

RECENT TRENDS IN RESIDENTIAL PROPERTY PRICES IN THE EURO AREA

Residential property prices at the euro area level are an important indicator in the overall analytical framework used for the conduct of the single monetary policy. House price changes can have a notable impact on both economic activity and price developments, in particular by affecting the borrowing and consumption decisions of households. The sustained dynamic development of euro area house prices has enhanced their importance in recent years, with some indicators pointing to a risk of overvaluation in a number of Member States.¹ Against this background, this box reviews the latest developments in residential property prices in the euro area.

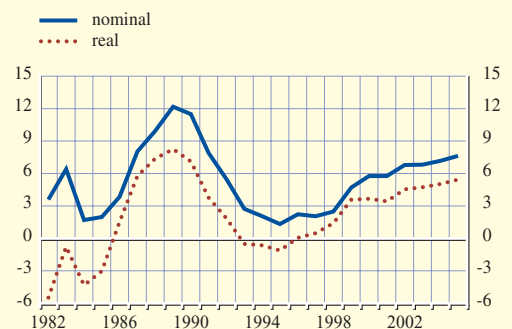
Although, from a methodological point of view, there has been some improvement regarding the quality and timeliness of data on residential property prices, house price indicators in the euro area continue to be marked by considerable uncertainty. For example, house price data may be subject to significant revisions. Part of this uncertainty also relates to the still heterogeneous nature of the national indicators included in the euro area estimate. The main indicators for some countries still refer only to prices of houses, as opposed to those for all dwellings (houses and flats). In other countries, only existing dwellings are covered, instead of new and existing dwellings. Therefore, developments in the national and aggregated indicators should be interpreted with caution.

Data available suggest that the rate of increase in euro area residential property prices may have risen to 7.6% in 2005, after 7.2% in 2004 (see chart). Estimates of semi-annual developments suggest that a slowdown may have taken place in the second half of 2005. While these figures should not be viewed as a precise measure of short-term changes in house prices, and may be subject to substantial revisions, they still provide an indication of the general direction of house price developments in the euro area. Nevertheless, recent data clearly point towards persistently strong dynamism. Also, when considered in real terms, i.e. deflated by the HICP, house price increases are close to the highest observed over the last two decades.

Aggregate euro area residential property price developments mask substantial disparities across individual countries, as shown in the table. On average since 1999, Belgium, Greece, Spain, France, Ireland, Italy, Luxembourg and the Netherlands have experienced residential property price increases substantially above the euro area aggregate. In Germany, Austria and Portugal,

Residential property prices in the euro area

(annual percentage changes; annual data)



Source: ECB calculations on the basis of non-harmonised national data.

Note: Real residential property prices are obtained by using the HICP (and estimated backdata) as a deflator.

¹ See the article entitled "Assessing house price developments in the euro area" in the February 2006 issue of the Monthly Bulletin.

by contrast, residential property prices have, on average, risen at rates below the euro area aggregate since 1999. In Finland, residential property price changes were broadly in line with euro area-wide developments.

Regarding more recent developments, according to available annual data for 2005, the sharpest increases in residential property prices were observed in Belgium, Spain, France and Italy. In the case of Belgium, residential property prices rose substantially in 2005, while the rate of increase in Spain, although remaining high, decelerated somewhat. It should be noted with regard to the former that the latest data release entailed a change in the definition of the residential property price series. The new indicator for Belgium tends to show stronger developments than the previous indicator, as evidenced by the substantial upward revision of past figures. In 2005 developments close to the euro area average were observed in the Netherlands, Austria and Finland, while Germany posted its fourth consecutive annual decline in residential property prices.

In countries for which annual data for 2005 are not yet available, quarterly residential property price data up to the second quarter of 2005 point towards a significant picking-up in the case of Greece and to further subdued developments in the case of Portugal. For Ireland, data available up to the third quarter suggest a broadly stable high pace of residential property price increases in comparison with 2004. In the case of Finland, the quarterly figures show a recent acceleration.

Overall, the continued strong dynamism in residential property price increases observed in some regions of the euro area warrants ongoing monitoring.

Residential property prices in the euro area countries

(annual percentage changes; in nominal terms)

	1999-2005	2001	2002	2003	2004	2005	2005		2005				2006
							H1	H2	Q1	Q2	Q3	Q4	Q1
Belgium ¹⁾	9.1	6.7	7.6	6.2	10.7	17.1	18.3	16.1	17.7	18.8	16.1	16.0	-
Germany ²⁾	-0.6	0.2	-1.2	-1.3	-1.5	-1.6	-	-	-	-	-	-	-
Greece ²⁾	9.1	14.5	13.0	5.7	2.6	-	8.9	-	7.3	10.4	-	-	-
Spain ²⁾	15.2	15.6	16.7	17.6	17.3	13.9	14.8	13.1	15.7	13.9	13.4	12.8	12.0
France ³⁾	10.5	7.9	8.3	11.7	15.2	15.2	15.5	14.9	15.7	15.3	15.5	14.2	-
Ireland ²⁾	13.5	8.1	10.1	15.2	11.4	-	-	-	11.1	10.5	11.5	-	-
Italy ²⁾	7.7	8.0	13.0	9.9	9.1	9.9	11.6	8.4	-	-	-	-	-
Luxembourg ¹⁾	11.0	13.8	11.9	13.3	-	-	-	-	-	-	-	-	-
Netherlands ³⁾	9.4	11.2	8.5	5.0	4.3	4.8	5.0	4.6	5.1	4.9	4.7	4.4	4.4
Austria ^{2),4)}	0.3	2.1	0.2	0.3	-2.1	5.2	6.9	3.6	9.5	4.3	4.1	3.1	-
Portugal ²⁾	3.5	3.6	1.1	1.6	0.4	-	1.9	-	0.5	3.2	-	-	-
Finland ²⁾	5.9	-0.5	7.4	6.2	7.1	6.1	4.4	7.9	4.0	4.7	6.7	9.0	11.5
Euro area	6.4	5.8	6.8	6.8	7.2	7.6	8.0	7.2	-	-	-	-	-

Sources: National sources and ECB calculations.

- 1) New and existing houses; whole country.
- 2) All dwellings (new and existing houses and flats); whole country.
- 3) Existing dwellings (houses and flats); whole country.
- 4) Up to 2000 data for Vienna only.