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2018 ECONOMIC FORECAST: NO EUROPEAN STRATEGY TO CONTAIN THE HOUSING CRISIS AND ITS SOCIAL IMPACT

On 3rd May, the European Commission published its Spring 2018 Economic Forecast, covering the years 2017, 2018 and 2019, including data for all 28 EU Member States. Such a set of documents is key in analysing the economic situation and developments that underpin economic policy-making by the European Commission, the Council of the European Union, and the European Parliament. These are important to FEANTSA, firstly as they include monitoring of housing prices, revealing a broad-based rise in house prices in the EU, and secondly because they offer an overview of economic growth and its social impact. The Economic forecast document reports an increase in house prices, as measured by House Price Index, by an average 3.9% in the euro area and 4.4% in the EU in 2017 –the highest rate since 2007.

Recognition of overheating prices and impact on housing affordability

The report states that “house prices are accelerating in most Member States, which requires monitoring for possible overheating risks.”¹ FEANTSA welcomes the political attention given to the increase in house prices and the call for close monitoring. FEANTSA strongly welcomes the reference to a risk of housing affordability, mentioning that the correlated slower increase in household real disposable income means deteriorating housing affordability.

Indeed, as highlighted by FEANTSA and the Fondation Abbé Pierre in their [Third Overview of Housing Exclusion in Europe 2018](#), housing costs continue to soar, while household budgets shrink. Between 2010 and 2016, the cost of housing for poor households increased in three quarters of all EU countries. This rise was particularly pronounced for poor tenants (24 countries out of 28 report housing cost increases). The European risk regulator itself (ESRB) has warned eight European Union countries about high property debt and overvaluation of home prices.

FEANTSA therefore believes that the European Commission’s European Economic Forecast 2018 lacks a coherent approach to the important risks associated with increasing house prices and that the report is downplaying the dramatic social impact that the housing crisis has – and could continue to have - on the future. For instance, the increase in housing prices are also

¹ European Commission, European Economic Forecast. Spring 2018, Institutional Paper 077, p.13

referred to as “positive investment dynamics” e.g. “Annual growth rate in loans for house purchases at 2.9% (close to highest rate since sept. 2011)” (...) “all this bodes well for future construction investment.”

A veiled housing affordability crisis

What the European Commission fails to expose is that the buoyant housing market hides a housing supply and housing affordability crisis, as well as a potential new housing crisis. The report highlights the issue of housing affordability, high (potentially over-estimated) housing prices, but also household debt² and level of interest rates³. Given current low interest rates, households continue to borrow and therefore gradually fall into debt. There only needs to be an increase in interest rates to trigger a new deeper housing crisis. This uncertainty, this volatile macroeconomic environment, is well understood by the European Commission, but, according to FEANTSA, the European Commission fails to respond adequately to prevent the dramatic social consequences associated with a worsening housing situation.

This economic forecast’s analysis is solely an economic evaluation, which judges economic growth and the housing markets as performing or non-performing on the basis of incomplete or biased data. However, housing is not solely an investment product: the housing market is intrinsically linked to other sectors of the economy - to living conditions and to social changes. This lack of overview is reflected in the analysis per country where the focus is purely on economy. However, for FEANTSA, housing has a broader scope, with reference to its repercussions on the economy at-large as well as its social impact. Therefore, FEANTSA calls for special attention to be given to housing policy in order to prevent further housing crises which would again trigger a downturn in consumer spending and trust, bringing on a new economic slowdown. The European Union should be bolder in looking at how to neutralize a dangerous housing price increase, with reference to both its potential economic drawbacks and as to its social impact.

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² *Ibid*, p.14: “(...) easier lending conditions and low interest rates push households and corporations to get more indebted, reducing the incentives to manage liquidity and solvency risks.”

³ *Ibid*, p.23: “Continued growth in lending to corporates and households has taken place in a context of further declines in interest rates over the last six months in most Member States. Overall therefore, financing conditions remain very supportive and lending growth is expected to continue increasing over the forecast horizon.”