on Tuesday, 1<sup>st</sup> with the ISM manufacturing index for May announced the following day. Construction spending was up 0.2% in March, the largest gain since last October and a marked contrast to the drop of 2.1% in February. This increase was led by a 2.3% increase in public construction spending with all levels of government investment in construction projects rising in March.

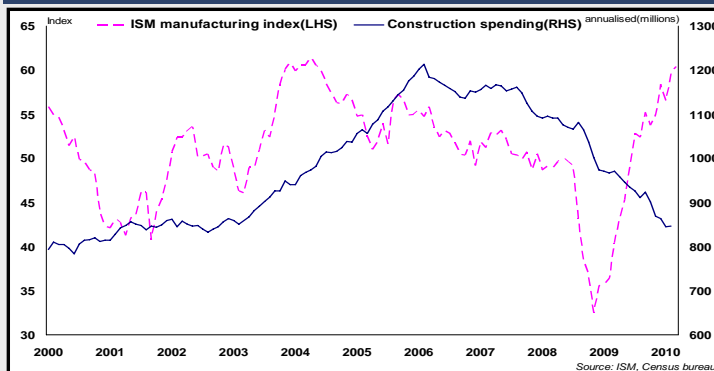
Private construction spending fell with the private residential sector reporting the largest decline (1.1%); interestingly, this is in contrast to the recent improving trend in both housing starts and employment in construction. Indeed, the construction industry, on average, shed 72,000 jobs in each of the last 12 months up until March but has since posted two consecutive monthly increases.

The recent AAI Architectural Billings and Enquiries Index continued to increase, showing that the outlook for construction spending is brightening albeit quite sluggishly. From the RICS Global Commercial Property Survey, the first three months of this year showed a positive net balance in investment demand for real estate in the US, the first positive reading since the first half of 2007. Gradually, this could have a positive impact on construction spending in 2010 although respondents are still pessimistic about pipeline developments in the property market, reflected in the heavy negative net balance in Q1 2010. Nevertheless, RICS believes that the construction industry is bottoming out and that a recovery could begin to emerge later in the year.

The ISM manufacturing index continues to point towards strong and sustained growth in April, posting a six year high of 60.4. The main factor behind the gain in the index has been the replenishment of inventory levels, but as they return to more normal levels, the continued growth in manufacturing will need to be supported by increased consumer spending.

**“Construction spending data positive in March, with biggest gain since October”**

Construction spending edges up



## Q1 RICS Cyprus Property Price Index shows weaker trend in real estate

**“Residential prices fell in Cyprus during the first quarter of the year”**

Residential prices fell in Cyprus during the first quarter of the year according to an index published last week by RICS in collaboration with the Association of Certified Quantity Surveyors and Construction Economists. The drop was most pronounced in apartments where the average price was 4.5% lower than in the previous quarter. For houses, the decline was a more modest 1.6%. The weakness

in the residential sector reflects in no small measure the impact of the global economic crisis on the local economy. According to the IMF's latest

assessment, the Cypriot economy is likely to contract by a further 0.7% in 2010 following a 1.7% drop in output last year. Moreover, unemployment is expected to climb above 6%.

The commercial real estate data makes for little better reading with the RICS index showing both warehouses and retail properties posting declines in values (the former by around 3%). Only the office sector managed to keep its head above water in the first quarter and then only modestly so. Rental values also dropped in the residential arena as well as on retail units but were a little firmer in other areas of the commercial sector. Although investment yield is not a term widely used in Cyprus, it is still a useful way of looking at comparative value. RICS analysis suggests that the initial yield increased modestly in the first three months of the year and now stand at 6.1% for retail space, 4.7% for offices and 5% for warehouses.

Only offices bucked the weaker trend in prices for Q1



Separately, the latest RICS Global Commercial Property Survey points to a more stable outlook for both capital values and rents in Cyprus although respondents to the report completed the survey before the latest round of turmoil in Greece and the subsequent worries about contagion. Rising levels of supply of real estate coupled with a weaker trend in tenant demand suggests, however, that it might be premature to anticipate a material improvement in sentiment in the commercial sector in the near term.

**“The Cypriot economy is likely to contract by a further 0.7% in 2010”**

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