

## Further signs of improvement in the French economy

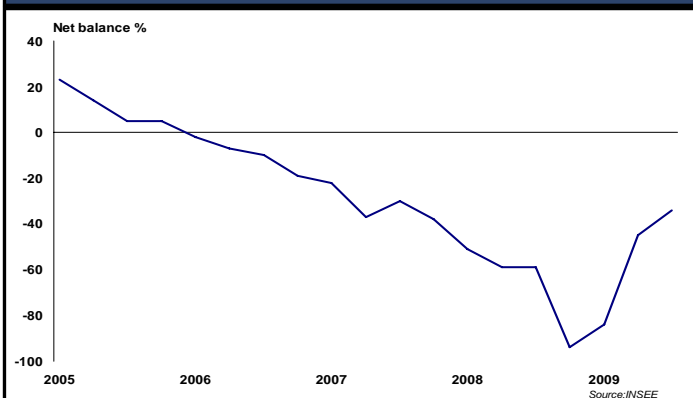
“More positive trend in business sentiment suggests rebound in economy will be sustained...”

“...better news flow should be reflected in construction surveys”

- A guide to the current state of both the French economy and the property market will be published over the coming week. Most significantly on Thursday 22<sup>nd</sup>, the latest INSEE business survey will be released. The September report showed the composite sentiment indicator climbing to 85. This was the best reading since last October and compares with a low of 69 touched in March. Significantly, there was a pronounced improvement in the readings for both the ‘personal business outlook’ and the ‘general business outlook’. The more positive trend in business confidence suggests that the rebound in the economy during the second quarter, an increase of 0.3% compared with the previous three month period, is likely to persist through the latter part of the year.
- Following on from this, two further surveys are due for release on Friday 23<sup>rd</sup>. The quarterly snapshot of property construction will provide some indication as to whether the better news flow on the economy is filtering through to the housing market. The July report suggested that demand to purchase dwellings was still weak but less so than in the latter part of 2008 and first few months of 2009. It also provided some tentative evidence that the pace of price declines in the sector had eased. The likelihood is that both of these indicators will have continued to improve and that this will have resulted in some lessening in the stock overhang.

- Meanwhile, the quarterly survey covering the building trades should show less negative readings for key indicators covering both output and employment expectations. Although construction output has fallen in France, the decline has been relatively modest in a broader European context. Interestingly, this survey suggests that while hiring problems have lessened as unemployment has climbed towards 9.5%, they have not gone away. The net balance of respondents experiencing hiring problems in July still stood at 35%.

### New dwelling demand is falling more moderately



## Further signs of emerging recovery in US housing market

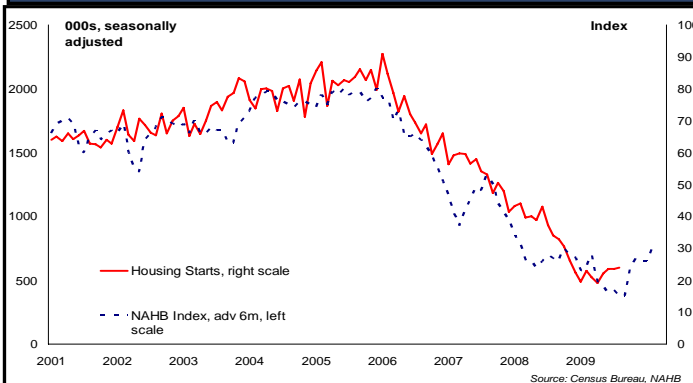
“Builders’ sentiment continues to improve”

“Price rises likely to continue although foreclosures will present a threat in late 2009”

- Housing market data released in the US next week will be closely watched for further signs of an emerging recovery. Starting off the week is an update on housing construction with the NAHB housing market index released on Monday 19<sup>th</sup> followed by housing starts data on Tuesday 20<sup>th</sup>. At 19, up from a low of 9 at the start of the year, the NAHB index has been boosted by both an improvement in current sales and prospective buyers. But the forward looking indicator actually edged down a touch in September, highlighting the cautious undertone to the recent improvements. Housing starts data may provide some evidence that improving sentiment is feeding through into activity. In August, housing starts hit 580,000 (seasonally adjusted and annualised), the highest level since November 2008. It seems likely that both the NAHB index and housing starts data will have edged up further – but only to around 20 for the former and 600,000 for the latter.
- The improvements in the housing market have also been reflected in recent house price data. The most recent reading on the Federal Housing Finance Agency (FHFA) house price index for July showed prices just 4% lower than 12 months earlier. Admittedly, this is a much milder picture than the Case-Shiller house price index (which shows prices down by about 15% y/y), but both indices have edged up in recent months. The next FHFA release, on Thursday 22<sup>nd</sup>, is likely to show house prices climbed a little further in August.

- Data on existing home sales for September are due out on Friday 23<sup>rd</sup>. Although existing home sales fell by 3% between July and August, the most recent data still showed transactions were 14% higher than their January low. Pending home sales jumped 6% between July and August which is likely to provide a boost to September’s sales data. Housing transactions should continue to edge up over the next few months. Indeed, it is possible that a predicted increase in foreclosures will provide an additional boost to existing home sales data but that could be accompanied by a renewed decline in house prices.

### Improvement in housing starts to continue



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## Another cut in Hungarian interest rates likely

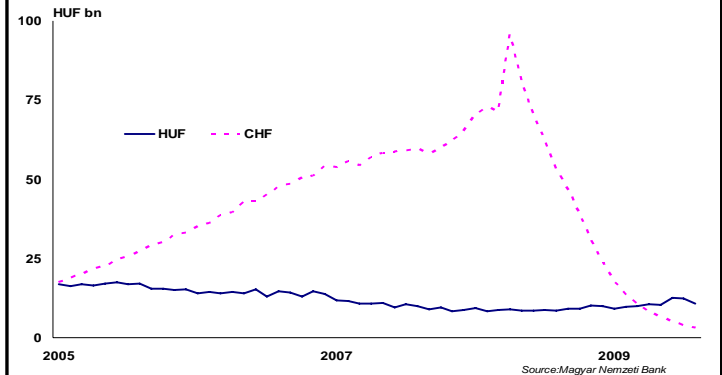
“Home buyer mortgage activity has predictably eased”

“New borrowing in Swiss Francs has collapsed”

- The Hungarian central bank (NBH) meets on Monday 19<sup>th</sup> amid expectations that it will take further steps to boost the economy following the half point cut in interest rates sanctioned in September. Since that decision was taken, further evidence has emerged of an easing in inflation pressures with consumer prices dropping another 0.1%; this lowered the annual rate of increase to 4.9%. Activity data, meanwhile, continues to disappoint. Industrial production in August came in almost one-fifth lower than a year ago suggesting that an early turnaround in the employment picture is improbable. The jobless total now stands at 9.9% of the workforce which compares with 7.5% in the middle of last year.
- Home buyer mortgage activity has predictably eased against this challenging economic backdrop. The latest data shows the number of housing loans outstanding slipping from a high water mark of HUF4,226bn to HUF3961.2bn, a drop of around 6%. Alongside this contraction in the market, there is now a swing back to local currency mortgage financing as exchange rate volatility fuels a more risk averse stance from borrowers. To put this into some perspective, the EUR/HUF exchange rate stood at less than 230 in the third quarter of last year before climbing above 300 in the early part of this year. It has subsequently slipped back within the NBH's comfort zone of 265 to 270.

- Borrowing in Swiss Francs has been a particularly attractive option for Hungarians with the proceeds not being used only in the property market. Cheap money has been, not surprisingly, driving this trend; even now, home loans financed in Swiss Francs attract significantly lower interest rates than the domestic alternative. That said, the August data shows that new housing loans sourced in Swiss Francs dropped to just HUF3bn; as recently as the Spring of last year, this was approaching HUF100bn. Over the same period, mortgage loans in the local currency have increased from HUF8 to nearly HUF11bn.

### New loans for house purchase by currency



## Singapore housing data to confirm double digit quarterly gains

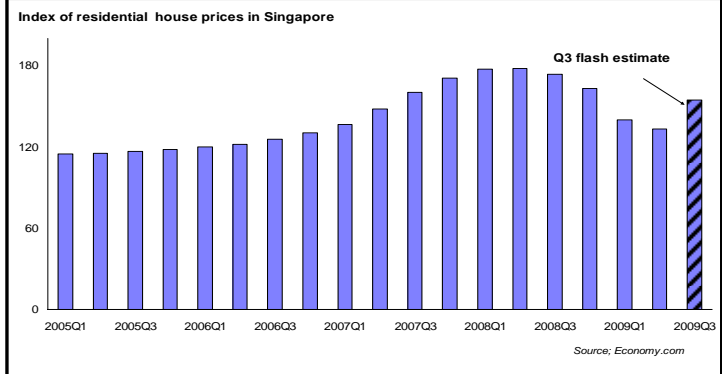
“The flash estimate jumped to 16% in Q3..”

“..although the removal of stimulus measures will temper the recovery into 2010”

- Housing market data in Singapore for the third quarter of 2009 is released on Friday 23<sup>rd</sup>. The flash estimate of these figures released at the beginning of the month pointed to a significant rebound in pricing for private residential property; the index jumped 16% in Q3 in stark contrast to the 5% decline reported in the second quarter. The retracement in prices in the sector leaves the property price index around 13% below the previous peak seen in 2008 before the global economic downturn took root.
- The rapid rebound in the market can be attributed to a sharp improvement in the economic climate and specific policy measures targeted at the housing sector. These measures centred on incentives for home buyers to purchase uncompleted new build properties and allowed deferral of payment until project completion (aside from an upfront 10-20% deposit to secure the property). As a result, just over 10,017 units of new build properties have been sold in the first 7 months of 2009 compared to only 4,206 for the whole of 2008.
- The incentive schemes were withdrawn with immediate effect, however, on September 14<sup>th</sup>. As such, it is likely that whilst the third quarter figures may appear extremely strong, such momentum is likely to fade into 2010. Indeed, the outlook for the

market will be largely dictated by the strength of the global economic recovery in 2010 and how sustainable that may be. In the commercial property market, rents should lag any recovery in the economy and may only see a return to positive growth in the fourth quarter of this year. As such, a little further pressure on commercial pricing seems quite likely despite definite signs that the worst of the current downturn in terms of lettings activity has passed.

### House prices in Singapore are retracing earlier losses



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