

Euro area mortgage lending will take time to recover

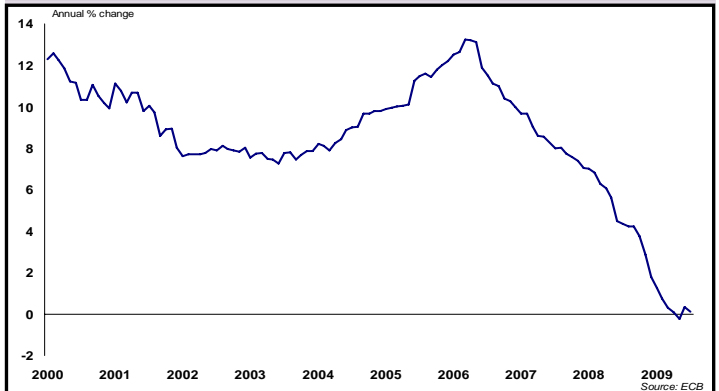
“Euro area mortgage lending will probably remain stable over the course of this year”

“Rising unemployment will temper a pick up in consumer confidence”

- Euro area M3 lending data for August is due from the ECB on Friday 25th. Annual growth in lending is currently running at 3%. This compares to the peak of 12.5% in October 2007 and the long run average of 7.4% since January 1981. One of the key components in the M3 release is lending for home purchase. Lending in this area has slowed down more sharply than M3 as a whole due to weaker housing markets across the euro area. However, mortgage lending now appears to have stabilised with the annual growth rate hovering near zero since March (compared to its March 2006 peak of 13.2% and well below the long run average since January 2000 of 8.5%).
- The latest ECB bank lending survey indicates that mortgage lending growth has been restricted mainly due to a tightening in credit standards. This was largely the result of a lower level of confidence in the region’s economic and housing market prospects rather than difficulty in obtaining finance. However, the latest survey results indicate that the significance of these two factors (i.e. economic and housing market prospects) is diminishing. The July survey also showed that net demand for mortgages turned positive for the first time since Q2 2006 (with a net balance reading of 4% compared to -30% in Q1). The detail of the survey notes that this was driven by a considerably less negative assessment of housing market prospects and an improvement in consumer confidence.

- That said, consumer confidence is still weak and only improving gradually (in August the net balance was -22, up from its trough of -34 in March). In addition unemployment continues to rise (9.5% in July). That will prevent any sharp recovery in confidence and restrain positive growth in mortgage lending in the short term. On balance mortgage lending in the euro area is likely to remain broadly stable over the remainder of this year.

Euro area mortgage lending has stabilised



Recovery in US housing activity continues

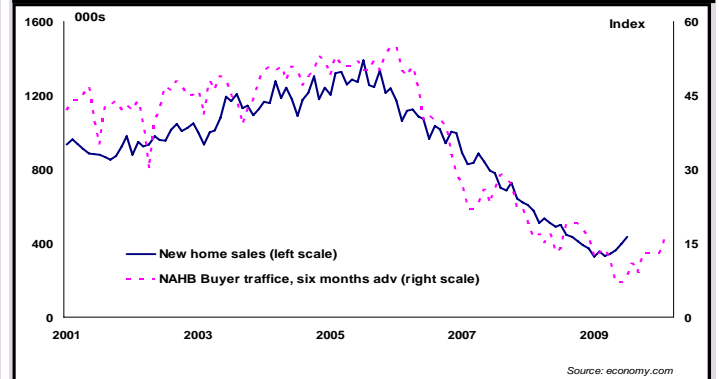
“Improvement in house prices matched by recovery in activity”

“Higher foreclosures pose a threat to new sales over the rest of the year”

- The Federal Housing Finance Agency (FHFA) releases its house price index for July on Tuesday 22nd. This index has reported rises in four of the last six months. The 0.5% monthly increase in June took the annual rate of change back to -5%, the highest level since April 2008. Any recovery in the housing market is expected to be fitful so further monthly volatility is expected although the downward trend in house prices is likely to ease over the remainder of the year. However, it’s worth remembering that, over the course of the downturn, the FHFA index has consistently portrayed a more optimistic story than the Case-Shiller house price index – largely because the former only measures house prices on conforming mortgage loans.
- The improvement in house price data has also been accompanied by a pick-up in activity. In July, existing home sales rose for the fourth consecutive month. Moreover, the 7% monthly rise took (seasonally adjusted and annualised) sales to 5.24 million, the best recorded since August 2007. After that, another large jump in August’s data is unlikely. But given that pending home sales have continued improving, August’s data, to be released on Thursday 24th, are likely to post another round of sales at around the 5.25 million mark.
- Finally, new home sales data will be released on Friday 25th. After collapsing at the start of 2009, new home sales have achieved a considerable recovery. The 10% increase in July was

the fourth consecutive monthly increase – that was the longest run of increases since early 2003. However, recent improvement in buyer traffic, reported in the National Association of Home Builders survey, has stagnated in the last couple of months so further increases in new home sales data are likely to be more gradual. As mentioned last week, the biggest risk to a recovery in new home sales is the threat of higher levels of foreclosures over the next six to twelve months.

New home sales have started to recover



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Further increase in UK mortgage approvals likely in August

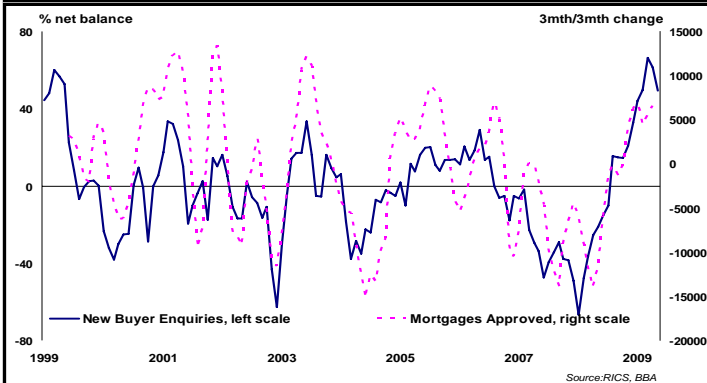
“New buyer enquiries data points to a further rise in mortgage approvals”

“Lending to the commercial real estate sector has been surprisingly strong”

- A further update on the state of the housing market will be provided by the British Bankers Association (BBA) on Wednesday 23rd with the release of its August mortgage statistics. In July, BBA members approved just over 38,000 mortgages for house purchase (out of a total of 50,000 according to the Bank of England). This was the best reading since February 2008. Meanwhile, loans approved for remortgaging also crept up to their highest level since October last year. Even so, mortgage activity still remains low both in comparison with the recent peak and the long run average.
- The ‘new buyer enquiries’ series from the RICS Housing Market survey has been a consistently good lead indicator of mortgage activity. The latest net balance reading of +49 (which means that 49% more surveyors reported an increase in buyer enquiries from the previous months than a decrease) is slightly down from recent highs but still above the historic norm. Significantly, it implies that mortgage approvals may have edged up above 40,000 on the BBA measure in August. Moreover, the likelihood is that there will be further modest increases in activity over the balance of this year reflecting, in no small measure, the eagerness of a couple of the big mortgage providers to increase their market share. Even so, the supply of secured finance will remain generally restrictive particularly for first-time buyers.

- The BBA release will also contain details of lending to both the construction and corporate real estate sectors. While lending to the former has fallen quite noticeably in recent months, it has remained surprisingly strong to the latter (this has largely been attributed to the drawing down of existing credit lines). Despite some tentative signs that the commercial real estate market is now close to bottoming, as evidenced in the recent IPD figures, it is still probable that banks will gradually look to scale back their exposure in this area.

Buyer interest points to further rise in mortgage activity



Norges Bank set to leave rates on hold as house prices rebound

“Output and employment have slowed less than expected in Norway”

“House prices leapt by 5% in the second quarter”

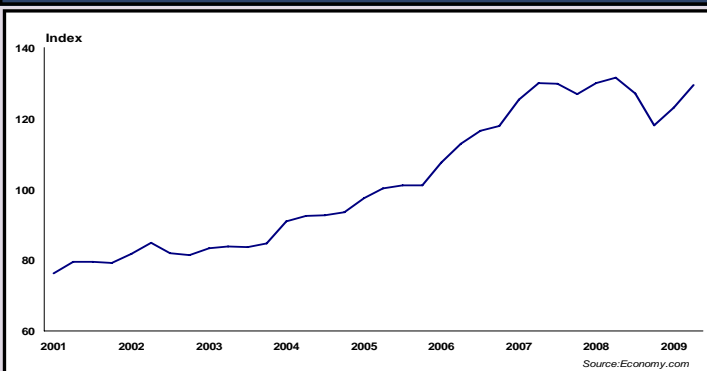
- The Norwegian central bank meets on Wednesday 23rd against a backdrop of increasingly encouraging signs in the local economy. In August, it noted that both output and employment had slowed less than expected and suggested that if these trends were to continue, the policy rate may need to be tightened a little sooner than it has been anticipating; in the June Monetary Policy Report, it had projected that the policy rate would start to rise in the second quarter of next year. Significantly, Statistics Norway will on the same day publish the latest labour market statistics. In the three months to July unemployment stood at 3% compared with the recent high of 3.2% and the likelihood is that the August figures will show that this improvement has been sustained.

- The more positive news flow in the economy has been mirrored by developments in the real estate sector. Data for the second quarter show that house prices leapt 5% compared with the first three months of the year. This leaves the headline index only 1.5% off the high reached in the spring of last year. Significantly, the strongest rise between the first and second quarters of this year was seen in the larger detached houses where prices rose by close to 6%. Construction indicators, meanwhile, are continuing to lag the more encouraging devel-

opments elsewhere. Although building permits are off the lows reached in the latter part of last year, they still remain some way down on the levels of activity seen prior to the credit crunch.

- The likelihood is that interest rates will be left on hold in Norway for the time being. However, the relative resilience of inflation also suggests that the Norges Bank may be one of the early movers (amongst central banks) in beginning to reverse the monetary stimulus.

Norwegian house prices are back near previous highs



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