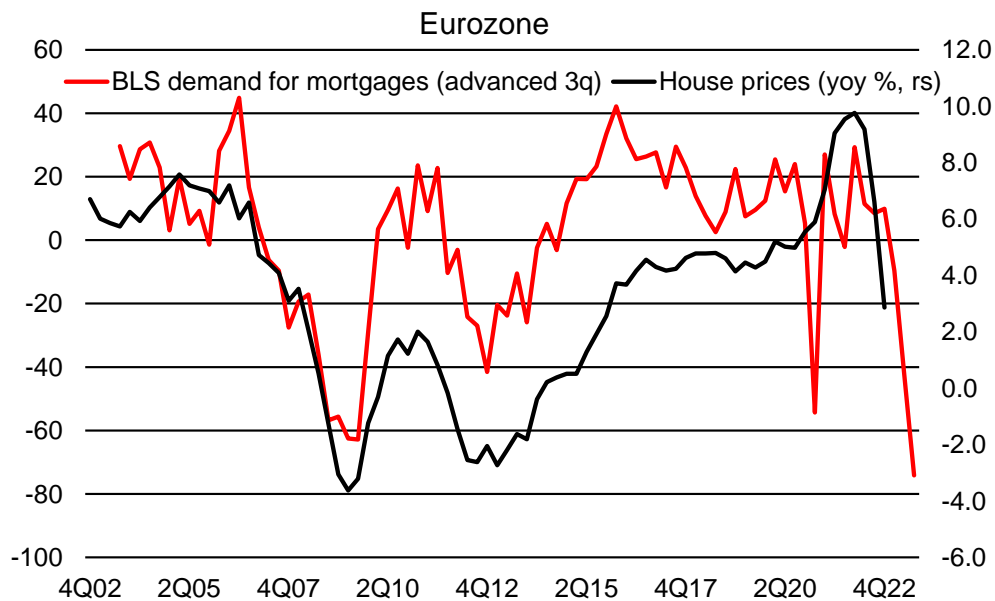


Correction in eurozone house prices has started



Source: ECB, Eurostat, UniCredit Research

- This morning, Eurostat published data for residential real estate prices in the eurozone for 4Q22. The message is clear: the price correction in the real estate sector has started. We think that further weakness is in the pipeline, as the Bank Lending Survey (BLS) points to a quick deterioration in mortgage demand in response to aggressive rate hikes by the ECB.
- At the eurozone level, house prices dropped by 1.7% qoq, the first quarterly decline since early 2015 and the largest since the start of the Eurostat time series in 2005. The drop was especially pronounced in Germany (-5% qoq), Finland (-3.4%) and the Netherlands (-2.6%). In yearly terms, price increases in the eurozone decelerated markedly to 2.9%, from around 10% at the beginning of 2022. While most of this adjustment reflects weaker demand amid higher interest rates, it is possible that some supply effects might also be at play as the price of new homes starts to reflect the easing of shortages of construction materials and equipment.
- Overall, the correction in the housing market does not come as a surprise, although the latest data show that weakness has been more intense and has materialized earlier than we had expected. Such correction has implications for the economic outlook, primarily through reduced residential investment, but also via direct consumption effects (especially for housing-related durable goods), wealth effects and collateral effects.
- However, the impact on financial stability is likely to remain contained. At the household level, tight labor markets, sound balance sheets and limited exposure to floating-rate mortgages should prevent the emergence of distress and fire-sales of houses, while the price correction will reduce some of the overvaluation triggered by the pandemic. At the banking-sector level, comfortable capital buffers and prudent provisioning substantially reduce the risk of a credit crunch.

Marco Valli, Global Head of Research, Chief European Economist (UniCredit Bank, Milan)

+39 02 8862-0537

marco.valli@unicredit.eu

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UniCredit Research*

Macro Research



Marco Valli
Global Head of Research,
Chief European Economist
+39 02 8862-0537
marco.valli@unicredit.eu



Dr. Ingo Heimig
Head of Research Operations
& Regulatory Controls
+49 89 378-13952
ingo.heimig@unicredit.de

Head of Macro Research



Marco Valli
Global Head of Research,
Chief European Economist
+39 02 8862-0537
marco.valli@unicredit.eu

European Economics Research



Dr. Andreas Rees
Chief German Economist
+49 69 2717-2074
andreas.rees@unicredit.de



Dr. Loredana Federico
Chief Italian Economist
+39 02 8862-0534
loredanamaría.federico@unicredit.eu



Stefan Bruckbauer
Chief Austrian Economist
+43 50505-41951
stefan.bruckbauer@unicreditgroup.at



Tullia Bucco
Economist
+39 02 8862-0532
tullia.bucco@unicredit.eu



Edoardo Campanella
Economist
+39 02 8862-0522
edoardo.campanella@unicredit.eu



Walter Pudschedl
Economist
+43 50505-41957
walter.pudschedl@unicreditgroup.at



Chiara Silvestre
Economist
chiara.silvestre@unicredit.eu

International Economics Research



Daniel Vernazza, Ph.D.
Chief International Economist
+44 207 826-7805
daniel.vernazza@unicredit.eu

EEMEA Economics Research



Dan Bucsa
Chief CEE Economist
+44 207 826-7954
dan.bucsa@unicredit.eu



Gökçe Çelik
Senior CEE Economist
+44 207 826-6077
gokce.celik@unicredit.eu



Mauro Giorgio Marrano
Senior CEE Economist
+43 50505-82712
mauro.giorgiomarrano@unicredit.de



Artem Arkhipov
Head, Macroeconomic Analysis
and Research, Russia
+7 495 258-7258
artem.arkhipov@unicredit.ru



Hrvoje Dolenc
Chief Economist, Croatia
+385 1 6006-678
hrvoje.dolenc@unicreditgroup.zaba.hr



Pavel Sobišek
Chief Economist, Czech Republic
+420 955 960-716
pavel.sobisek@unicreditgroup.cz



Ľubomír Koršňák
Chief Economist, Slovakia
+421 2 4950 2427
lubomir.korsnak@unicreditgroup.sk



Anca Maria Negrescu
Senior Economist, Romania
+40 21 200-1377
anca.negrescu@unicredit.ro



Kristofor Pavlov
Chief Economist, Bulgaria
+359 2 923-2192
kristofor.pavlov@unicreditgroup.bg

UniCredit Research, UniCredit Bank AG, Arabellastraße 12, D-81925 Munich, globalresearch@unicredit.de
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