

Box 6

RECENT HOUSE PRICE DEVELOPMENTS IN THE EURO AREA

Residential property prices in the euro area decreased by 0.2% year on year in the fourth quarter of 2011, after having increased by around 1% in the second and the third quarter (see the chart).¹ The latest data confirm that growth in house prices has continued to weaken, having staged a recovery between the third quarter of 2009 and the first quarter of 2011. On average in 2011 residential property prices in the euro area rose by 1.0%, down slightly from 1.1% in 2010.

The substantial misalignment of house prices with fundamentals that built up in a number of countries before the crisis continues to weigh on house price dynamics. The renewed weakening in euro area house price growth also reflects the confluence of different factors that are impacting on housing markets more generally. Bank lending rates are at low levels but, at the same time, banks' credit standards tightened in the second half of 2011. Furthermore, unemployment, and thus the uncertainty surrounding households' income and the affordability of housing, increased again towards the end of 2011. At the same time, the tensions in some segments of financial markets in the euro area may have bolstered demand for real assets in some parts of the euro area, reflecting the uncertainty surrounding the return prospects of financial assets.

The latest developments in euro area house prices continue to mask very different patterns across countries (see the table). For example, in the course of 2011 the annual rate of growth in house prices in France fell considerably, from 7.0% in the first quarter to 3.9% in the fourth quarter. It also moderated sharply in Finland, to stand at 1.0% in the fourth quarter. In some countries, such as Ireland, Spain and the Netherlands, the annual growth rates were negative at the start of 2011 and had moved even deeper into negative territory by the end of the year. In Ireland and Spain, the negative annual growth rates reached double digits in the fourth quarter of 2011, while

Euro area residential property prices
(nominal)

(index: 2007 = 100; year-on-year percentage changes)



Sources: National data and ECB calculations.

Note: See footnote 1 in the text for details on the compilation of the nominal index.

¹ Since 2010 the ECB has compiled its residential property price indicator for the euro area at a quarterly frequency. For Italy, quarterly figures are derived from biannual observations (by using, inter alia, quarterly indicators). For further details, see the box entitled "Recent housing market developments in the euro area", *Monthly Bulletin*, ECB, December 2010.

Residential property prices (nominal) in the euro area

(annual percentage changes)

	Weight (%)	2010		2011		2010				2011					
		2010	2011	H1	H2	H1	H2	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Belgium ¹⁾	3.8	5.4	3.1	4.9	5.9	3.3	-	3.8	5.9	5.9	5.9	3.1	3.5	3.9	2.1
Germany ²⁾	26.7	0.5	2.6	-0.4	1.5	2.7	2.5	-1.5	0.7	1.4	1.5	3.1	2.3	2.7	2.3
Estonia ³⁾	0.2	0.1	9.9	-4.5	5.1	6.4	13.4	-8.1	-0.6	6.2	4.0	2.2	10.7	14.4	12.4
Ireland ²⁾	1.8	-13.1	-13.2	-14.9	-11.2	-11.8	-14.7	-16.6	-13.0	-11.3	-11.0	-11.1	-12.4	-13.5	-15.8
Greece ³⁾	2.6	-4.7	-5.1	-3.2	-6.1	-5.1	-5.1	-1.8	-4.7	-5.2	-7.0	-5.4	-4.9	-4.3	-5.9
Spain ²⁾	11.7	-2.0	-7.4	-1.9	-2.0	-5.5	-9.3	-2.9	-0.9	-2.2	-1.9	-4.1	-6.8	-7.4	-11.2
France ¹⁾	21.3	5.1	6.0	3.2	7.0	7.0	5.0	1.2	5.3	6.5	7.6	7.0	7.1	6.2	3.9
Italy ²⁾	17.0	0.1	0.7	-0.2	0.4	0.9	0.5	-	-	-	-	-	-	-	-
Cyprus ²⁾	0.2	-2.5	-	-0.5	-4.3	-4.9	-	0.0	-1.1	-2.5	-6.2	-5.0	-4.8	-5.5	-
Luxembourg ³⁾	0.4	4.5	-	3.5	5.4	4.0	-	2.6	4.4	5.7	5.1	2.4	5.7	1.9	-
Malta ²⁾	0.1	1.1	1.3	2.4	-0.2	-1.3	-	4.5	0.5	1.5	-2.0	-2.6	0.0	1.8	6.2
Netherlands ¹⁾	6.4	-2.0	-2.3	-3.2	-0.8	-1.6	-3.0	-4.3	-2.0	-0.6	-1.0	-1.2	-1.9	-2.7	-3.4
Austria ²⁾	3.1	5.7	4.1	5.5	5.9	2.6	5.6	5.7	5.3	5.0	6.8	3.9	1.4	5.7	5.5
Portugal ²⁾	1.9	1.8	-0.2	1.4	2.2	0.4	-0.8	1.3	1.6	2.9	1.6	0.6	0.2	-0.8	-0.8
Slovenia ²⁾	0.4	0.1	2.7	-0.3	0.6	3.7	1.7	-1.6	1.0	1.4	-0.2	4.1	3.2	2.1	1.4
Slovakia ¹⁾	0.7	-3.9	-3.1	-6.0	-1.7	-2.7	-3.5	-8.3	-3.7	-1.3	-2.1	-2.5	-2.8	-4.3	-2.7
Finland ¹⁾	1.9	8.7	2.8	10.9	6.6	3.6	1.9	11.4	10.3	8.0	5.2	4.1	3.2	2.7	1.0
Euro area	100	1.1	1.0	0.3	1.9	1.6	0.4	-0.8	1.4	1.8	1.9	2.0	1.1	1.0	-0.2

Sources: National data and ECB calculations.

Notes: Weights are based on 2009 nominal GDP. The quarterly data for the euro area aggregate include estimated quarterly data for Italy obtained using supplementary quarterly information.

1) Existing dwellings (i.e. houses and flats); whole country.

2) All dwellings (i.e. new and existing houses and flats); whole country.

3) All flats; whole country.

the Netherlands witnessed a negative annual growth rate of 3.4%. In other countries, house price growth over 2011 was more volatile, as in the case of Estonia, where it gained momentum before moderating slightly at the end of the year. In Germany, the annual rate of growth in house prices hovered between 3.1% at the start of the year and 2.3% at the end of the year. However, overall it was clearly higher than in 2010.

All in all, in view of the still prevailing adjustment needs in some countries, developments in house prices in the euro area as a whole are likely to remain subdued for some time to come.