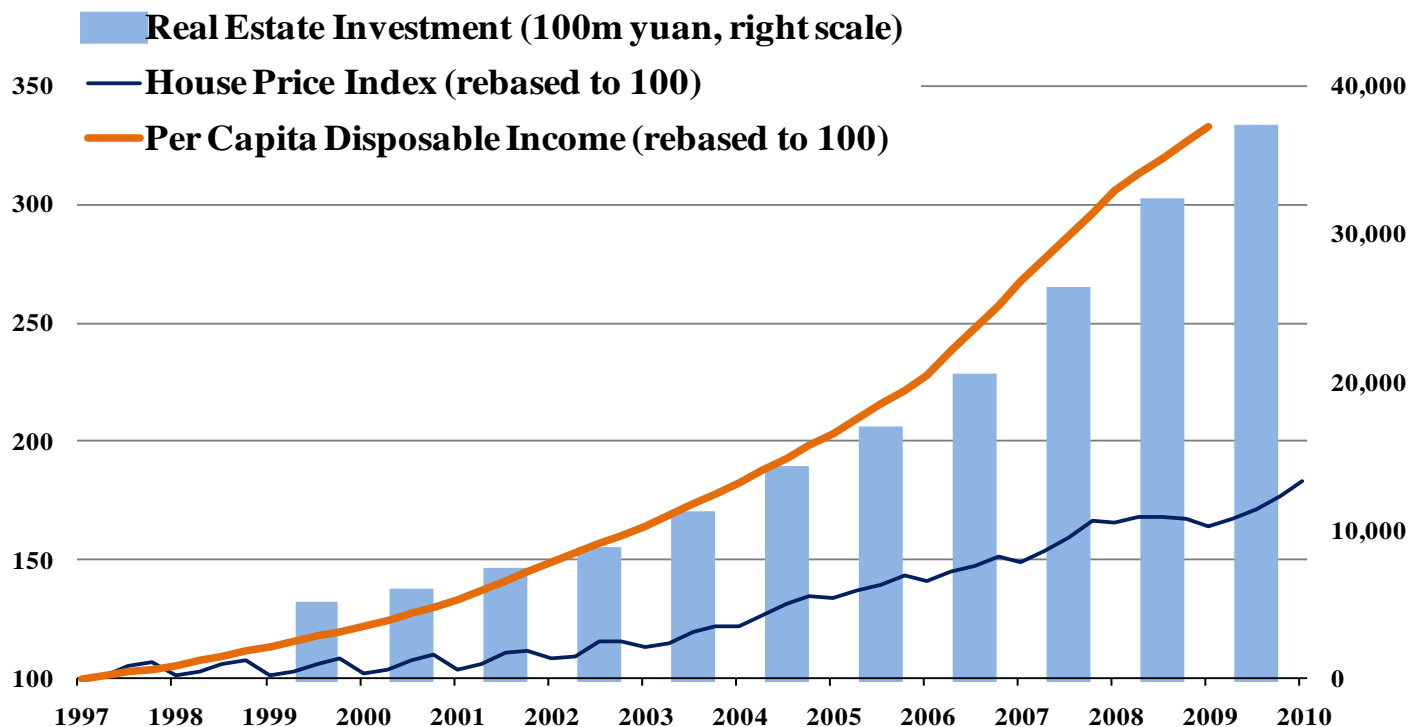




# Erratum: The Weekly Chart, Corrected

- On Monday our featured Weekly Chart erroneously depicted Chinese property prices that, “fell sharply in 2008 and are only now recovering to levels seen in both early 2008 and 2004 ... they are only about 10% above 1999 levels.” Due to technical quirks in how Chinese property data is reported, we mistakenly assumed China’s index corresponded to price *levels*. Instead, it represents an index of price *changes*. For example, in Monday’s chart, the latest March reading of 111.7 for China’s “House Price Index” indicates that home prices are 11.7% above *year ago* levels. Using this price change information we have reconstructed the chart below showing house price levels rebased to 100 in March 1997 (thin blue line).
- As our chart shows home prices have risen 80% in the last 10 years, a 5% annual rate. While there is evidence of overheating in select markets, e.g. in Beijing and Shanghai, housing is being driven by real demand, in our view. Incomes have been growing at a 10% annual rate (thick orange line) with sales financed out of accumulated savings rather than unsustainable debt-fueled growth. Moreover, the majority of homeowners in China do not have mortgages. China is clearly experiencing a housing boom, but one which we believe is more a consequence of economic fundamentals rather than simply financial speculation. We believe recent determined efforts by the authorities to curb speculation will lead to a cooling and not a bust in Chinese property prices.

## The Weekly Chart: Home prices accelerating to new highs, but still no bubble as income gains outpace housing boom



Source: RiverFront, Datastream, China National Bureau of Statistics

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