

22 February 2017

Flash Comment

Chinese house prices cool further

- **Chinese house prices showed further signs of cooling in January.** This follows several measures over the past six months to tighten the housing market (increase in down payment required, tighter lending standards for developers, restrictions on number of houses Chinese citizens can buy).
- **Growth in the 70-city house price index fell to 5.7% measured on the 3-month annualised rate.** This is down from the peak of 15.7% in November last year.
- **Prices in tier-1 cities in particular are cooling** after significant increases over the past 18 months. House prices in Shenzhen – which have seen the fastest increases - are now falling slightly. Tightening measures have been the strongest in the big tier-1 cities.
- **It's still a very high priority for the Chinese government to rein in house price bubbles in the big cities and avoid speculative behaviour.** At the annual Central Economic Work Conference in December it was stated that “houses are built to be inhabited, not for speculation” and that the goal is to “establish a fundamental and long-term system to curb real-estate bubbles and market volatilities”. In the Q4 monetary policy report from the People's Bank of China (PBoC) released on 18 February it was also stated that it would “strictly limit the flow of credit into speculative housing purchases”.
- **We look for a further moderate cooling of the housing market this year,** which should put a brake on Chinese growth. This is underpinned by softer home sales data in recent months (see chart next page). However, low residential inventories should work to avoid a sharp downturn in both house prices and construction activity.

Clear cooling of prices in tier-1 cities



Source: Macrobond Financial

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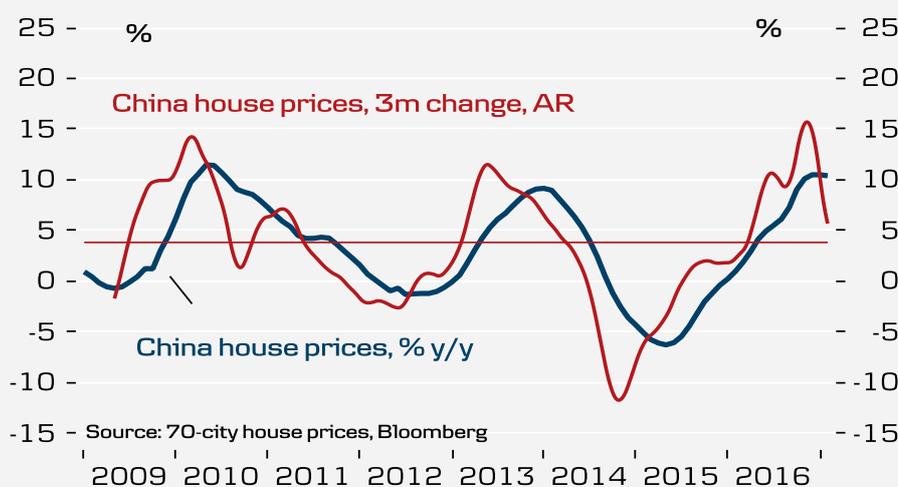
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Source: Macrobond Financial, Bloomberg

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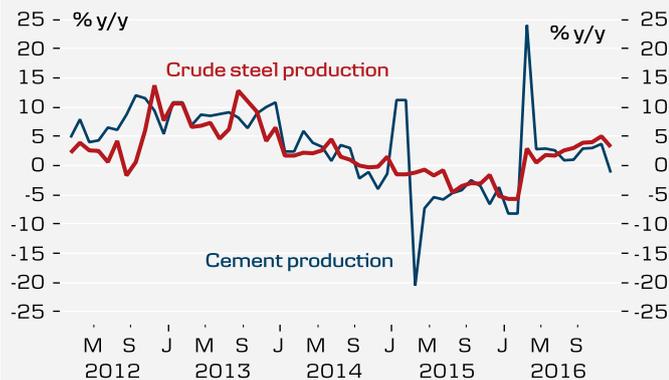
Source: Macrobond Financial

Home sales growth and house price inflation go hand in hand



Source: Macrobond Financial

Cement and steel production peaking?



Source: Macrobond Financial

Residential inventories remain low



Source: IMF, Yiju, Macrobond Financial

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