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Economics Insights

ECONOMICS

Euro area house price trends & forecast

House prices likely to stabilise with the economic recovery

- We expect **euro area nominal house prices on average to fall modestly by 1% in 2014 and then stabilise in 2015** for the region as a whole thanks to the stabilisation in the economy and low financing costs (Figure 1).
- This apparent stabilisation, however, masks very significant **country disparities** with Germany the only large economy expected to post price rises, of about a cumulative 7% over the next two years, in our view. All other large economies are forecast to see further price declines albeit at smaller rates than in the past two years (with the exception of France). We forecast house prices in France and Italy to fall by a cumulative 4% over next two years, in Spain by a further 7% (bringing the peak to trough correction to 43%), and in the Netherlands by a cumulative 3% (implying a peak-to-trough correction of 24%).
- **Germany:** Rising income expectations, still historically low house prices to disposable income ratio, strong immigration growth and low borrowing costs should all contribute to push house prices higher. We forecast them to rise by around 3-4% in both 2014 and 2015.
- **France:** Weak labour markets and income generation, and a lack of improvement in affordability should weigh negatively on the demand for purchases over next two years. We do not expect any precipitous decline but rather a grinding lower trajectory with prices forecast to decline by 2% in both 2014 and 2015. **Risks appear tilted to the downside.**
- **Italy:** High unemployment, a weak economy, tight credit conditions and adverse demographic developments in potential buyers' cohorts suggest house prices will continue to grind lower over the next two years (they are down 9% from their peak in 2008).
- **Spain:** House prices have dropped by 30-40% (depending on the measure used) from their early 2008 peak. We expect the pace of decline in house prices to moderate over the next two years with average prices down 5% and 2% in 2014 and 2015 respectively.
- **The Netherlands:** House prices have now fallen by around 20% from their peak in 2008. However, a further rapid decline in prices expected for this year has failed to materialise so far thanks to policy measures targeted at supporting the Dutch housing market. Deleveraging pressures on the household side should still lead to some further price declines, and we expect house prices to fall by 3% in 2014 and be flat in 2015.

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Fig. 1: Euro area house prices and Nomura forecast

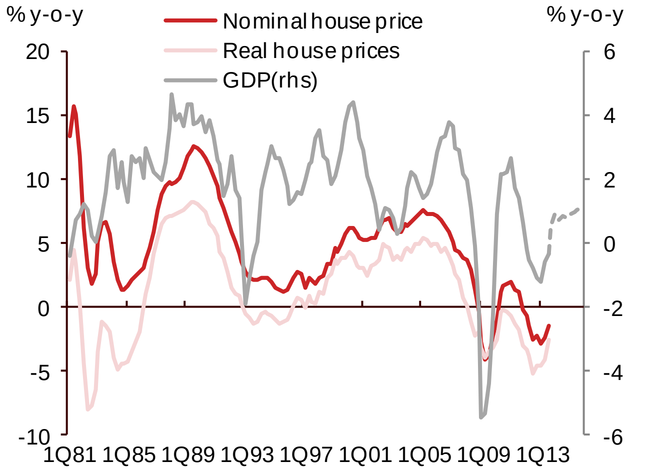
%	2000-07	2008-12	2013	2014(f)	2015(f)
Germany	-3.7	9.0	5.3	3.5	3.5
France	108.1	2.9	-1.8	-2.0	-2.0
Italy	59.5	-3.7	-5.3	-3.0	-1.0
Spain	110.5	-27.7	-9.9	-5.0	-2.0
Netherlands	44.7	-13.3	-6.4	-3.0	0.0
Euro area	52.4	-3.0	-2.2	-1.0	0.2

Source: ECB, FSO, INSEE, BIS, TINSA, Spanish Ministry of Development, CBS and Nomura Global Economics
Note: The 2013 growth rates are the actual data for Spain and the Netherlands. Others are estimated using the available data.

Euro area house price decline slowing

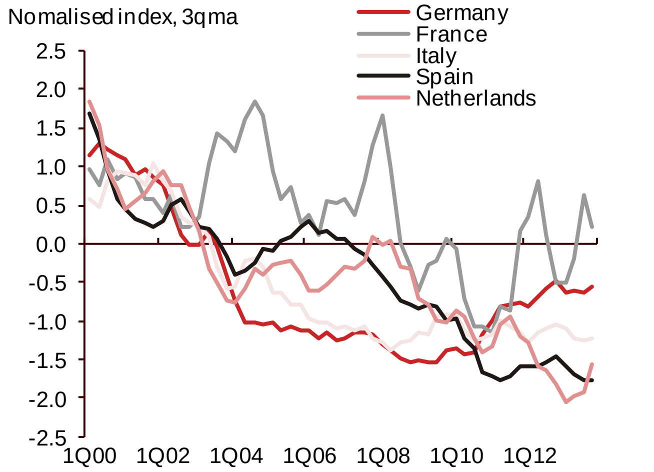
Euro area house prices started their adjustment at the end of 2008. There was a temporary recovery in 2010-11, but the housing market was dragged into a slump again as the region fell back into recession. In recent months, however, signs of stabilisation in the real estate market seem to have emerged. According to the ECB's residential property price indicator, the annual rate of change in euro area house prices was -1.4% in Q3 2013 after -2.4% in Q2 and -2.8% in Q1 (Figure 2), signalling a significant moderation in the negative trend in annual house prices which has been in place since late 2011. On a quarter-on-quarter basis, euro area house prices have actually shown positive growth for the second consecutive quarter (0.4% in Q3 and 0.1% in Q2), which is the first time since 2011. Also, household surveys regarding intentions to build/buy houses in the next 12 months have either stabilised or increased in most major euro area countries (Figure 3).

Fig. 2: Euro area GDP and house prices



Source: ECB and Nomura Global Economics

Fig. 3: Intention to build/buy houses in the next 12 mths



Source: European Commission and Nomura Global Economics

A dynamic house price model

According to our calculations, a simple ratio of current house prices/GDP per working age person is now deviating only slightly from its long-term average, significantly down from the 11% deviation in late 2008. This means the affordability of euro area homes has improved significantly over the past few years, a sign that most of the downward correction might be behind us.

However, the ratio of prices to household disposable income by itself is not a sufficient metric to evaluate housing affordability and hence house price development. A dynamic house price model will systematically answer this question. In the international literature, the most common form of the house price equation is the inverted housing service demand function, such as Mankiw and Weil (1989), Meen (1996), Muellbauer and Murphy (1997) and Cameron *et al*. (2006).

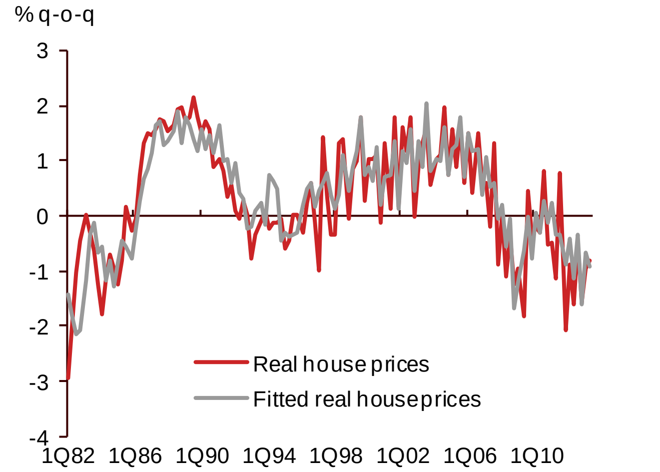
This approach incorporates both demand and supply factors. The demand for housing generally depends on variables such as growth in personal income, changes in demographics, and the so-called “user cost of housing capital”, which includes house price expectations and financing costs. This, together with supply of housing, determines developments in house prices. A more explicit expression of the above relation is as follows:

$$HP = F(Y, HS, POP, i, \pi, \delta, hp^e, D)$$

where HP stands for real housing prices, Y is real income, HS is housing stock, POP is population, i is mortgage rates, π is inflation, δ is depreciation on housing, hp^e is expected rate of house prices and D is other demand shifters.

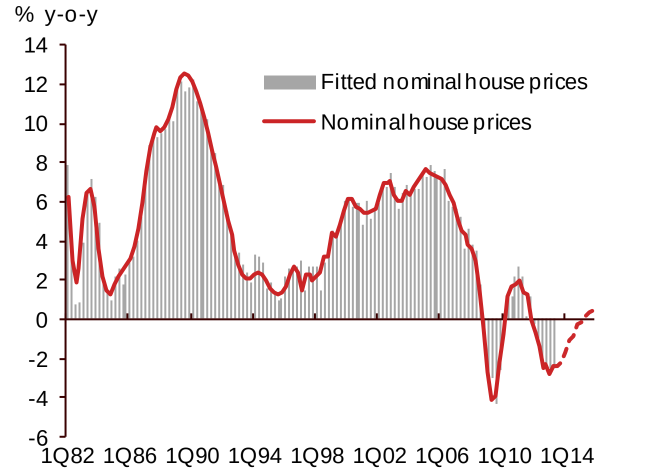
Under this framework, we build our euro area house price model. Our model includes the following variables: GDP, housing stock, population, mortgage rates, inflation, lagged house price changes (as a proxy of expected rate of house prices) and dummies to capture seasonal patterns of house prices. We used quarterly data from Q1 1980 to Q2 2013 and the fitted results are shown in Figures 4 and 5.

Fig. 4: Euro area real house prices



Source: ECB, Eurostat and Nomura Global Economics

Fig. 5: Euro area nominal house prices (baseline scenario)



Source: ECB, Eurostat and Nomura Global Economics

Euro area house prices forecast

Based on our forecast of the variables driving house prices, Figure 5 shows the potential path of euro area house prices in the next two years. In our view, the decline of euro area house prices is likely to moderate further, with 2015 the year when house prices on average could turn positive again.

We illustrate the variables driving house prices in Figure 6. The positive development should first be attributed to the more favourable economic situation. As seen in Figure 2, euro area house prices have had a relatively high positive correlation with economic growth since the 1990s. According to our calculation, a 1% increase in GDP increases house prices by 0.2%, which not only reflects the rising affordability of house purchases but also higher expectations of future income.

The historical low lending rates also play an important role. Figure 7 shows that lending rates normally lead euro area annual house price growth by two to three quarters, especially since the crisis, which is consistent with results from our econometric model. In our baseline scenario, we expect rates to rise slightly from the current 3.07% to 3.2% and 3.4% in 2014 and 2015, consistent with our forecast for 10-year bund yields.

Our model also suggests very strong persistence in real house prices, that is, the change of house prices in the current quarter is determined by the changes in the past few quarters (we found lagged house price changes in t-1, t-2 and t-4 all have significant impacts on house prices change in the current quarter). This can partly be explained by the backward-looking nature of forming price expectations. An alternative explanation is that house prices are determined by some persistent variables, such as income, housing stock and job growth. That said, despite signs of stabilisation in house prices (on a quarter-on-quarter basis), the persistence will continue to impose downward pressure on euro area house prices in the next few quarters.

In our baseline scenario, we expect inflation to stay slightly above 1% in both years and the housing stock to increase at the average rate in 2008-2012. We use AMECO's forecast of population.

The change in the unemployment rate, which is always regarded as a proxy of job uncertainty, is not found to be significant in the model, at least at the euro-area-wide level. This is probably because the information has been incorporated in GDP data.

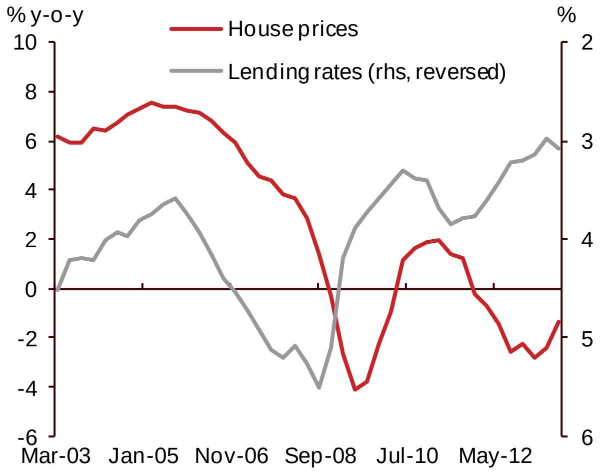
Fig. 6: House purchase lending rates

%	2014	2015
Baseline scenario		
GDP growth	0.8	1.0
Mortgage rates (year end)	3.2	3.4
HICP inflation	1.1	1.2
Housing stock growth	0.8	0.8
Population growth (15-64)	0.03	0.03
Nominal house prices growth	*-1.0*	*0.2*
Stress scenario		
GDP growth	0	-1.0
Mortgage rates (year end)	3.7	4.5
HICP inflation	0.9	0.7
Population growth (15-64)	0.01	0.01
Nominal house prices growth	*-1.5*	*-1.6*

Source: Ameco, ECB and Nomura Global Economics

Note: In the stress scenario, we did not shock the housing stock growth.

Fig. 7: Euro area house prices in stress



Source: ECB and Nomura Global economics

A stress scenario

With downside macroeconomic risks still high in our view, we believe it is worth conducting a stress scenario around our baseline.

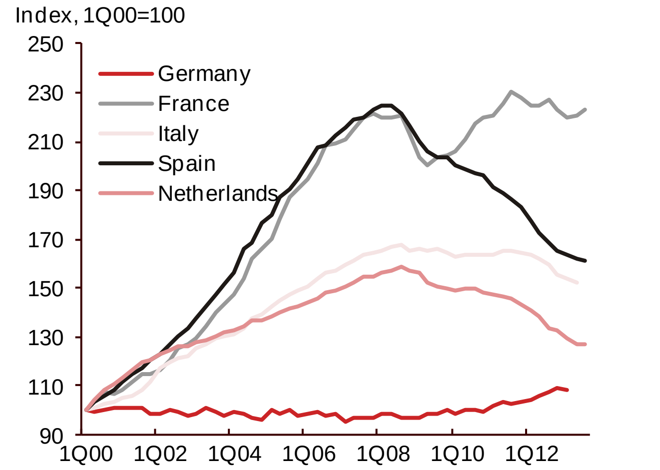
As can be seen in Figure 6, in the stress scenario, we expect (1) the region to fall back to a triple-dip recession, with GDP growth of 0% and -1% in 2014 and 2015 respectively, (2) mortgage rates to increase sharply due to banks' deleveraging and the tapering of QE, (3) the population to grow at the average rate in 2011-13, and (4) disinflation to be more entrenched. Since housing stock growth is already at low levels and normally lags price development, we did not shock the series. In this scenario, house prices would fall by around 1.5% in both 2014 and 2015.

Outlook for the housing markets in the Big 5 countries

As seen in the past decade, house prices across the euro area diverged greatly, with Spanish house prices increasing by more than 120% in the eight years before the crisis and then declining by around 30% while German house prices changed little before the crisis and have only recently started their upward trend (Figure 8).

Looking ahead, we see different economic performances for different euro area countries (Figure 9), which in theory should affect country house price development. In this section we provide some detailed analysis behind our forecast for the Big 5 euro countries taking into consideration some of the idiosyncratic factors that might impact house price developments at the country level over the coming two years.

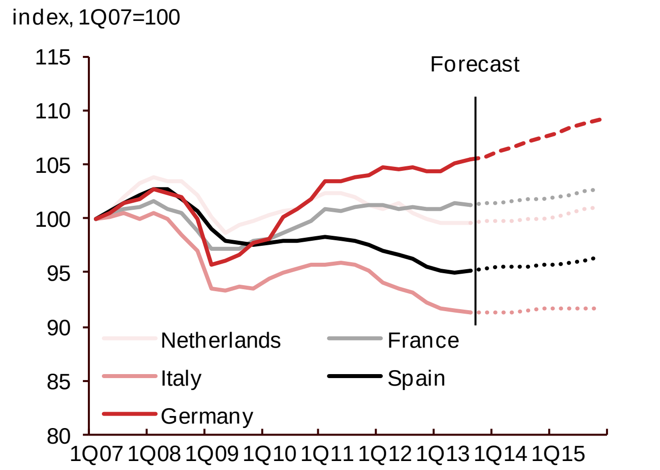
Fig. 8: House prices across the Big 5 countries



Source: FSO, CGEDD, BIS, Spanish Ministry of Development, CBS, and Nomura Global Economics

Note: House prices refer to urban terraced houses in Germany, all house prices in France, all residential property price in Italy, total prices in Spain (Ministry of Development series) and owner occupied dwellings in the Netherlands.

Fig. 9: GDP across euro area countries

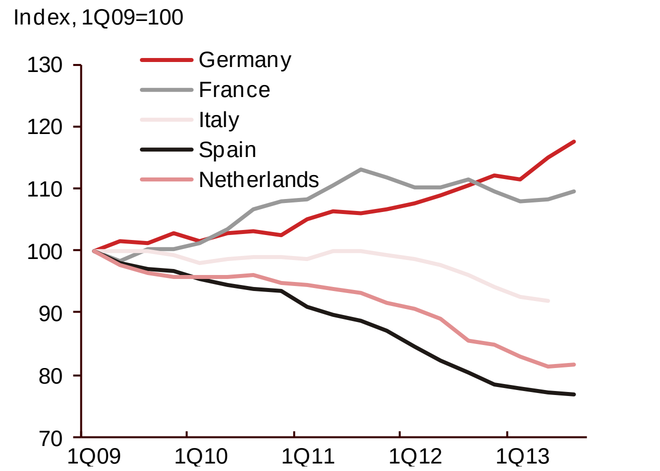


Source: Eurostat and Nomura Global Economics

Germany: solid fundamentals to support further rise of house prices

The German housing market had been in a prolonged slump following reunification. The trend reversed in 2009, since when house prices have risen by almost 20%, in a significant contrast with other euro area countries (Figure 10). This is especially true for apartments, whose average prices rebounded by 27% from their low in early 2009 (Figure 11).

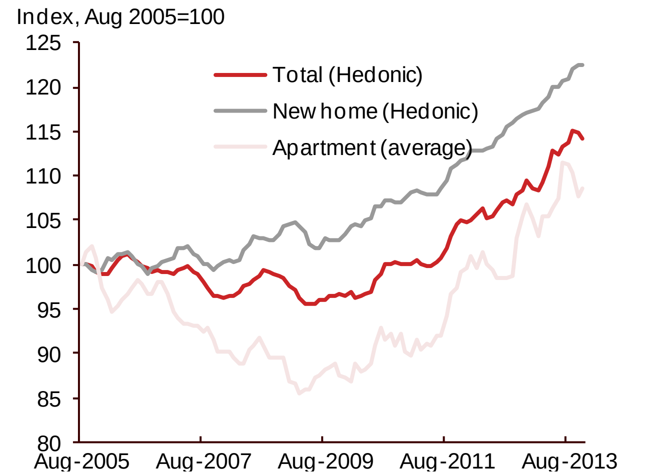
Fig. 10: House prices in the Big 5 countries



Source: FSO, CGEDD, BIS, Spanish Ministry of Development, CBS, and Nomura Global Economics.

Note: The same as in Figure 8.

Fig. 11: German monthly house prices

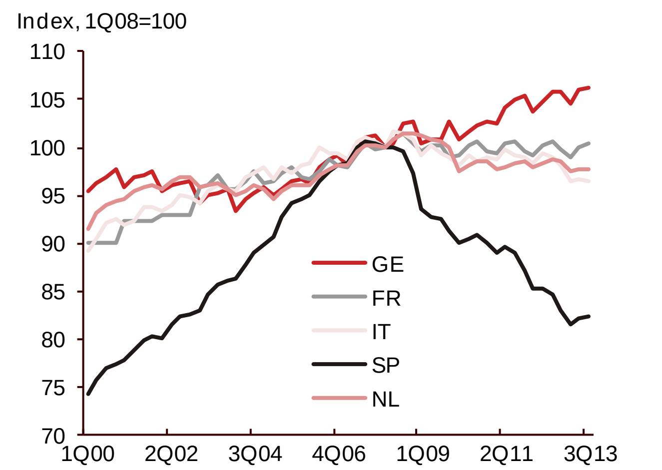


Source: Europace and Nomura Global Economics

Indeed, sound economic growth has supported Germany's housing market: the house price upswing came at a time when the economy started to recover in Q2 2009. In particular, the robust job market has played an important role in our view. As shown in Figure 12, employment has increased by around 6% since the start of 2008, while it has declined by more than 5% on average in the rest of region, mainly driven by the sharp 18% decline in Spanish employment. The positive development in the labour market has not only boosted the affordability of German houses, but also reduced the uncertainty of households' future income, reinforcing the optimistic economic and income expectations.

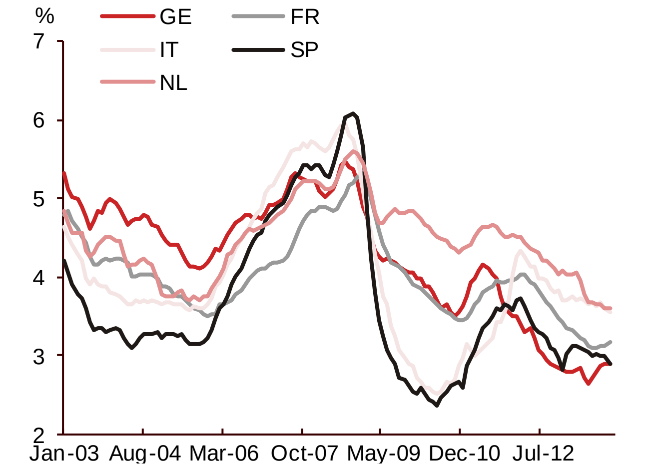
Despite solid fundamentals, and as recently suggested by Bundesbank board Member Dombret in January 2014, the bursting of property bubbles in some European countries, which has pushed international investors to resort to the "safe" German housing markets. In addition, exceptionally favourable financing conditions, where interest rates for mortgage loans remain close to their historical lows (Figure 13), may have added froth to German house prices. According to the Bundesbank, apartments in attractive large towns and cities may be overvalued by as much as 20%.

Fig. 12: Employment by country



Source: ECB and Nomura Global Economics

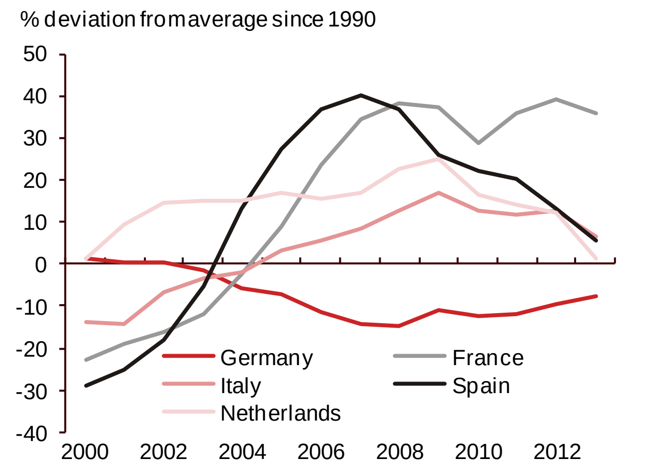
Fig. 13: House purchase lending rates by country



Source: ECB and Nomura Global Economics

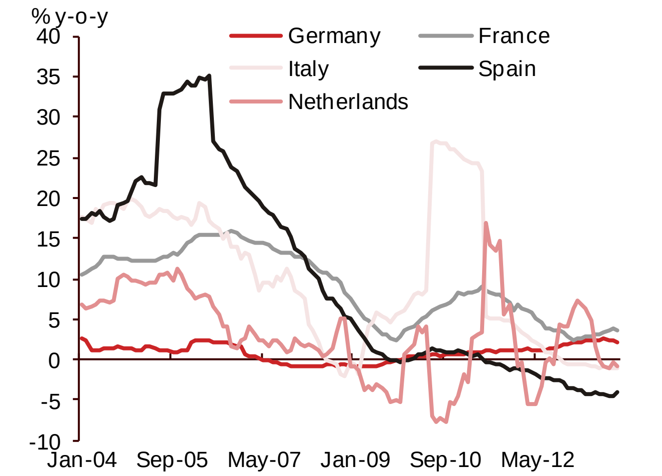
We don't have the regional dataset that the Bundesbank used in their analysis, but a simple price-to-income analysis shows that German house prices are still well below the fundamentally justified value (Figure 14). The ongoing large-scale immigration also acts as a main driver of German housing demand. According to the FSO, net immigration reached 279,000 people in 2011, the highest level since 1996. Moreover, risks in the mortgage markets look low, with outstanding mortgages increasing very modestly in Germany in the past decade, especially compared with the boom time in bubble-burst countries (Figure 15).

Fig. 14: House prices to income ratio by country



Source: FSO, INSEE, BIS, Spanish Ministry of Development, CBS, AMECO and Nomura Global Economics.

Fig. 15: Outstanding loans of house purchases



Source: ECB and Nomura Global Economics

On the supply side, there is a strand of literature in Germany that argues that the 10-year period of no price movement in housing prices was partly the result of excess supply that had been built in the early-1990s. Indeed, the FSO data show that in 1995-99 the increase in the housing stock (2.0 million) was more than double that of household formation (0.86 million), thus shrinking the demand-supply gap very quickly. However, after a prolonged period of reabsorbing the shock, the housing stock and number of households are now at the same level. In fact, from 2000 to 2012, the German housing stock increased at a marginally smaller pace than household formation, largely helping reduce the oversupply (Figure 24).

On balance, we do not see bubbles in Germany for the moment, at least at the nation-wide level. The current property boom is more likely to reflect a catch-up process with the prolonged stagnation, low home-ownership ratios (45.8% in Germany vs 66.8% in EU27) and improving expectations of future income. Since our baseline scenario remains that interest rates in Germany will stay low for a prolonged period, we expect the low interest rate environment to further stimulate households' search for yield activity and induce more capital flow into the German housing market. On balance, we expect German house prices to continue to rise at a pace of around 3-4% per year in the next two years.

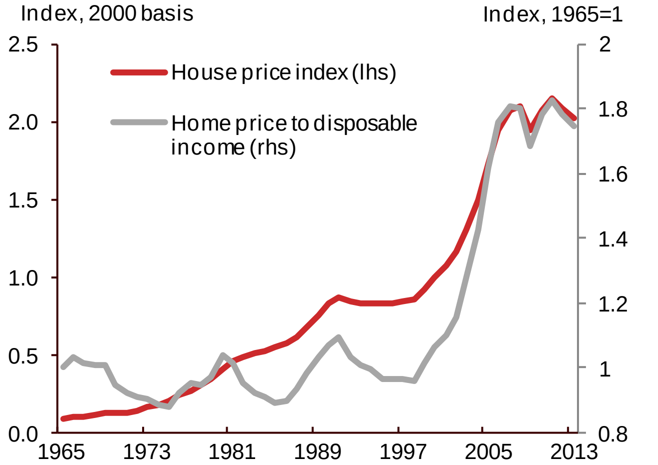
France: building long-term pressures

House prices in France have increased by 2.5 times between 1995 and 2013 (Figure 16), but the correction has been very modest to date, especially compared with its European counterparts (Figure 10): up to Q3 2013, French residential prices declined by only 3% from their peak two years ago, which is the smallest decline registered in the Big 5 countries (except Germany).

This means the affordability of French houses did not improve meaningfully and real estate prices may be considerably overvalued. Indeed, data from CGEDD show that house prices in France have grown much faster than disposable income for the past 15 years, with house prices having risen by 70% more than household disposable income over that period (Figure 16). Among the Big 5 countries, the house price-to-disposable income ratio deviates the most in France (Figure 14).

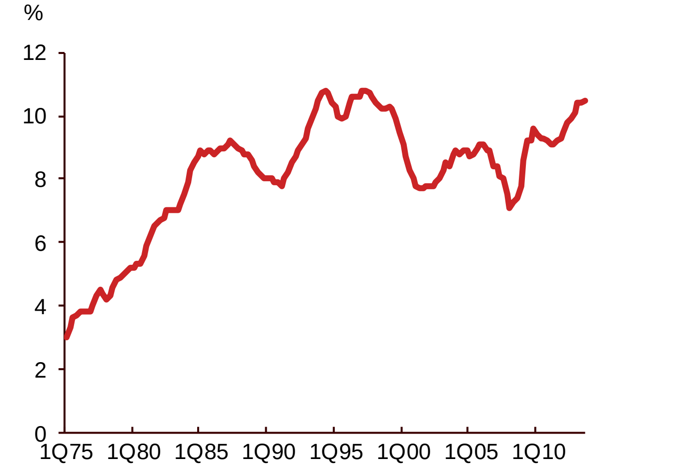
Weaker income generation (we expect French GDP to grow slowly by 0.4% and 0.7% in this and next year) and greater uncertainty about job prospects (unemployment rates are now at 10.5%, close to their historical high of 10.8% in 1997, Figure 17), combined with the normal tightening in credit standards in the face of a weaker economic outlook are likely to weigh negatively on demand for house purchases over the next two years.

Fig. 16: French house prices and affordability index



Source: INSEE, CGEDD and Nomura Global Economics

Fig. 17: French unemployment rate, SA



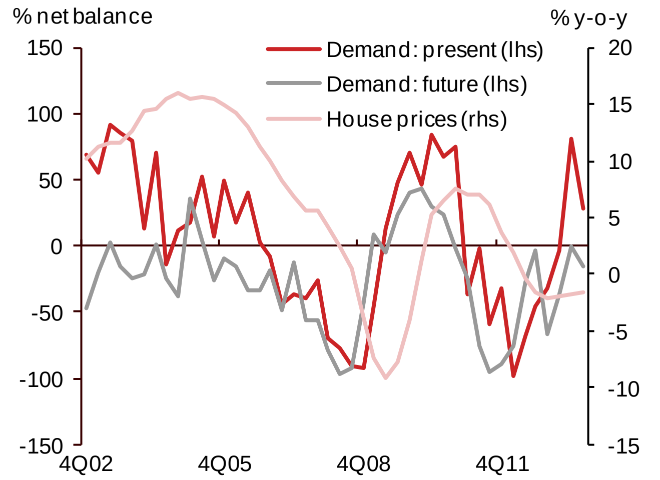
Source: INSEE and Nomura Global Economics

However, survey data suggest that demand prospects for house purchases remain healthier than many thought possible because of the macroeconomic headwinds. For example, the quarterly survey of French consumer confidence shows that for the latest data available, the intention to buy a house in the next 12 months was broadly in line with its long-term average (Figure 3). Likewise, the BLS survey shows a recovery in the demand for house purchase loans, albeit at a slower pace than in Q2 (Figure 18).

On the housing transaction side, the French housing market seems to have suffered a steep slowdown. Figure 19 shows the volume of existing home sales (the latest data are for October 2013) is still 17% below its peak in 2006 despite the recent recovery. However, it is worth noting that this is associated with even lower housing starts, which are now declining at a pace of around -10% and still 28% below the peak in 2006. That said, the limited housing supply is likely to help mitigate some of the negative drivers of house prices. In fact, our analysis of household formation and house stock increases does not suggest an oversupply in France (Figure 24).

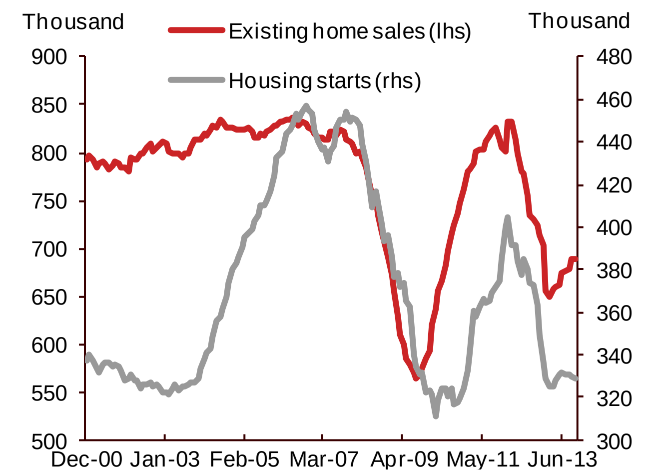
In sum, we think the rapid increase in French house prices relative to income is unlikely to be sustainable over the long term. But the limited housing supply seems to put a cap on the degree of decline. Moreover, the broad economic recovery in the euro area and still robust survey indicators are only consistent with a mild decline of house prices in the near term. That said, we think house prices are more likely to grind lower than fall precipitously as they have done in countries such as Spain and the Netherlands. On average, house price declines of a cumulative 4% over the coming two years in nominal terms looks quite likely, in our view, with risks tilted to the downside.

Fig. 18: Demand for housing loans and house prices



Source: INSEE, ECB and Nomura Global Economics

Fig. 19: Housing sales and starts (12mth cumulative)



Source: CGEDD and Nomura Global Economics

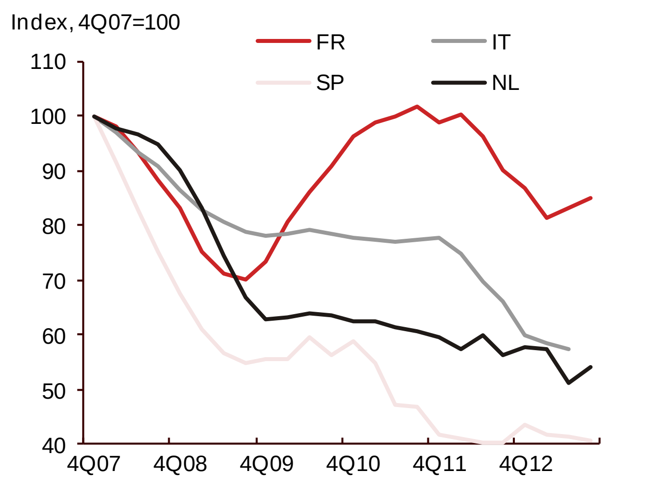
Italy: small adjustment in the short term but long-term pressures remain

Italy has been quietly experiencing its own decline. House prices fell by around 9% up to Q2 2013 from the peak five years ago (Figure 8), with most of the decline occurring in 2012-13 (5% and 4% respectively), when the economy was in deep recession. Relative to the price adjustment, the correction in home transactions looks more drastic: the 12-month cumulative home transaction numbers are currently at around 57% of the level at the end of 2007, similar to the situation in the Netherlands (Figure 20).

However, the recent survey by the Bank of Italy suggests that the housing market adjustment (in terms of both prices and transactions) is likely to slow down in the short term. According to the survey, the share of real estate agents observing a decline in selling prices fell to 68.2% in Q3 relative to 76.8% in Q2. Moreover, although still pessimistic, opinions on short-term trends for the national housing market have improved considerably, with the balance between positive and negative opinions rising to -36.4% from -53.3% in the previous survey.

Looking ahead, our December Galileo showed a warning sign that the Italian economy remains very fragile. We expect the economy to stay flat and grow very slowly by 0.2% in 2014 and 2015 respectively. This, together with the high unemployment rates there (12.3% in Q3 2013, the highest in more than 20 years), is consistent with further decline in house prices.

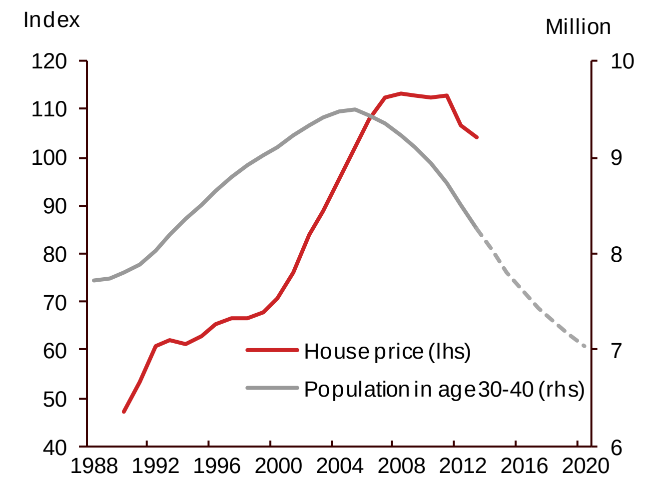
Fig. 20: Home transactions in the euro area (12mth cumulative)



Source: CGEDD, Istat, Spanish Ministry of Development and CBS

Note: French data are for existing home sales. Others are for all dwellings.

Fig. 21: Italy: house prices vs population



Source: United Nation and BIS.

Another major headwind for the Italian housing market is the fast decline in population aged 30 to 40. Because of rent controls and other restrictions, renting is unattractive for Italian landlords. As such, the major house buyers are the domestic population, normally aged 30-40. As shown in Figure 21, that group has declined by around 1.2 million since 2005 and is expected to decline further. In all, a genuine recovery in the Italian housing market looks unlikely either in the near term or in a relatively longer term. We expect house prices to continue to decline in the next two years, but at a slower pace (around 1-3% per year).

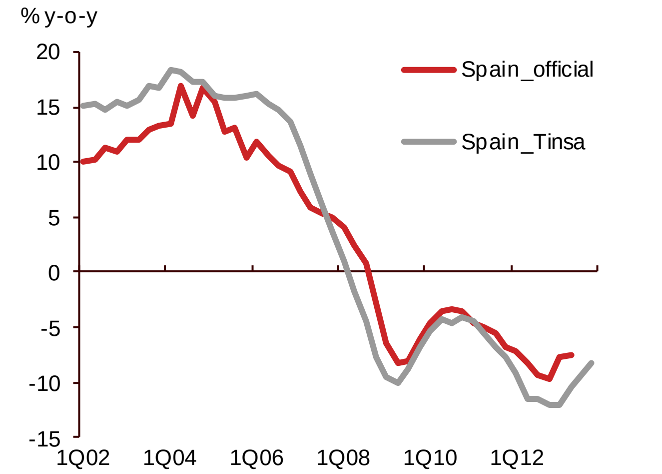
Spain: further but milder adjustment looks likely

The Spanish house prices have dropped by around 30% from their peak in early 2008, according to data from the Spanish Ministry of Development. According to Tinsa, a real estate consulting firm, the adjustment is more drastic: its data show a fall of 39% from the peak and registered -9.2% y-o-y in December (Figure 22, on a quarterly basis the year-on-year growth rate is -8.3%).

Some signs of stabilisation emerged after such a significant correction. For example, the rate of house price decline has decelerated from -12% y-o-y in Q4 2012 to -8.3% y-o-y in Q4 2013 and the unemployment rate has started to decline. Moreover, with the recent pick-up in US and Irish housing prices, people are becoming more optimistic on the Spanish housing market.

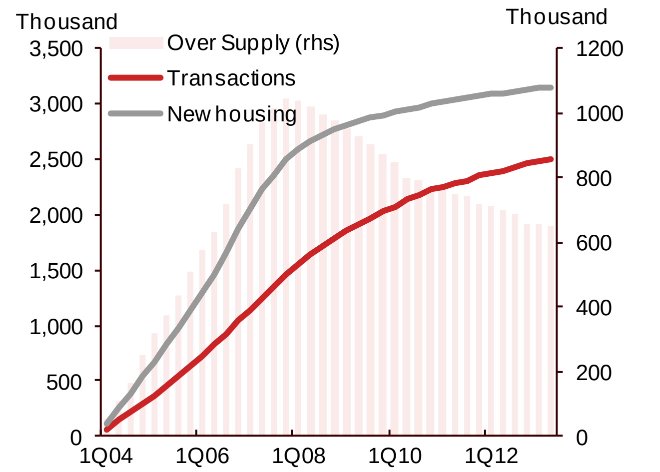
The question then becomes: will Spanish house prices repeat the US route and bottom out very soon or follow Ireland's footprint, with house prices to decline further? In our view, the likelihood of the latter is higher.

Fig. 22: House price growth in Spain



Source: Tinsa, Spanish Ministry of Development and Nomura Global Economics

Fig. 23: New home built vs sold in Spain (12mth cumulative)



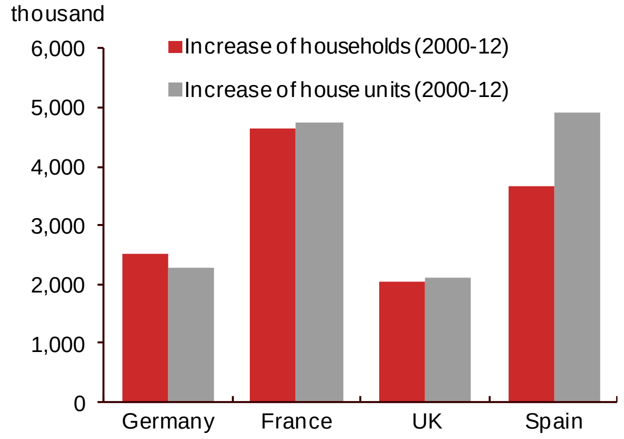
Source: Spanish Ministry of Development and Nomura Global Economics

First, pressures from "oversupply" are still overwhelming. Figure 23 shows that from 2004, the gap between the increase in new houses (cumulative, a proxy of supply) and transactions in new houses (cumulative, a proxy of demand), which is a proxy of "oversupply", kept on rising before the crisis and reached a peak of 1 million in end-2007. It took the country five years to reduce the gap to 0.65 million in Q2 2013. Although it's difficult to identify where the equilibrium is just based on this series, at the current transaction rate for new house selling, i.e. 0.13 million per year on average since 2010, there is still a considerable way to go even assuming the gap reduces to 0.3 million. As a crosscheck, we compare the changes of household numbers and changes of housing stock across several European countries in 2000-2012. As Figure 24 shows, the increase in the housing stock pretty much matched the additional demand in Germany, France and the UK over the past decade. But supply in Spain has exceeded demand by more than 40%, signalling the overwhelming headwinds on the supply side are unlikely to disappear any time soon.

Second, there is still room for further improvement of fundamentals. According to the Bank of Spain, the house price-to-disposable income ratio declined to 5.8 in Q3 from its high of 7.7 six years ago. This has mainly been driven by falling house prices rather than income increases. For the moment, despite the unemployment rate stabilising at around 26%, the very high unemployment level will still likely depress household income and hence house prices. That said, absent an overshoot in house prices and given stable disposable income, Spanish house prices should decline by another 5-7% to bring the affordability ratio to its long-term average. If household income were to fall, the correction would be more significant.

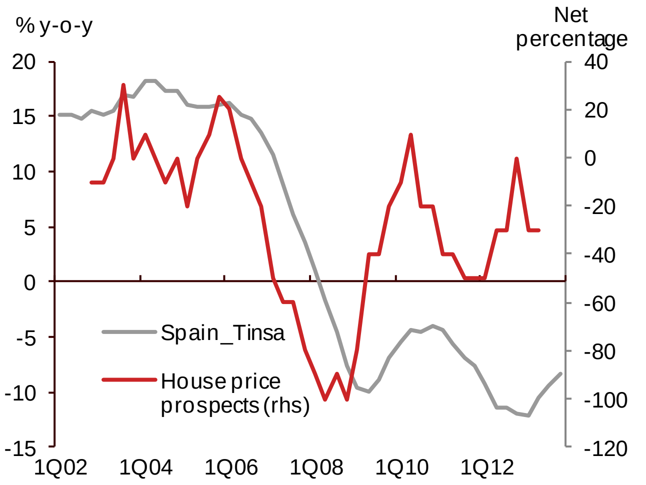
Third, the leading indicator of house prices remains hovering at low levels albeit less negative than before. Figure 25 shows that the net change in house price prospects, which usually leads actual house prices by two to three quarters, stayed at -30% in H1 this year after a blip to 0% at the end of 2012. This suggests that house prices may renew their decline in two to three quarters.

Fig. 24: Household formation and change in housing stock



Source: EMF HYPOSTAT, FSO, Eurostat and Nomura global Economics

Fig. 25: Spanish house price and price prospects



Source: Tinsa, ECB Bank Lending Survey and Nomura Global Economics

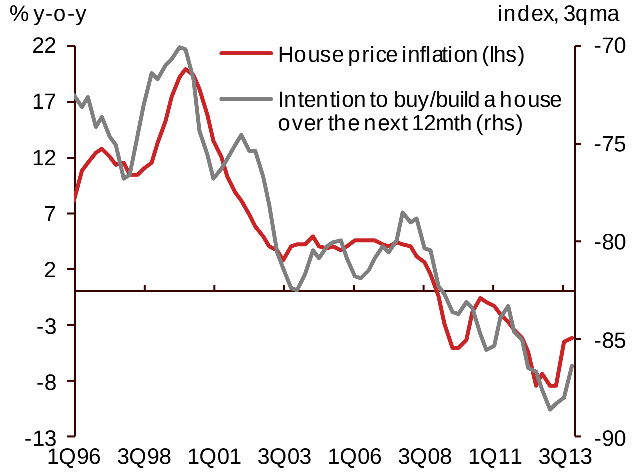
All in all, despite the slower decline in Spanish house prices, we still see strong headwinds coming from the significant oversupply, depressed income generation, weak labour markets and negative expectations of housing prices. According to our calculation, Spanish house prices are likely to decline by another 7% in the next two years. However, it is worth noting that it could be the final stage of the adjustment and the pace of decline will likely be much milder.

The Netherlands: stabilisation at current levels

The Netherlands is the second largest country to experience a significant adjustment of house prices in the euro area. House prices have fallen by more than 20% from their 2008 peak.

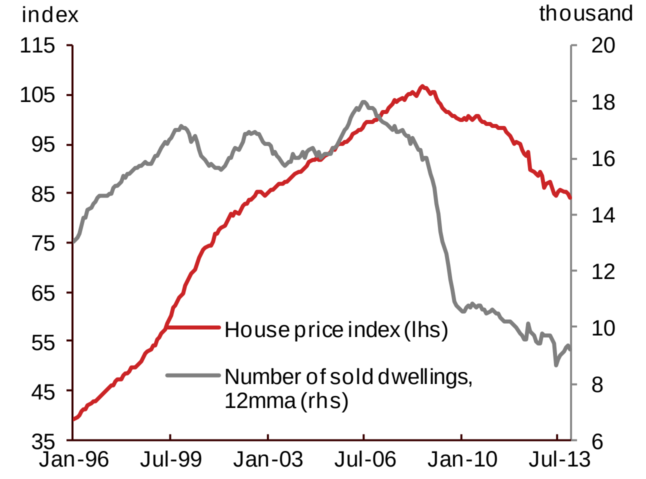
In Dutch economic outlook: assessing the housing/household nexus, June 2013, we expected Dutch house prices to decline by 10-15% in H2 2013 and 2014, mainly reflecting modifications of interest tax deductibility, expectations of further price declines and a generally weak labour market. However, recent developments seem to be deviating from our original judgement. In particular, the price decline slowed to -3.7% y-o-y in December 2013 from -9.6% in June (Figure 26) and the number of residential property transactions seem to have bottomed out although they remain at low levels (Figure 27).

Fig. 26: House price inflation and intention to buy



Source: Eurostat, CBS and Nomura Global Economics

Fig. 27: House prices and transactions

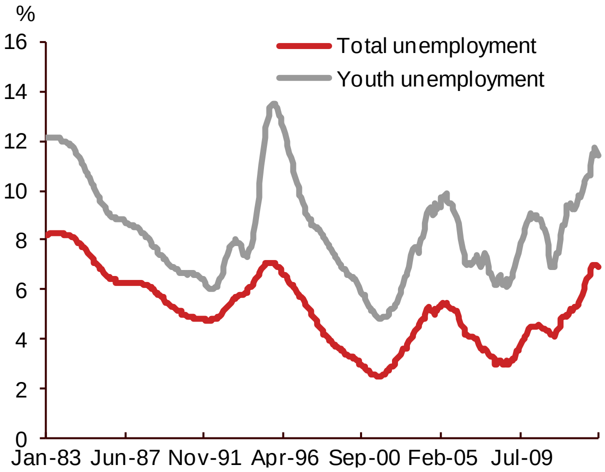


Source: Eurostat, CBS and Nomura Global Economics

This is mainly thanks to the stabilisation of Dutch job markets, where unemployment fell for the first time in November (to 6.9% from 7% in October) since mid-2012 (Figure 28).

Looking ahead, we expect house prices to decline slightly in 2014 and stabilise in 2015. Compared with our baseline scenario outlined in June 2013, we see lower unemployment rates and better economic conditions for 2015 (Figure 28). This, together with the government measures to boost the housing market (e.g. through state-backed mortgage bonds and easier mortgages for flexi workers), can be translated into some stabilisation in the Dutch house prices. However, the ongoing delivering process in the household sector should remain a medium-term headwind in the Netherlands (for more please see Dutch economic outlook: assessing the housing/household nexus, June 2013), and hence a mild decline of house prices in the next two years seems more likely than a quick recovery.

Fig. 28: Dutch unemployment rates



Source: Eurostat and Nomura Global Economics

Fig. 29: Macro assumptions of Dutch housing market

	2014	2015
New forecast		
House price change(%)	-3.0	0.0
GDP growth (%)	0.3	0.8
Unemployment rate (year-end)	8.0	7.5
June 2013 forecast		
House price change(%)	-5.0	-
GDP growth (%)	0.2	-
Unemployment rate (year-end)	8.5	-

Source: Nomura Global Economics

Conclusion

On the back of the economic recovery, relatively low lending rates and improving confidence, we expect the decline in euro area house prices to slow down in the next few quarters. Our dynamic house price model, which incorporates both demand and supply factors and our forecast on macroeconomic drivers, suggests that house prices in the euro area are likely to be broadly flat over the next two years (-1% in 2014 and +0.2% in 2015). In a stress scenario, however, they should decline by around 1.5% in each of the next two years.

Regional variations are quite common for housing markets even within one country. According to our analysis of the Big 5 euro area countries, Germany should continue to see house price hikes over the next two years, albeit at a smaller pace than in 2013. In Spain and the Netherlands, where house prices have adjusted more drastically than others in the euro area, signs of a slower decline in house prices have emerged. However, the ongoing deleveraging of their household sectors (for the Netherlands and Spain), high unemployment rates and still existing oversupply (for Spain) could weigh on their housing markets. A quick recovery seems unlikely in the near term in these two countries. In France and Italy, despite house prices holding up well relative to their European counterparts (in particular for France), both have problems, which will likely put downward pressure on their house prices for a relatively long time.

In sum, we expect euro area house prices to continue to decline this year and only increase slightly in 2015, thanks to the robust German performance and stabilisation in Spain and the Netherlands. Our bottom-up calculation shows that aggregate house prices in the Big 5 countries are generally in line with what our econometric model suggests for the whole of the euro area (Figure 30).

Fig. 30: House price forecast in the Big 5 countries

	Weights	2014 (%)	2015 (%)
Germany	0.32	3.5	3.5
France	0.26	-2.0	-2.0
Italy	0.20	-3.0	-1.0
Spain	0.14	-5.0	-2.0
Netherlands	0.08	-3.0	0.0
Big5 aggregate	1.00	-0.9	0.1
Euro area		-1.0	0.2

Source: Nomura Global Economics

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Appendix A-1

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