The continued rise of German house prices

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10 FEBRUARY 2020
(ORIGINAL JAPANESE VERSION RELEASED ON 30 JANUARY 2020)

German house price inflation has accelerated in recent years. The 5-year moving average of YoY growth is at its highest rate for half a century, and now, real house price has reached a historic high (Chart 1).

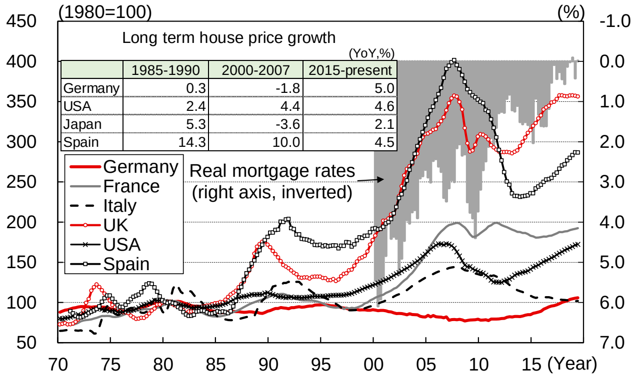
Since the 1980s, when the downward trend in global interest rates started, there have been more than a few housing bubbles in various developed countries, such as Japan, USA, UK, Italy, Spain and Australia. Germany on the other hand did not experience significant house price growth during this period. Among the main reasons for this are the German tendency towards debt-avoidance, comparatively low enthusiasm for home ownership, and the country's uniquely decentralised urban structure which helps to prevent tight housing markets in key cities. Another reason why Germany avoided pre-GFC property bubble may have been because economic growth was slower than surrounding countries due to the belated implementation of post-reunification structural reforms.

Given this history, there are a number of factors that should be highlighted to explain the current rise in German house prices: 1) mortgages rates have fallen gradually in response to accommodative monetary policy measures 2) housing demand has increased due to healthy employment and income conditions, and 3) the fact that new housing supply currently only meets around two thirds of market demand.

Nevertheless, the rise in house prices is not yet a cause for alarm. Even after the ECB's implementation of large-scale monetary easing policies such as negative interest rates and the reintroduction of the Asset Purchase Programme (APP), the debt-to-GDP ratio for households currently stands at just 54% (Chart 2). This is lower than in other major developed countries, and is far from the kind of 'fiscal imbalance' that built up during bubble-era Japan or in the run-up to the GFC in the USA and Europe, when the surge in house prices was accompanied by a sudden expansion in domestic debt.

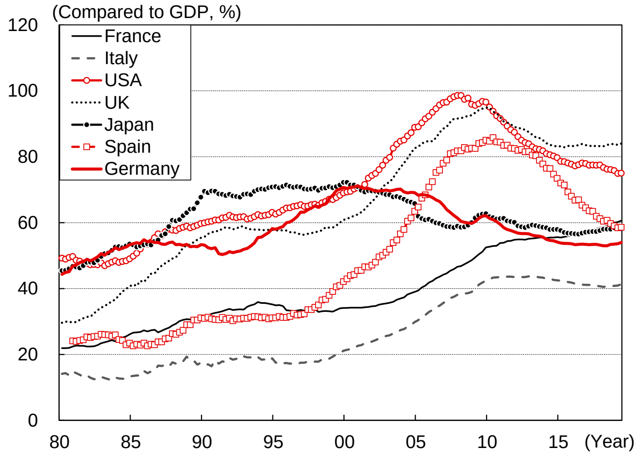
Given that the ECB is expected to continue to employ monetary easing policies for the foreseeable future, we should be watchful of the potential for house price rises triggered by ultra-low interest rates. That said, it is worth noting that that Germany's household sector is still looking quite healthy from a balance sheet perspective.

Chart 1: Real House Prices in Major Countries and German Real Mortgage Rates



Note: Due to lack of available data, 'Real interest rates for mortgages' data since introduction of euro
Source: Destatis, ECB、OECD, MUFG Bank Economic Research Office

Chart 2: Household Debt to GDP in Major Economies



Source: BIS, MUFG Bank Economic Research Office

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