

Box 4

RECENT TRENDS IN RESIDENTIAL PROPERTY PRICES IN THE EURO AREA

Developments in residential property prices are an important factor in the assessment underlying monetary policy decisions aimed at maintaining price stability over the medium term.¹ For example, changes in residential property prices may have effects on households' consumption behaviour, notably through wealth effects, and on residential investment. They may also affect credit developments. While residential property prices are not included in the HICP, they can have an indirect impact on some of its constituents, particularly the rent sub-component. This box reviews recent residential property price developments in the euro area and across euro area countries.

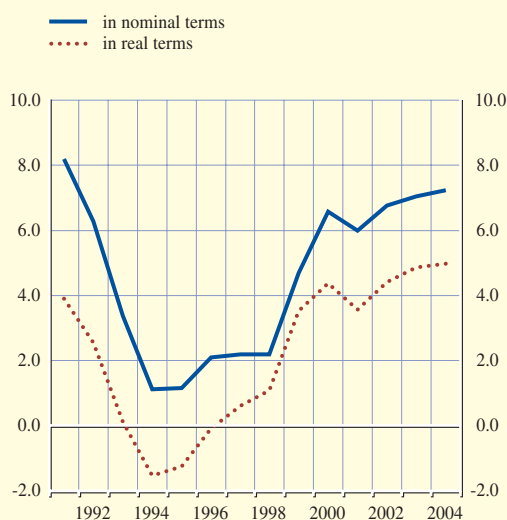
Data available for 2004 show that residential property price increases remained strong in the euro area as a whole, being close to their highest point since the early 1990s. Residential property prices are estimated to have increased by 7.2% in the euro area in 2004, after a 7.0% rise in 2003 (see Chart A). This is the fifth consecutive year of increases in the region of 6-7%. Between 1999 and 2004, residential property prices grew by 3-5 percentage points above the HICP inflation rate. This followed a period of relatively modest price increases (of less than 3%) between 1993 and 1998.²

¹ See for example the article entitled "Asset price bubbles and monetary policy" in the April 2005 issue of the Monthly Bulletin.

² It should be noted that due to the heterogeneity of underlying national data, euro area aggregate figures compiled by the ECB provide only a broad indication of residential property price developments. For more details on data limitations, see the box entitled "Residential property price developments in the euro area" in the December 2003 issue of the Monthly Bulletin.

Chart A Euro area residential property prices in nominal and real terms

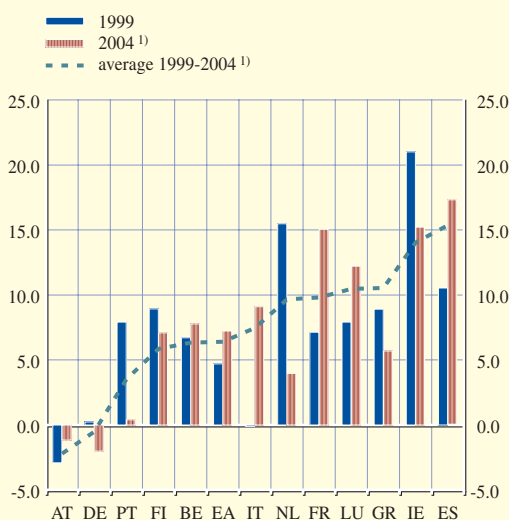
(annual percentage changes; annual data)



Source: ECB calculations on the basis of non-harmonised national data.
Note: Residential property prices in real terms are obtained using the HICP as a deflator.

Chart B Residential property price changes in the euro area and across euro area countries

(annual percentage changes)



Sources: National sources and ECB calculations.
Note: EA denotes the euro area.
1) For Austria and Luxembourg, annual data are available up to 2002. For Belgium, Greece and Ireland, annual data are available up to 2003.

Aggregate euro area residential property price developments mask substantial disparities across the euro area countries, as shown in Chart B. On average between 1999 and 2004, Spain, Ireland, Greece, Luxembourg, France and the Netherlands experienced residential property price increases substantially above the euro area aggregate, while in Germany and Austria residential property prices declined.

Regarding more recent developments, according to available annual data for 2004 residential property price increases slowed in the Netherlands and Portugal, dropping below their average growth rate over the period 1999-2004. Residential property price increases remained strong in France and Spain, registering a further acceleration in the former. In Germany, by contrast, a third consecutive annual drop was recorded.

Quarterly data available up to the second quarter of 2004 for Belgium point to broadly unchanged rates of property price increase compared with 2003, while quarterly data available up to the third quarter for Ireland suggest some deceleration compared with the previous year.³ For Greece, quarterly data available up to the third quarter of 2004 show a significant deceleration compared with the previous year.

Overall, the rapid pace of residential property price increases in some regions of the euro area warrants a close monitoring of housing market developments, given the potential implications for these regions and for the euro area as a whole.

³ In Ireland, according to data collected by the private sector (the permanent tsb House Price Index, available up to the first quarter of 2005), residential property price increases may have decelerated even further after the third quarter of 2004.