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The Federation of International Employers
Your Multinational HR Alliance

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PRESS RELEASE

London, UK

Tuesday June 11th, 2019

The Federation of International Employers (FedEE) writes

Will the bubble burst?

One of the biggest pressures on consumer prices (although not fully registered in consumer price indices) is the cost of housing. This, in turn, is a huge driver on middle income pay expectations. The collapse of a property price bubble, triggered by the mass failure of toxic mortgages, was a major factor in the last recession. So, what has been happening to housing prices since we came out of the last recession?

There have been several types of housing bubble - as measured, according to the OECD, over the period 2010-18.

* Starting with the stable countries - South Korea, Japan, France, Poland and much of the EU (except Germany and the UK) where prices have risen since 2010, but by only a modest amount.

* Then there are the rapidly inflating bubbles of India (+256%), Brazil (+89,9%), Canada (partly driven by money laundering), China, Mexico, South Africa, the USA and Australia - with China and Mexico accelerating to bursting point.

* Finally, there are the ailing countries - principally Italy (-16.5%), Russia (-9.5%) and Greece - where house prices have been tumbling, although both levelling off slightly in the last two years.

The most disturbing trend has been in Germany (+38.9%) where relatively high economic growth, a low level of construction activity and a rising immigrant population have been putting pressure on house prices - giving rise to an uncomfortable burstable bubble at the heart of the EU.

To date in 2019 most of the trends we have detected have just been largely compounded.

* In Germany apartment costs rose by a staggering 9.2% during the first quarter of the year.

* US house prices started off the year as generally unchanged, although there was activity at the starter home level, where recovery from the 2008/9 crash was felt most. Since the Spring,



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the sale of new homes has rocketed due to lower mortgage interest rates and seemingly cheap house prices. As a result, prices have risen sharply, and a property bubble has re-emerged.

* In China property prices cooled during the course of 2018, but recently the conditions for further price inflation have been set by curbs on building capital fund sources and refusals to give developers planning rights in several major cities. This will tip the scale and regenerate rapid price inflation as demand continues to exceed supply.

* In the UK, house prices peaked in August 2018 and have fallen slightly since, especially in the south-east of England. Undoubtedly, this has been largely due to the Brexit effect as the economy feels the effects of widescale disinvestment in the UK economy. For many a recession has already begun here.

Finally, there is Ireland, where the collapse in property prices was particularly dramatic during the last recession. However, lessons have not been learned, and the same pattern of bubble growth is happening once again. During the first quarter of the year, prices were up 11.4% in Limerick and 10.3% in Waterford and have since continued to climb rapidly everywhere - except the capital, Dublin.

" We have been predicting a major recession by Q3 2020 for many months now" pointed out Robin Chater, The Secretary-General of the Federation of International Employers (FedEE), "but the question is, what will spark it? Brexit is an economic disaster, but all the wise money has already left the UK economy. The US-China trade war will certainly hurt the USA more than China and it is by no means certain that oil supplies will seriously be hit by troubles in the Strait of Hormuz. But house prices were a major factor in the last recession and are almost certainly going to be again. Look out for Germany and Ireland for a sudden, uncontrollable collapse sometime later this year."

For further information please contact FedEE Press Office on press@fedee.com and 0044 203 608 4412.

What is FedEE?

The Federation of International Employers (FedEE) is the leading organisation for multinational companies. It was founded in 1988 with financial assistance from the European Commission. Today it is an independent body with corporate members all around the globe.