

Box 3

Residential property prices in the euro area

Residential property price developments are an important input into the analysis of risks to price stability made under the ECB's two-pillar monetary policy strategy. Movements in house prices may have an impact on consumer behaviour via confidence and wealth effects. Thus, residential property price movements have a role to play in analysing consumption and saving patterns. Consideration of house prices may also contribute to analysis under the first pillar, in which monetary aggregates and credit are given a prominent role, as lending for house purchases represents a significant portion of the lending of monetary and financial institutions (for an indication, see Table 2.5 (3) in the Statistical Annex). In addition, as loans for house purchases make up a large share of the lending of monetary and financial institutions, excessive developments in house prices may have implications for macroeconomic and financial stability.

Some preliminary evidence on developments in euro area residential property prices was presented in the October 2001 issue of the Monthly Bulletin (Box 2), using data up to the first quarter of 2001. This box presents an update of this series with the most recently available data covering the period up to the first quarter of 2002. It also provides a more complete coverage of the euro area. However, it is worth remembering the caveats mentioned last year in relation to the heterogeneity of residential property prices. Housing markets vary across the euro area due to differences in legal frameworks, financial systems, historical factors and societal preferences. For example, the percentage of housing that is owner-occupied and the proportion of houses to apartments may vary significantly. These differences may have implications for aggregate house price measures as price trends for different house categories may differ over time, and the composition of additions to the housing stock (i.e. new housing) may vary significantly from the existing housing stock. Available national data sources vary according to how they treat new and/or existing housing, houses inside and/or outside the capital city or adjust for changes in the composition of housing.

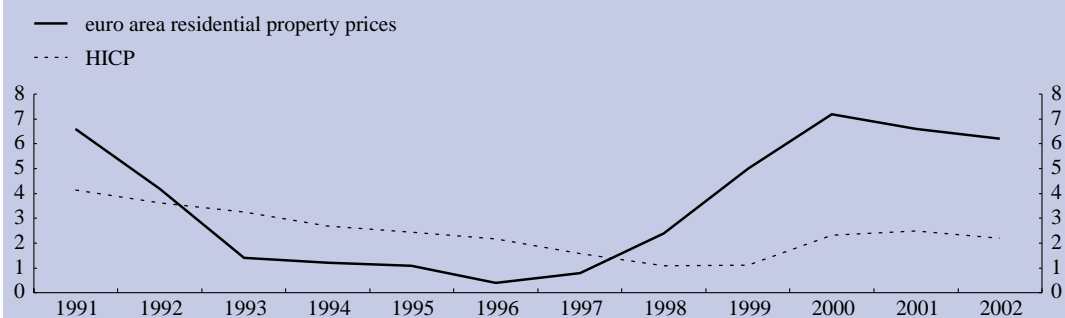
A harmonised framework for EU residential property price statistics does not currently exist and is not envisaged in the near future. National estimates sometimes originate from non-official or commercial sources. This box can therefore only present a rough measure of house prices in the euro area, constructed from national sources and subject to important caveats. In particular, as it is currently not possible to guarantee the comparability of data due to the differences in available data sources in terms of coverage and methodology, caution must be exercised when interpreting these data. These data provide information on the general direction of house price movements, but not a precise indication of short-term price changes or price levels.

The chart below presents the annual rate of change in residential property prices in the euro area between 1991 and early 2002. Annual growth rates in euro area house prices have been relatively strong at between 5% and

7% since 1999. As highlighted previously, some of this increase may be associated with the advent of Economic and Monetary Union (EMU). In particular, asset prices in some countries may have adjusted to reflect the expectation of sustained lower inflation and lower interest rates. Country-specific house price developments are also driven by factors such as demographics and economic growth. The rate of increase in house prices in some countries that had experienced significant growth appears to have attenuated somewhat. This may reflect weaker economic growth and the phasing-out of the effects related to the adjustment process to EMU. The rate of increase in euro area residential property prices, although relatively high at approximately 6% in the first quarter of 2002, has eased back slightly from its 2000 level.

Euro area residential property prices and HICP

(annual percentage changes; annual data)



Sources: Eurostat and ECB calculations.

Note: Residential property price data for 2002 refer to the first quarter. Residential property price data are not harmonised; the euro area aggregate is calculated from estimates for the 12 euro area countries. HICP data for 2002 refer to the average of annual inflation rates in the first eight months of 2002.

It is also worth highlighting that, despite the considerable heterogeneity of housing markets across the euro area, there is some degree of positive correlation of house price dynamics across the euro area, except in the case of some of the smaller economies. As highlighted above, dynamics in some of these economies may have been driven by the adjustment process to EMU. As a result of EMU, a higher correlation across the euro area may be envisaged in the future. However, house price dynamics will continue to be influenced by factors at the national level, including demographic developments, supply-side factors and income and employment growth.