

Focus

Despite the coronacrisis, more than 62,000 homes were sold in the Netherlands between the beginning of July and the end of September 2020. Since Statistics Netherlands (CBS) started tracking in 1995, never before have there been so many home sales in the third quarter of a year (see graph property sales versus GDP growth). The impact of the coronacrisis on the housing market therefore seems small for the time being. Why does the current crisis not affect the Dutch housing market (yet)?

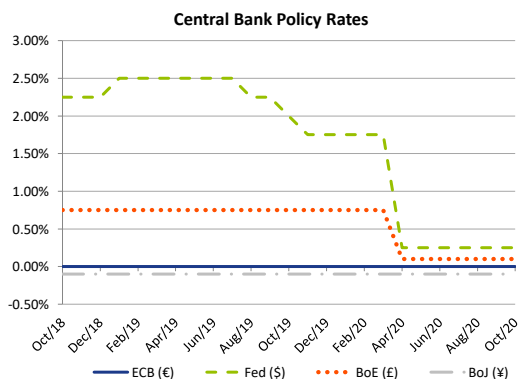
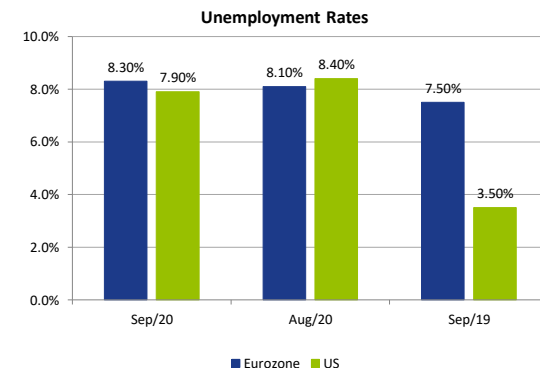
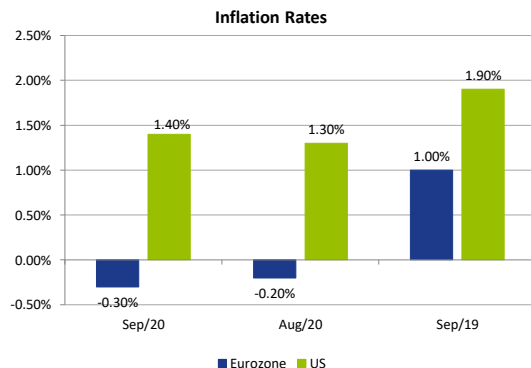
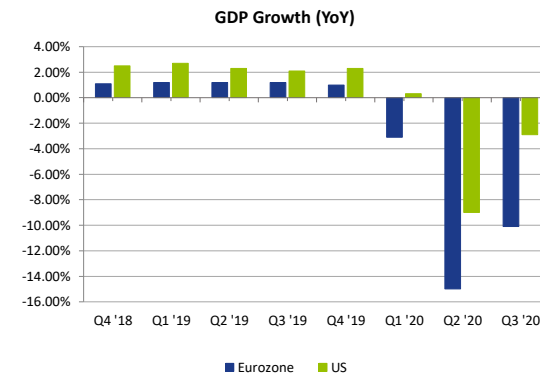
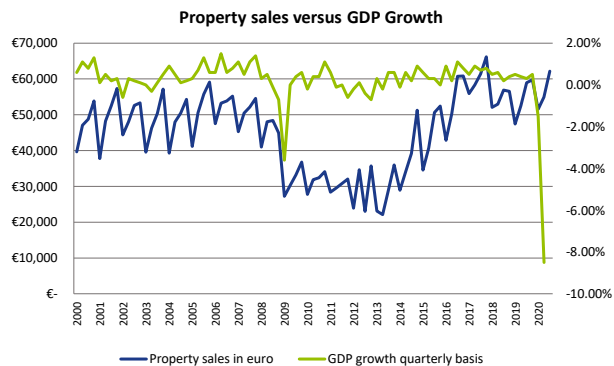
In the past, several recessions affected the Dutch housing market considerably. The most well-known examples are the oil crisis in 1979 and the financial crisis in 2008, in which house prices decreased sharply. However, a recession does not automatically have to result in a collapse of the housing market. Its response is also dependent on other factors, amongst others the origin of the recession, developments in supply and demand and downturns in confidence levels. For example, the oil crisis in 1973 barely affected the Dutch housing market (relatively speaking).

Due to the coronacrisis, the Dutch economy has contracted for two consecutive quarters and is officially in a recession. In the second quarter of 2020, the economy even contracted by 8.5% compared to the first quarter, the largest contraction ever measured according to the Central Bureau of Statistics (CBS). In addition, consumer confidence in October was -30, far below the average for the past twenty years (-6). The housing market does not (yet) seem to respond as much as in 1979 and 2008.

The current recession can be distinguished from the recession in 1973 and the credit crisis in 2008 on the following points. Interest rates are currently (historically) low, both the 5-, 10- as the 50-year swap (capital market) are trading negative. This makes real estate financing relatively cheap and attractive. In addition, there is an enormous shortage of housing. This shortage will remain in place for the time being as there is a construction restriction in the Netherlands.

The current financial aid provided by the Dutch government to businesses and employees is also unique. Due to the support jobs are preserved and liquidity is maintained. As long as this support continues, many economic consequences of the coronavirus will be mitigated. However, when support can or will no longer be provided, a large part of the population may be affected and the propensity to buy will also decrease in relation to home purchases. Finally, the relatively delayed reaction of the housing market must be taken into account. Aspiring homeowners often made a 'buy'- decision long before the outbreak of the current recession.

In the long run, an increase in mortgage rates is expected and banks will become stricter with regard to granting credit. The question is also to what extent the Dutch government is willing and able to mitigate the economic consequences of the corona crisis. It may take a while, but it cannot (yet) be ruled out that the housing market will figuratively escape the corona virus.



Country Ratings	S&P	Moody's	Fitch
Netherlands	AAA	Aaa	AAA
Germany	AAA	Aaa	AAA
France	AA	Aa2	AA
United Kingdom	AA	Aa3	AA-
Russia	BBB-	Baa3	BBB
United States	AA+	Aaa	AAA
Japan	A+	A1	A
China	A+	A1	A+
Australia	AAA	Aaa	AAA

Review & preview

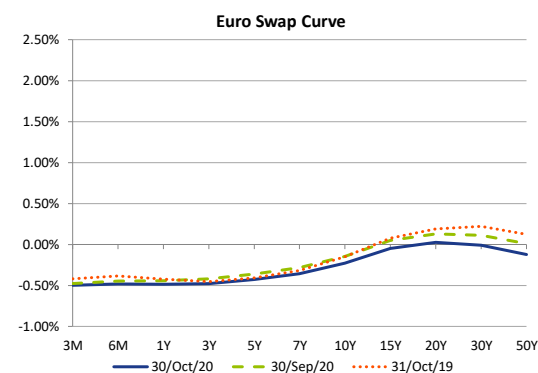
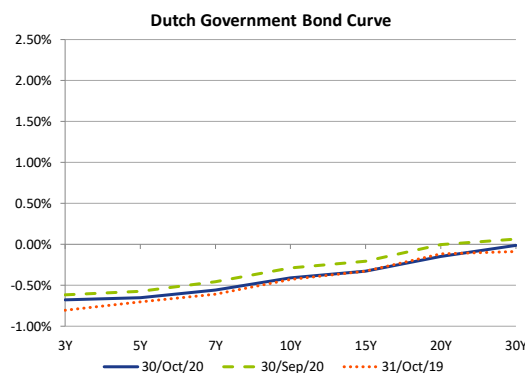
On the 29th of October, the European Central Bank (ECB) has decided to keep its interest rates at the current level. As a result, the deposit rate remains at -0.50%, the marginal lending facility rate at 0.25% and the main refinancing rate at 0.00%. The ECB also keeps its existing asset purchase program (PEPP) at EUR 1.35 trillion. Furthermore, ECB president Lagarde stated that the ECB would not hesitate to respond to the (faster than expected) deteriorating momentum of the eurozone economy. Causes for the deterioration are the increasing number of COVID-19 infections and the stricter lockdown measures. Lagarde said that the specifics of stimuli are still to be determined, but that all possible instruments are considered. The ECB is expected to decide in December if further action is needed, when the next monetary policy meeting of the Governing Council is scheduled.

Banks in the eurozone have tightened their credit standards across all loan categories for enterprises and household in the third quarter of 2020, according to the Bank Lending Survey of the ECB. Enterprises have to provide significantly more collateral to attain a loan. Causes for the tightened credit standards are the deterioration of the general economic outlook, the increased credit risk of borrowers and a lower risk tolerance. Banks have indicated that they will continue to tighten credit standards in the fourth quarter of 2020, citing concerns about economic recovery, as well as uncertainty of the prolongation of fiscal support measures. The effects of the tightened standards are already visible. The ECB stated that the monthly lending to businesses decreased in September 2020 for the first time since September 2019.

American credit rating agency Moody's has lowered the credit rating of the United Kingdom (UK). The rating was lowered from Aa2 with a negative outlook by one notch to Aa3 with a stable outlook. In addition to persistent low productivity growth since the financial crisis, low business investments since the Brexit referendum in 2016 and uncertainty about the trade relationship with the EU, increased government expenditures to combat the economic effects of the corona epidemic were mentioned as reasons. A decrease in governments spending is politically sensitive, while increased taxes may hamper economic growth. The downgrade puts Moody's rating in the same bracket as Fitch, while Standard & Poor's rating is one notch higher.

Agenda

- 5 November Interest rate decision BoE
- 5 November Interest rate decision Fed
- 12 November Economic growth UK
- 12 November Inflation US
- 13 November Economic growth eurozone
- 18 November Inflation UK
- 30 November Inflation Germany



Bank Ratings	S&P	Moody's	Fitch
Rabobank	A+	Aa3	A+
ING Bank	A+	Aa3	AA-
ABN AMRO	A	A1	A
BNG Bank	AAA	Aaa	AAA
NWB Bank	AAA	Aaa	n.a.
Deutsche Bank	BBB+	A3	BBB
BNP Paribas	A+	Aa3	AA-
Barclays Bank	A	A1	A+
Credit Suisse Int.	A+	A1	A

Currencies	30/Oct/20	30/Sep/20	31/Oct/19
EUR/USD	1.172	1.194	1.090
EUR/GBP	0.907	0.893	0.887
EUR/CHF	1.079	1.079	1.088
EUR/JPY	123.655	126.405	117.795
EUR/DKK	7.445	7.443	7.466
EUR/SEK	10.498	10.319	10.725
EUR/CAD	1.561	1.557	1.443
EUR/AUD	1.636	1.618	1.615
EUR/CNY	7.960	8.175	7.791

