

Box 3

RECENT HOUSE PRICE DEVELOPMENTS IN THE EURO AREA

Euro area residential property prices¹ increased by 1.1% year on year in the second quarter of 2011, decelerating from 2.3% in the first quarter of 2011 and 2.8% in the fourth quarter of 2010. This deceleration implies a halt to the recovery in euro area house price dynamics that started at the end of 2009 and brought the house price index close to the levels observed before the start of the financial crisis (see the chart). This halt in the recovery occurred at rates that were well below the average nominal annual growth rate of over 5% observed in the period since 1999.

1 Since early 2010 the ECB has compiled its residential property price indicator for the euro area at a quarterly frequency. For Germany, quarterly figures are derived from annual price data (using, inter alia, early information available from big cities), while for Italy, quarterly figures are derived from biannual observations (by using, inter alia, quarterly indicators). The publication in early 2011 of the annual German and biannual Italian data for 2010 did not entail significant revisions to the earlier estimated quarterly data, thereby providing evidence that the assumptions underlying the quarterly estimations for Germany and Italy were reasonable. For further details, see the box entitled "Recent housing market developments in the euro area", *Monthly Bulletin*, ECB, December 2010.

The bumpy and muted recovery in euro area house prices is likely to reflect the substantial misalignment of house prices with fundamentals that built up in a number of countries in the pre-crisis period. While the overvaluation of house prices has declined over the past three years, it still exists and further unwinding is expected.² The uneven recovery in house price growth also reflects the confluence of different factors with an impact on housing markets more generally. Bank lending rates are at low levels, but banks' credit standards have tightened again somewhat in recent quarters. In addition, the uncertainty surrounding households' income prospects – and thus the risk of a deterioration in the affordability of housing – has further increased.

The latest developments in euro area house prices continue to mask very different patterns across countries. The deceleration recorded during the first half of 2011 was relatively broad based, but took place in the context of rather different magnitudes of growth (see the table). For instance, Belgium, France, Austria and Portugal

2 For a more detailed discussion of house price cycles in the euro area and the United States, see the article entitled "House price developments in the euro area and the United States" in this issue of the Monthly Bulletin.

Residential property prices (nominal)

(index: 2005 = 100; year-on-year percentage changes)



Sources: ECB, national data and ECB calculations.
Note: See footnote 1 in the text for details regarding the compilation of the nominal index.

Residential property prices (nominal) in the euro area

(annual percentage changes)

	Weight	2009	2010	2010		2011	2009				2010				2011	
				H1	H2	H1	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Belgium ¹⁾	3.8	-0.4	5.4	4.9	5.9	3.1	0.9	-2.1	-1.4	1.2	3.8	5.9	5.8	5.9	3.2	3.0
Germany ²⁾	26.7	0.6	2.3	-	-	-	-	-	-	-	-	-	-	-	-	-
Estonia ³⁾	0.2	-35.9	0.1	-4.5	5.1	6.4	-34.9	-40.3	-37.4	-30.5	-8.1	-0.6	6.2	4.0	2.2	10.7
Ireland ²⁾	1.8	-13.7	-15.5	-14.9	-11.2	-11.8	-15.0	-18.8	-20.6	-19.1	-16.6	-13.0	-11.3	-11.0	-11.1	-12.4
Greece ³⁾	2.6	-3.7	-4.7	-3.2	-6.1	-4.9	-3.3	-2.5	-5.1	-4.0	-1.8	-4.7	-5.2	-7.0	-5.2	-4.5
Spain ²⁾	11.7	-6.7	-2.0	-1.9	-2.0	-5.5	-7.6	-7.7	-7.0	-4.4	-2.9	-0.9	-2.2	-1.9	-4.1	-6.8
France ¹⁾	21.3	-7.1	6.4	3.7	9.0	8.3	-6.9	-9.3	-7.9	-4.4	1.4	6.1	8.4	9.6	8.9	7.7
Italy ²⁾	17.0	-0.4	0.1	-0.2	0.4	0.9	-	-	-	-	-	-	-	-	-	-
Cyprus ³⁾	0.2	-4.1	-2.5	-0.6	-4.3	-	-3.4	-5.8	-5.6	-1.5	0.0	-1.1	-2.4	-6.2	-	-
Luxembourg ³⁾	0.4	-2.1	4.5	3.5	5.4	4.0	0.6	-4.0	-2.6	-2.3	2.6	4.4	5.7	5.1	2.4	5.7
Malta ²⁾	0.1	-5.0	1.1	2.4	-0.2	-1.3	-9.9	-6.0	-2.5	-1.4	4.5	0.5	1.5	-2.0	-2.6	0.0
Netherlands ¹⁾	6.4	-3.3	-2.0	-3.2	-0.8	-1.6	-0.3	-2.8	-5.1	-5.0	-4.3	-2.0	-0.6	-1.0	-1.2	-1.9
Austria ²⁾	3.1	3.6	5.7	5.5	5.9	-	4.3	4.9	3.4	1.9	5.7	5.3	5.0	6.8	3.9	-
Portugal ²⁾	1.9	0.4	1.8	1.4	2.2	0.4	2.7	0.3	-0.8	-0.6	1.3	1.6	2.9	1.6	0.6	0.2
Slovenia ¹⁾	0.4	-8.2	2.8	2.6	3.1	-	-7.1	-9.8	-10.9	-5.0	1.1	4.1	4.6	1.5	1.1	-
Slovakia ¹⁾	0.7	-11.1	-3.9	-6.0	-1.7	-2.7	-4.3	-13.4	-14.3	-12.3	-8.3	-3.7	-1.3	-2.1	-2.5	-2.8
Finland ¹⁾	1.9	-0.3	8.7	10.9	6.6	3.7	-5.5	-3.6	0.4	7.9	11.4	10.3	8.0	5.2	4.2	3.2
Euro area ⁴⁾	100.0	-2.9	1.9	0.9	2.8	1.7	-2.4	-3.6	-3.9	-1.6	0.2	1.7	2.7	2.8	2.3	1.1

Sources: National data and ECB calculations.

Note: Weights are based on 2009 nominal GDP.

1) Existing dwellings (houses and flats), whole country.

2) All dwellings (new and existing houses and flats), whole country.

3) All flats, whole country.

4) The estimate of the euro area aggregate includes quarterly contributions for Germany and Italy based on interpolation and temporal disaggregation of data (annual data for Germany and semi-annual data for Italy) and, for Germany from 2008, quarterly data from seven big cities, compiled and adjusted by the Deutsche Bundesbank.

had positive annual growth rates, while in Ireland, Spain, and the Netherlands rates were still negative. In contrast, in some countries the recovery in house price growth continued in the first half of the year, but only at modest rates of positive annual growth, as in Italy, or still at negative rates, as in Greece, which had already seen renewed weakening in house price growth in 2010. The cross-country differences in the magnitude of annual house price growth remained substantial in the second quarter of 2011. The highest year-on-year increases were recorded in Estonia and France, while Ireland, Greece and Spain showed the sharpest decreases.

All in all, developments in euro area house prices are likely to remain subdued compared with the buoyant growth recorded during the past decade. This reflects, in particular, the adjustment needed as a result of previous overvaluation in some countries.