

**February 2020**

# **FRANCE – RESIDENTIAL REAL ESTATE RECENT DEVELOPMENTS AND OUTLOOK FOR 2020**

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# FRANCE

## KEY POINTS

### Very upbeat market in 2019

- **In existing homes, the number of transactions hit record highs, topping the one million mark** with 1,070,000 units sold in November 2019 (total over 12 months), up +11% in the year. **House prices continued to trend upwards**, with a year-on-year increase of +3.1% in existing homes in Q3 2019.
- The explanation for the housing market boom lies in structural factors fuelling demand, an overall positive economic environment, and – especially – **extremely attractive lending conditions**. Lending rates are very low and falling to 1.17% in December 2019, which is encouraging buyers, who are also benefiting from longer loan terms and lower down-payment requirements.
- **However, some slackening is evident in the new build market** with sales practically stable in 2019. This was attributable to **refocusing tax incentives** (thanks to Pinel scheme in particular) in pressure areas where the market is tight and scarce supply (land is hard to find and it is difficult to obtain building permits ahead of local council elections).

### Market to slow slightly in 2020

- **We expect the market to be resilient in 2020, but with a slight contraction in both existing and new builds.**
- **Lending rates will remain very low.** In view of the ECB's latest support measures and risk aversion spurred by uncertainty, the 10-year OAT yield will stay around zero to

the end of 2020. **We expect credit conditions to tighten somewhat** on the heels of the recommendations of France's High Council for Financial Stability (HCSF) (at most 15% of new loans with a debt-to-income ratio of more than 33%, from the current 26% according to the ACPR's monthly survey).

- In addition, **prices will continue to rise especially for new builds**, due to thin supply and rising construction costs, which will erode buyers' purchasing power. On the other hand, the government has reversed the decision to focus the interest-free loan scheme on supply pressure areas in 2020.
- **Volumes should fall by around -6% in 2020.** Prices are expected to rise by +3% in existing homes and +4% for new builds.

### Bubble risk?

- **In our opinion, prices are not overvalued overall and we do not see a real estate bubble throughout France as a major risk.**
- Yet, the picture is more nuanced by segment: **property in Paris is very overvalued, as is the case in some other large cities** (Bordeaux, Lyon or Nantes).
- We expect prices in these cities to continue their strong upward trajectory in 2020. But, in the medium term, a big hike in rates, or an event in the general economy could deliver a correction in these residential markets.

# FRANCE – RESIDENTIAL REAL ESTATE

## RECENT DEVELOPMENTS AND OUTLOOK FOR 2020

1 | RECENT DEVELOPMENTS

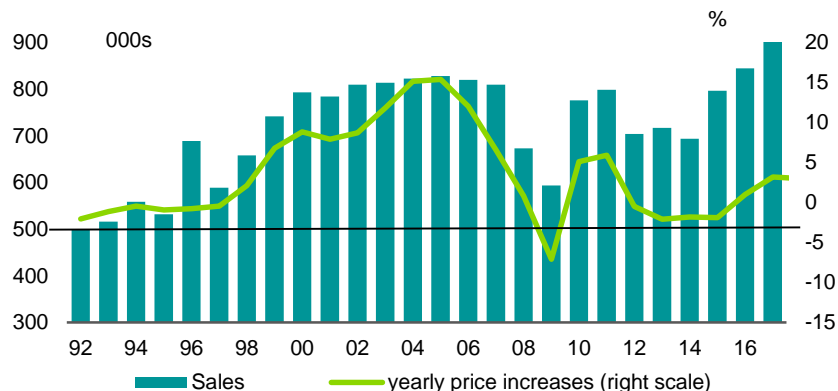
2 ANALYSIS AND OUTLOOK



# RECENT DEVELOPMENTS

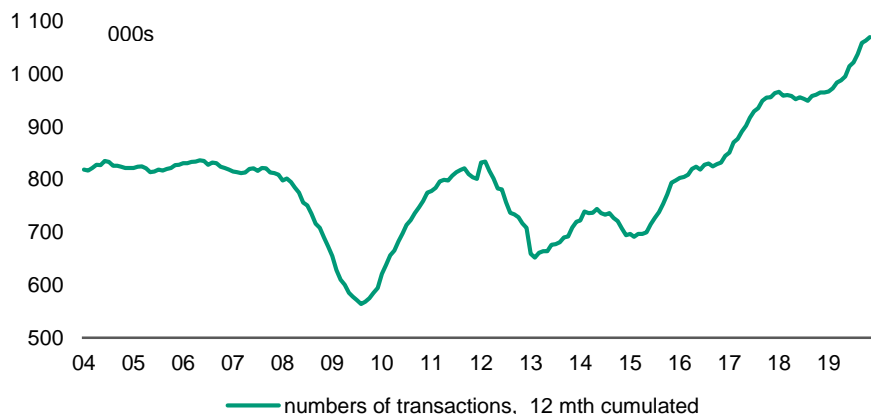
## RECORD SALES IN EXISTING HOMES

### France: existing homes sales and prices



Sources: CGEDD, Notaries, Crédit agricole SA / ECO

### Sales of existing homes



Sources: CGEDD, Notaries, Crédit agricole SA / ECO

Sales were buoyant in 2017-2018 at an average of 965,000 units per year.

These levels are well ahead of the peak during the previous *boom* (825,000 sales per year in 2004-2006).

2019 set new records. Annual sales grew +10.9% to breach the million mark with 1,070,000 units in November (12 months cumulative).

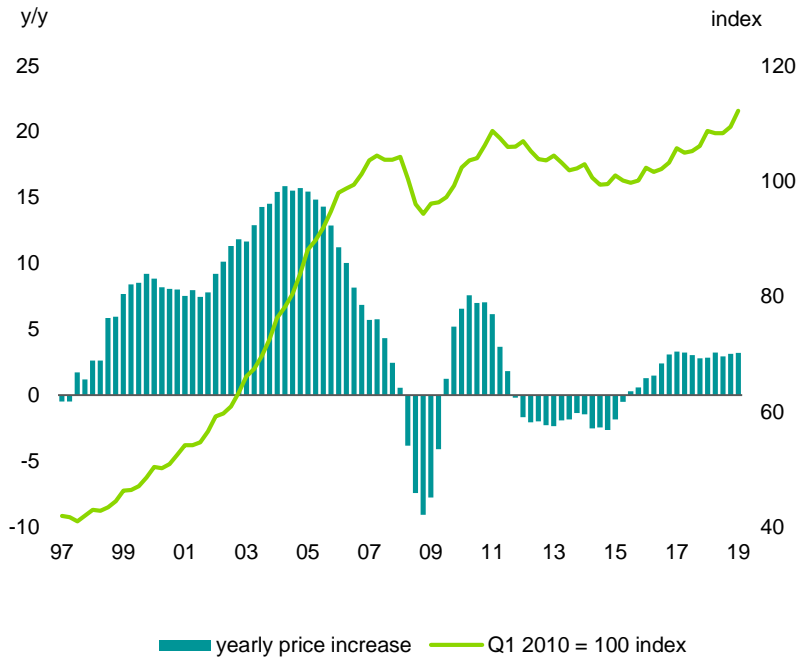
Sales were also very strong in the Ile-de-France region, with 177,500 properties sold in 2018, 9% higher than in the last boom in the 2000s. 52,140 transactions were recorded in Q3 2019, an increase of +9% year-on-year, and up +6% on aggregate for the 12 months.

The market remains fluid, boosted by persistently low rates, quick decisions by buyers and a high stock rotation rate.

# RECENT DEVELOPMENTS

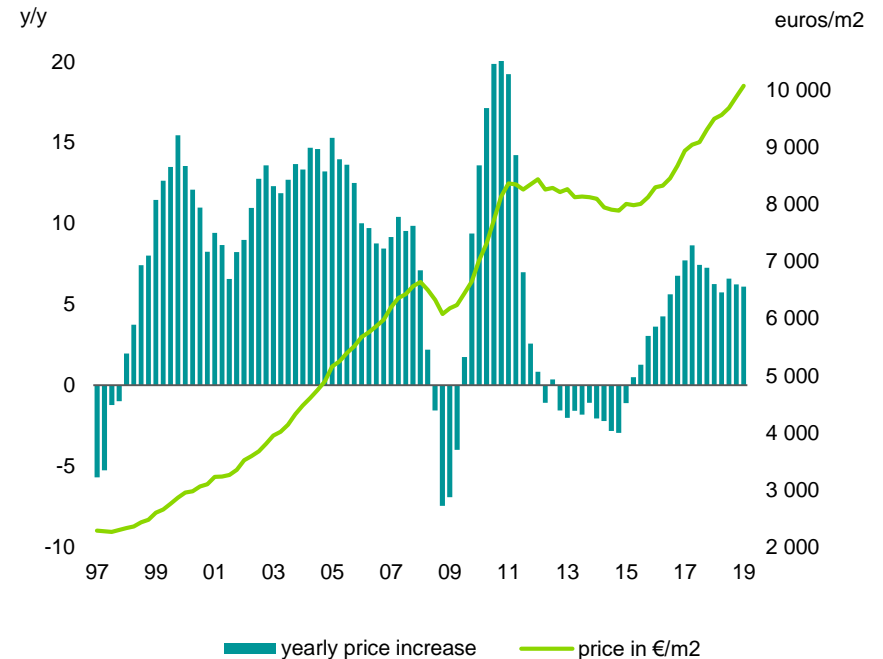
## PRICES RISE FOR EXISTING HOMES

### Prices of existing homes



Sources: Insee, Notaries, Crédit agricole SA / ECO

### Housing prices in Paris



Sources: Insee, Notaries, Crédit agricole SA / ECO

Price growth was +3.2% year-on-year at end-2018 and +3.1% in Q3 2019. Given the record number of transactions, this increase is fairly contained. Higher price rises were recorded in Paris, Lyon and Bordeaux.

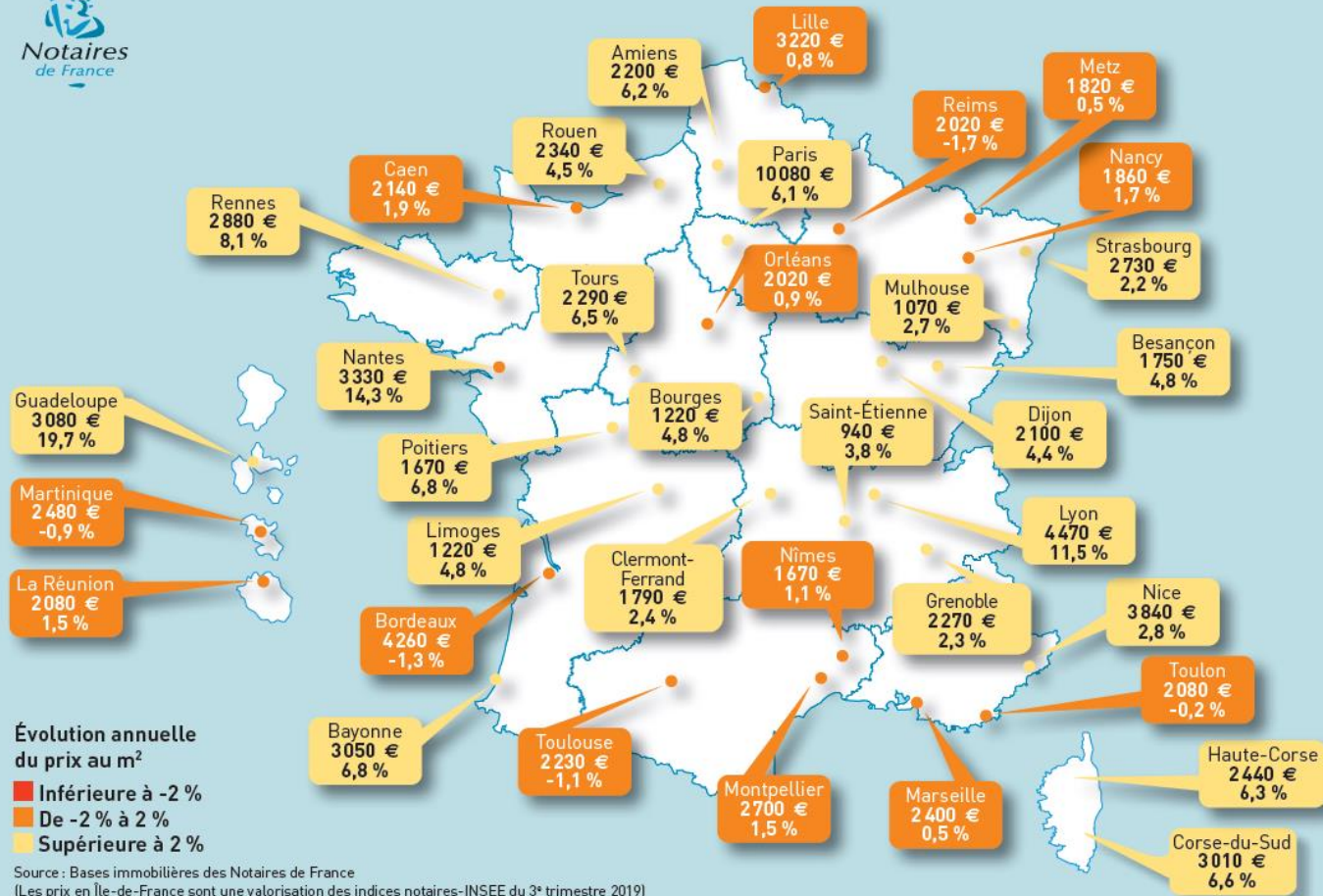
The upturn was +6.1% in Paris, +3.6% in Ile-de-France and +3% elsewhere in France in Q3 2019.

# RECENT DEVELOPMENTS

## PRICES BY CITY SOURCE: NOTARIES OF FRANCE

### PRIX AU M<sup>2</sup> MÉDIAN DES APPARTEMENTS ANCIENS AU 3<sup>e</sup> TRIMESTRE 2019

Évolution en un an : 1<sup>er</sup> juillet 2019 au 30 septembre 2019 / 1<sup>er</sup> juillet 2018 au 30 septembre 2018



Prices for existing apartments rose +4% on average year-on-year in Q3 2019, with increases of +4.7% in Ile-de-France and +3.5% outside this region. Map from the French property market report, issued by Notaries of France.

### France: sales of new homes



Sources: Ministry of Ecology, Crédit Agricole SA / ECO

Little movement in sales of new-build properties (developer segment, private sales, source: Ministry of Ecology):

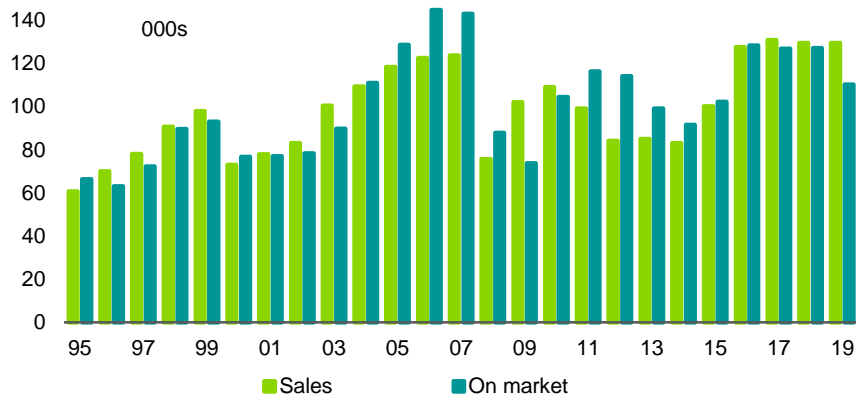
- 129,500 in 2018, down -1.1% year-on-year. Slight contraction compared with 2017, but levels remained high at 5% above the peaks of 2006-2007 (123,000 units per year). Sales in Ile-de-France grew +7.9% yoy.
- 2019 sales came out at 129,500, unchanged from 2018. The increase was quite marked 4.2% in Ile-de-France.
- Although fairly brisk, the market was affected by the shift in tax incentives, higher prices and poor supply.

Block sales of new-build housing (developers) were down -5% year-on-year in 2018 with a -4% yoy contraction in the first 9 months of 2019. Performance was dampened by the reorganization of the social housing sector (Elan plan, reduction in the individual housing benefit (APL) and lower rents, etc.). (source: FPI)

Sales of non-developer single-family homes:

- 120,000 in 2018, down a sharp -11% year-on-year. Slight uptick in 2019. 125,600 sales in December on aggregate, up +5% year-on-year.
- These levels remain well below the 2006-2007 records of 189,000 per year.

### New homes sold and placed on the market

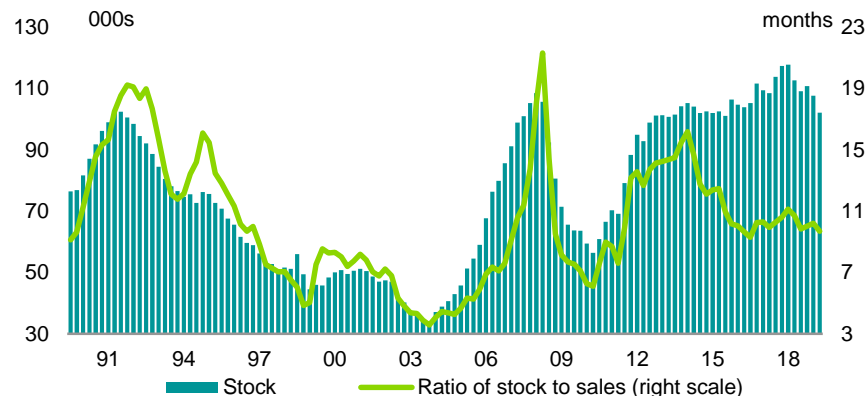


Sources: Ministry of Ecology, Crédit Agricole SA / ECO

# RECENT DEVELOPMENTS

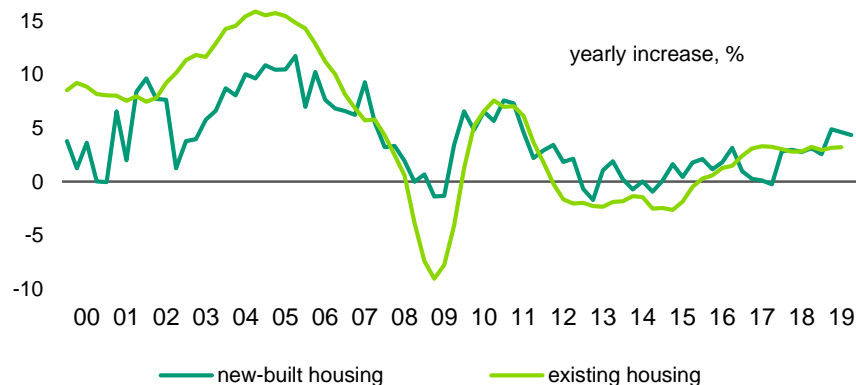
## CLEAR DECLINE IN THE NUMBER OF NEW BUILDS ON THE MARKET

### France: sales of new homes



Sources: Ministry of Ecology, Crédit Agricole SA / ECO

### House prices



Sources: Ministry of Ecology, Crédit Agricole SA / ECO

The number of new build homes (developer segment) put up for sale was practically unchanged in 2018, inching up +0.03% yoy, followed by a sharp -13.3% slump to 110,000 year-on-year in 2019. The decline was -16.1% in Ile-de-France in 2019, after a +2.1% rise in the prior year. The market saw few new projects, reflecting the difficulties stemming from the short supply and high prices for land, as well as the impact of regulations and judicial recourses.

Available supply of new-build homes (all new developer housing for sale and unsold):

- Gradual decline: 102,100 units in Q4 2019, down -9.4% yoy from (112,600 in Q4 2018).
- Ratio of available supply/sales: 9.7 months in Q4 2019, from 10.7 months one year earlier, which is a little below the historic average. The ratio is a fairly low 8 months in Ile-de-France.

Moderate level of actual stock: 4% of available supply is completed housing, 24% is under construction and 72% is at the planning stage.

Price pick-up accelerating (scarce supply and rising construction costs):

- Apartments: +4.4% year-on-year in Q4 2019 in France, +4.5% in Ile-de-France.
- Homes (developers): +3.2% year-on-year in Q4 2019 in France, +8.9% in Ile-de-France.

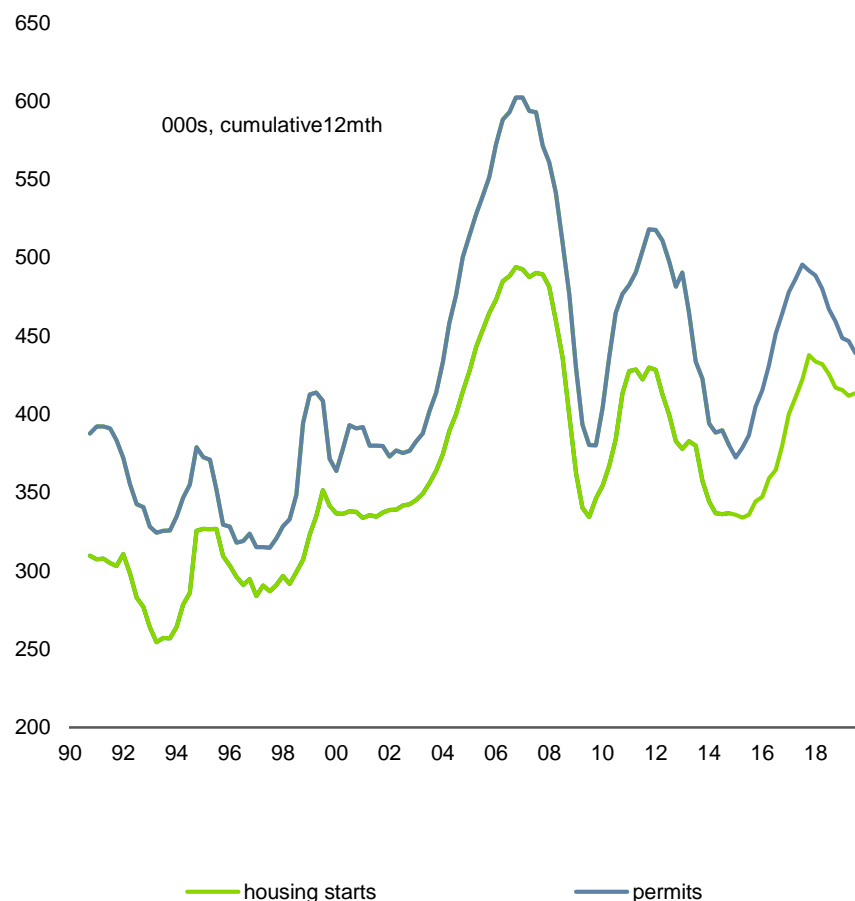




# RECENT DEVELOPMENTS

## CONSTRUCTION SLOWED

### Building permits and housing starts



After a marked contraction in 2012-2014, house building picked up in 2016-2017. Housing starts rose to 438,000 units in 2017 and the number of building permits issued increased to 492,000.

Construction dipped slightly in 2018 and 2019. Time lag of several months between the deed of sale and the start of construction.

➔ The slowdown in sales of new builds is having a gradual impact on construction (especially for block sales and single-family homes).

In 2019, housing starts dipped -1% year-on-year to 410,000 units, and the number of permits issued dropped -2.3% yoy to 449,000 units.

Housing starts were down by -2.5% in Q4 2019 (vs Q3 2019). Permits rebounded +12% quarter on quarter, correcting the trough in Q3.



ECO

# FRANCE – RESIDENTIAL REAL ESTATE

## RECENT DEVELOPMENTS AND OUTLOOK FOR 2020

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## Real estate determining factors

positive factors	negative factors
demographic, retirement	rising prices
safe haven effect	refocused fiscal measures
low non-performing loan ratio	weak supply
low level of lending rates	slight tightening in credit approvals
steady outlook and confidence	

Source : Crédit Agricole SA / ECO

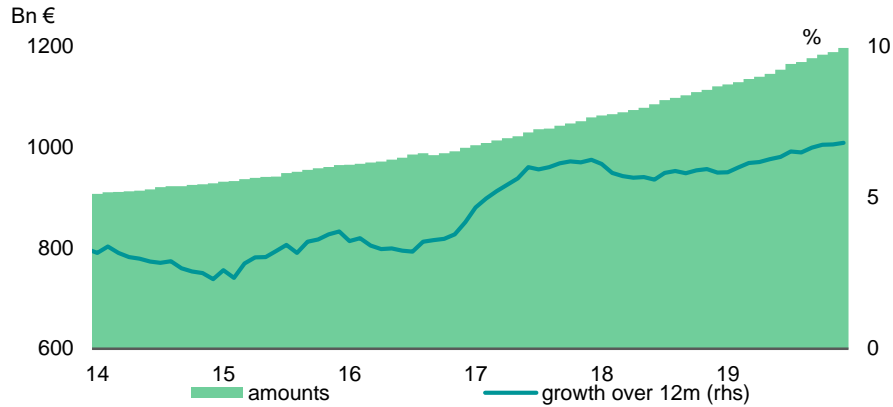
Sound structural fundamentals

Fairly positive economic factors (growth, unemployment, confidence).

Existing homes: a very active market. Structural factors and very favourable credit conditions.

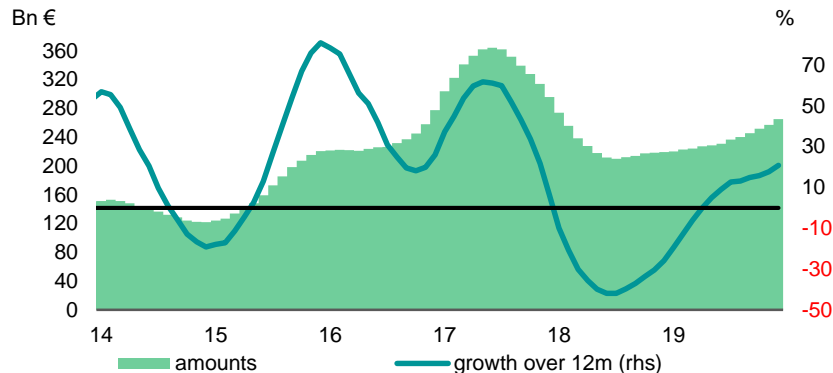
New builds: stable. Incentives have gradually been refocused on pressure zones (Pinel scheme, but the decision to focus the interest-free loan scheme on supply pressure areas in 2020 was reversed). Scarce supply.

### Stock of mortgage loans to households



Sources: Banque de France, Crédit agricole SA / ECO

### Home loan production (cumulative over 12 months)



Sources: Banque de France, Crédit agricole SA / ECO

Robust growth in new home loan origination, with the pace accelerating in the past few months: +5.8% year-on-year in December 2018 and +6.8% in Q3 2019.

Flows of new housing loans (*i.e.* home loan production) highly volatile. After the big increases recorded in the period 2015-2017, annual flow contracted a sharp -26% year-on-year in 2018. 2019 saw production take off again at +21% in December (12 month cumulative).

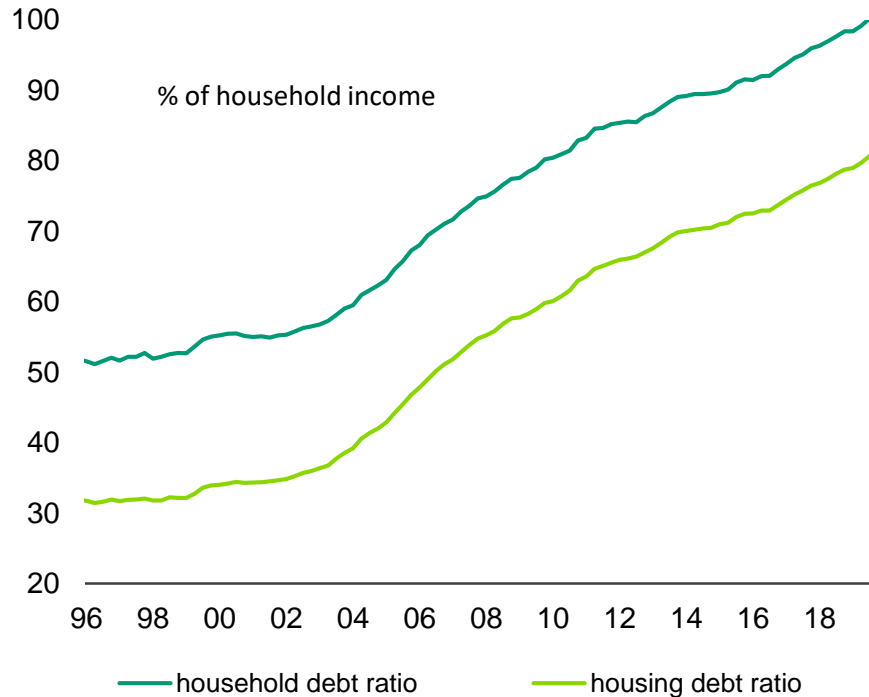
Fluctuations stemmed in the main from redemptions/remortgaging: the percentage was a very steep 43% of production in 2015-2017. It dropped back to 17.3% in 2018, to 19.4% in the period January to September 2019 and ended the year at 27% in Q4 2019.

Excluding redemptions and remortgaging, mortgage production was up a modest +4.8% year-on-year in 2018. 2019 saw a marked pick-up as production rose +14.9% year-on-year.

Growth remained fairly vigorous in 2020, but slowed towards +5.5-6%.



Housing debt ratio



Sources: Central Banks, Crédit Agricole SA / ECO

Initial home loan term



Sources: Central Banks, Crédit Agricole SA / ECO

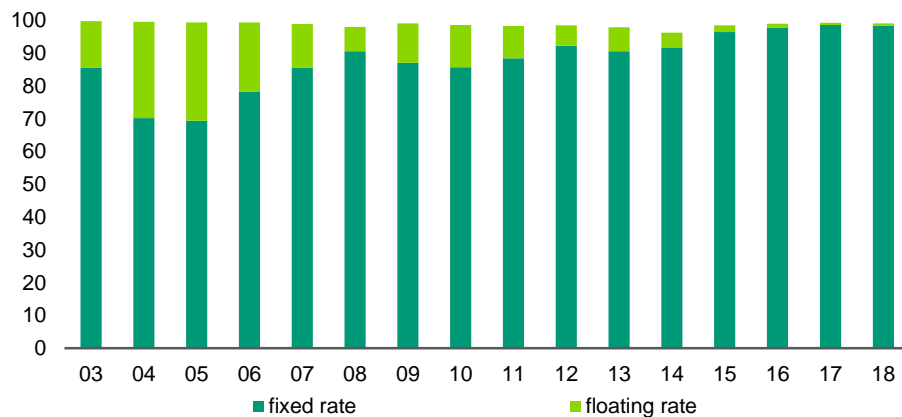
Stiff competition between lenders. Low interest margins and seeking for “volume effect”.

➔ **Very attractive lending conditions:** rates continue to drop (see [pages 17-18](#)) ; gradually lengthening loan terms: 20.4 years in 2019 (9m), up from 19.9 years on average in 2018; lower down-payments: 12.3% in 2019 (9m), from 12.7% on average in 2018.

# ANALYSIS AND OUTLOOK

## CONTROLLED RISK ON HOME LOANS

### Variable vs. fixed rate production



Sources: ACPR, Crédit Agricole SA / ECO

### Non-performing exposures vs. total exposures

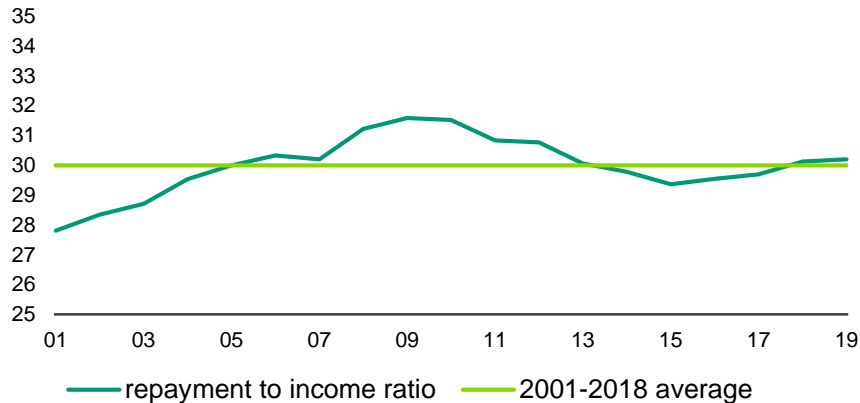


Sources: ACPR, Crédit Agricole SA / ECO

Despite the steep rise in lending and the persistent rise in household rate debt, the risks attaching to mortgage lending remains under control.

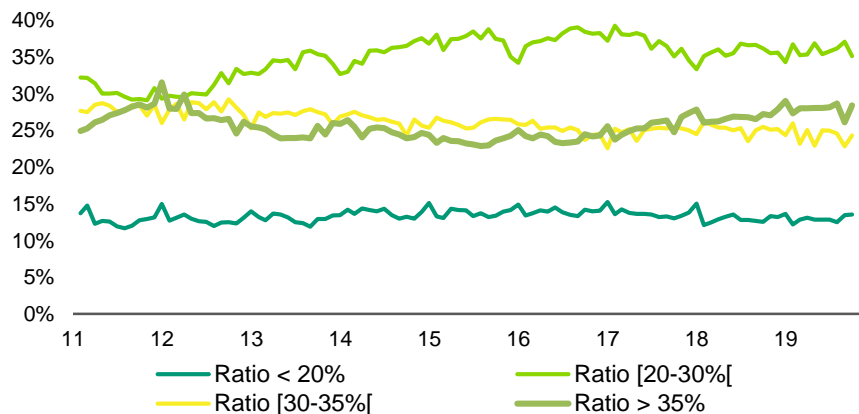
- Granting of loans based mainly on borrower solvency (rather than the property value);
- The average affordability ratio (monthly repayments/income) is more or less stable at around 30% : 30.2% in 2019 (9m), from 30.1% in 2018 and 30% on average in 2011-2018;
- “Reasonable” initial average term, even if it is gradually increasing from 20.4 years in 2019 (9m) from an average of 19 years in 2011-2018;
- The bulk of new loan production was at fixed rates: 98.5% in 2018 from 98.7% in 2017;
- The rate of non-performing loans was low and falling: 1.32% in 2018, from 1.46% in 2017 and 1.52% in 2016.

### Affordability ratio



Sources: ACPR, Crédit Agricole SA / ECO

### Share of loans per affordability ratio



Sources: ACPR, Crédit Agricole SA / ECO

However, the High Council for Financial Stability (HCSF)\* warned on the deterioration in some credit approval conditions in December 2019

- **Affordability ratio:** the average affordability ratio stayed stable more or less (see *previous page*), but the share of loans with an affordability ratio above 35% has risen since 2015. It rose from 23.6% in 2015 to 28.4% in September 2019. However it was fairly volatile at an average 25.6% in the period 2011-2018;
- **The average term of new loans** continued to rise in recent years. It climbed from an average of 18 years in 2015 to 20.4 years in 2019 (9m average). 5% of new loans were for longer than 25 years.

### ➔ HCSF's recommendations to banks

- Households should not take on debt equal to more than 33% of their net income;
- The maximum term should be 25 years;
- Lending standards can be loosened on no more than 15% of new loans;
- Of these 15%, three-quarters should be set aside for first- and second-time buyers (main residence).

(\*) : French High Council for Financial Stability

### Loan production at an affordability ratio > 35%

% of overall housing loan production		
current situation	sept-19	Average 9 months 2019
First-time buyers	4,2	4,4
Second-time buyers	13,6	13,9
Rental investors	4,8	5,1
Others	2,9	3
<b>First/second-time buyers</b>	<b>17,8</b>	<b>18,3</b>
<b>Investors/Others</b>	<b>7,7</b>	<b>8,1</b>
<b>Total</b>	<b>25,5</b>	<b>26,4</b>
HCSF's recommendations to banks		
<b>First/second-time buyers</b>	<b>11,25</b>	
<b>Investors/Others</b>	<b>3,75</b>	
<b>Total</b>	<b>15</b>	

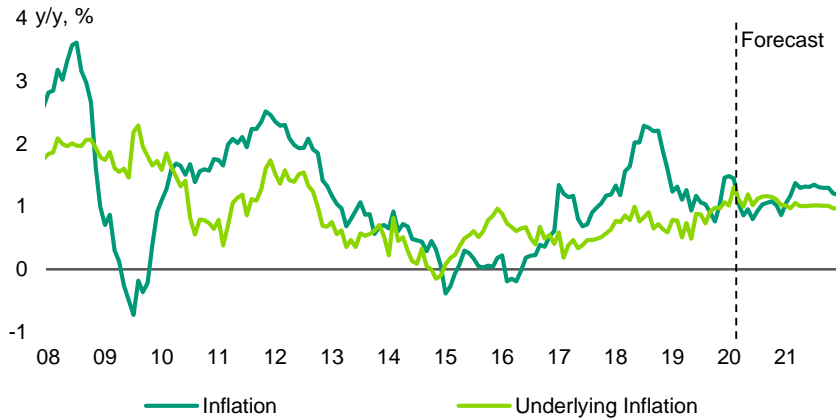
### Overall effect of these recommendations

- According to the data in the ACPR's monthly survey and other things being equal, these recommendations could cut loan production by roughly -10%, as the percentage of loans originated at the high end of the affordability ratio is reduced from around 26% at present to 15%;
- However, we expect the reduction in production to be less sharp. The effect of the HCSF's recommendations will be more apparent from second half of the year. Moreover, some borrowers with a higher share of debt to net income could bring some of their savings to the table (life insurance, home savings, etc.) to bump up their down-payment and bring the ratio back below 33%;
- We expect that the reduction from around 26% to 15% of loan production weight at higher debt service ratios will hit buy-to-let investors and the "other lending" segment (especially second homes) harder: the share of total mortgage lending represented by these higher-ratio borrowers would come down from 8.1% to 3.75%. The share of first and second-time buyers borrowing at a higher ratio of debt to income would fall from 18.3% to 11.25% of the total.

Source : estimations by Crédit Agricole SA / ECO from ACPR's monthly survey

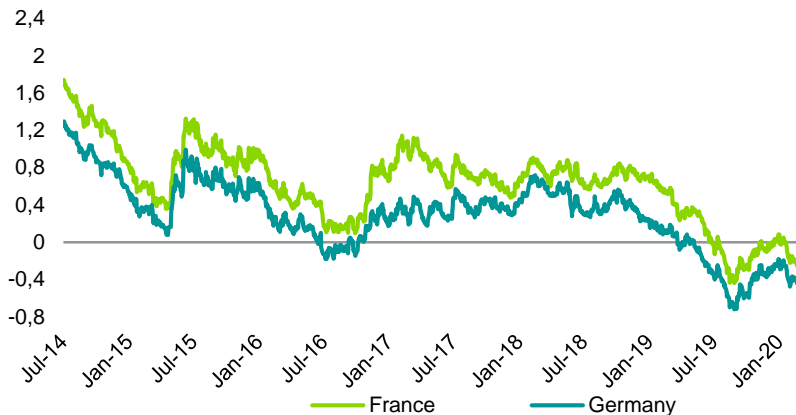


### Inflation and core inflation in France



Sources : Insee, Cr dit Agricole SA / ECO

### 10-year rates



Sources : Banque de France, Cr dit Agricole SA / ECO

The 10-year OAT yield stayed very low throughout 2018, at an average of 0.73% after 0.78% in 2017. Yields narrowed sharply in 2019 to 0.13% on average, dipping into negative territory in the second at an average of -0.14%.

Forecasts revised downwards: -0.20% at end-2020 and 0% at end-2021, following 0.1% at end-2019.

These extremely low levels are attributable to:

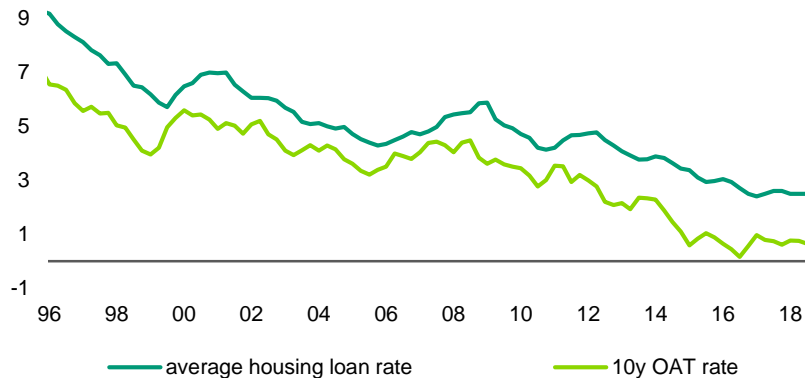
- Disappointing economic data in the euro zone. Growth is expected to be close to 0.5%-0.7% in 2020 (with the impact of the Coronavirus epidemic) after +1.2% in 2019. Inflation remains a low +1% in 2020 after +1.2% in 2019, well below the target of +2%;
- The ECB's monetary policy, which remains extremely expansive in a bid to spur growth, improve inflation expectations and protect against multiple risks (US-China trade war, Chinese slowdown, threat of recession in the USA, Brexit, etc.);
- New support measures announced by the ECB in September 2019: lowering the deposit rate from -0.4% to -0.5%, a new TLTRO program and the resumption of net asset purchases for €20 billion per month;
- Investor risk aversion in the face of multiple risks, as they turn to safe haven investments.

As a result, the Bund yield should be negative in 2020-2021 with the 10-year OATs hovering around zero.

# ANALYSIS AND OUTLOOK

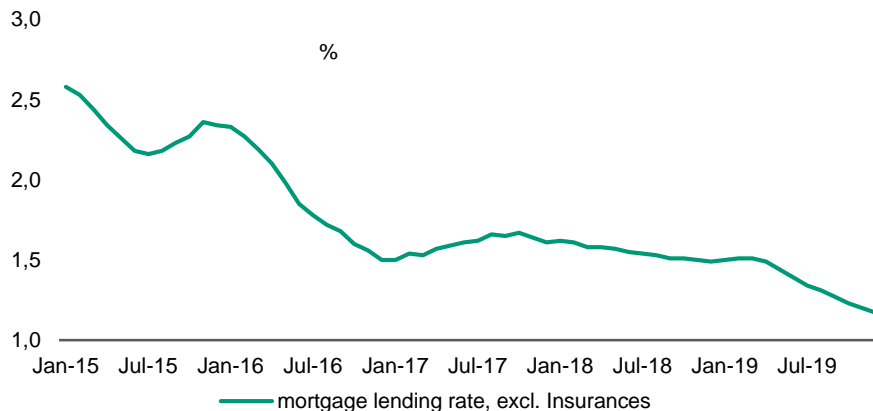
## ATTRACTIVE LENDING RATES

### Home loan rates



Sources: Banque de France, Crédit Agricole SA / ECO

### Home loan rates



Sources: Banque de France, Crédit Agricole SA / ECO

Net contraction in recent years:

- 3.8% on average in 2012, 1.6% in 2017, 1.5% in 2018 (rates for long-term, fixed-rate loans, excluding insurance).
- This slow narrowing of rates continued in 2019 with 1.3% in Q3, falling to 1.2% in Q4.

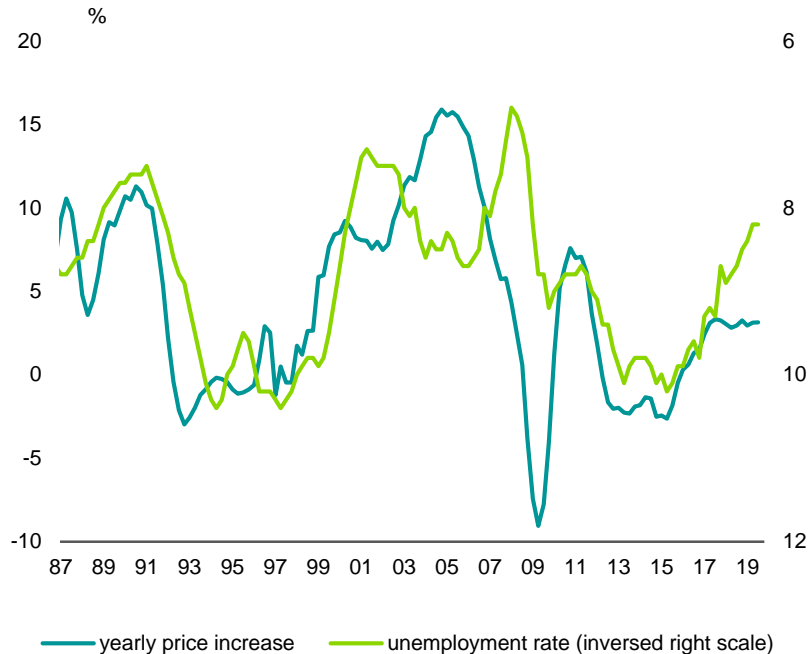
The gradually fall in lending rates stems from the steady drop in the 10-year OAT yield and stiffer competition between lenders as they seek higher volume to offset the lower rates.

Record low rates close to the lower bound.

➔ Catch-up effect maintained as borrowers take advantage of low rates, leading to a rebound in sales in 2017-2019.

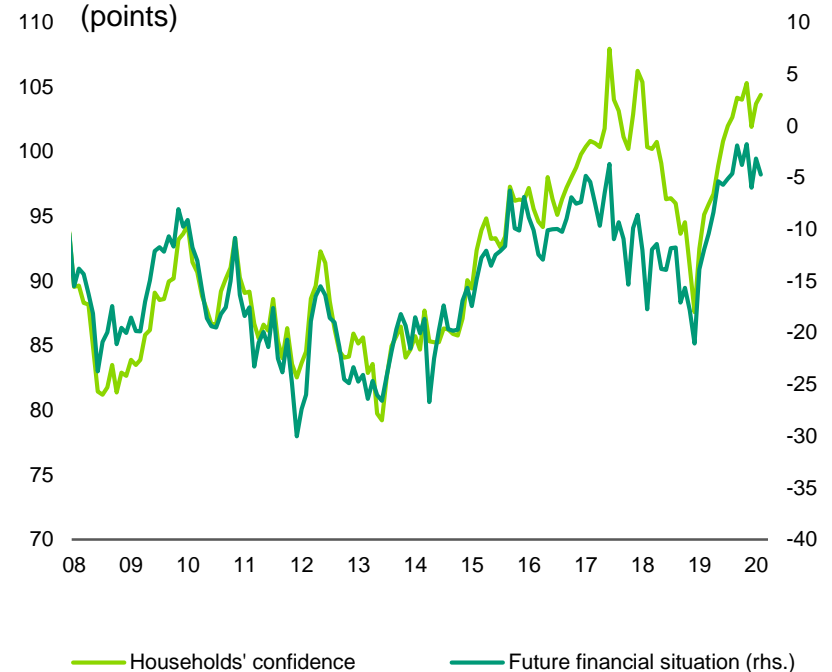
Stability or slight increase likely in mortgage lending rates in 2020 on the back of the expected increase in long-term rates and low interest margins.

## Real estate prices and unemployment rate



Sources: Insee, Notaries, Crédit Agricole SA / ECO

## Consumer confidence



Sources: Insee, Crédit Agricole SA / ECO

Growth was +1.2% in 2019 and is expected to come in at around +0.8% in 2020 (with the impact of the Coronavirus epidemic), proving more resilience to the global slowdown than either Germany or Italy. Unemployment (mainland France) is falling gradually, to around 7.7% in 2020, from 8.2% in 2019 and 8.7% in 2018.

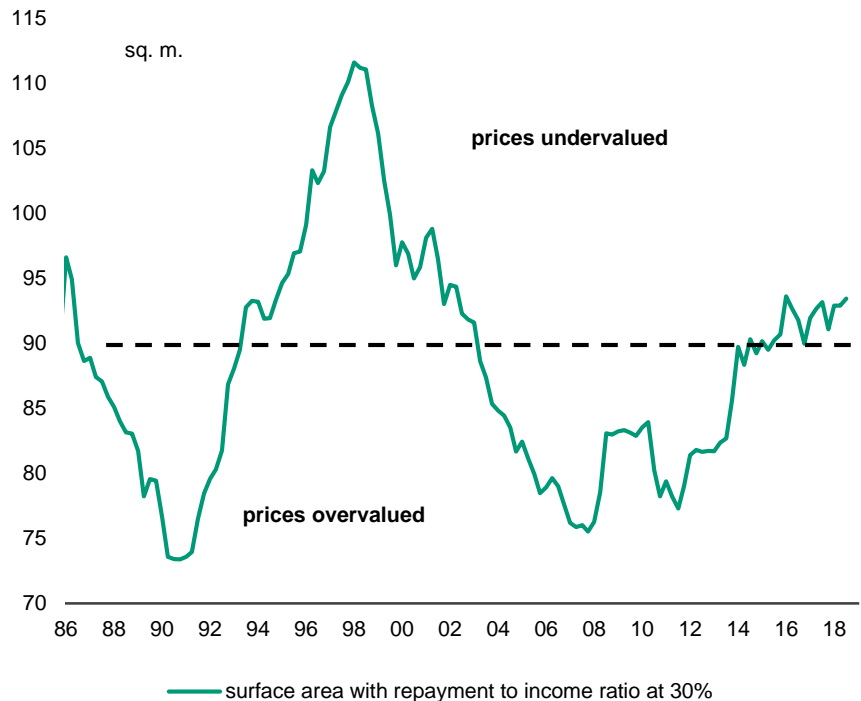
Consumer confidence rebounded during 2019 and is now above the long-term average.

# 2

## ANALYSIS AND OUTLOOK

### RISKS TO PURCHASING POWER

**Purchasing power in France**

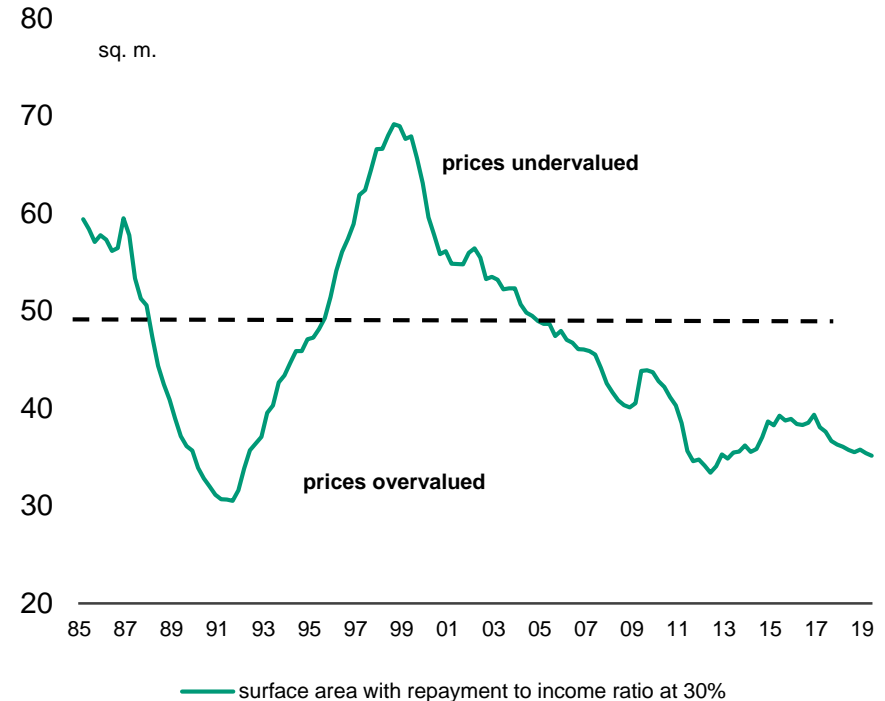


Sources: Clameur, INSEE, Banque de France, Crédit agricole SA / ECO

Home purchasing power = surface area that a first-time buyer on average income is able to purchase over time under market conditions with an affordability ratio of 30%.

Levels are acceptable in France, but there is a risk of a slight reduction in the surface area in 2020 as prices go up (for existing and new builds), rates stabilize and terms lengthen. Buyers could become more prudent. Prices are clearly overvalued in Paris.

**Purchasing power in Paris**



Sources: OLAP, Notaries, Banque de France, Crédit agricole SA / ECO





# ANALYSIS AND OUTLOOK

## WEAK SUPPLY

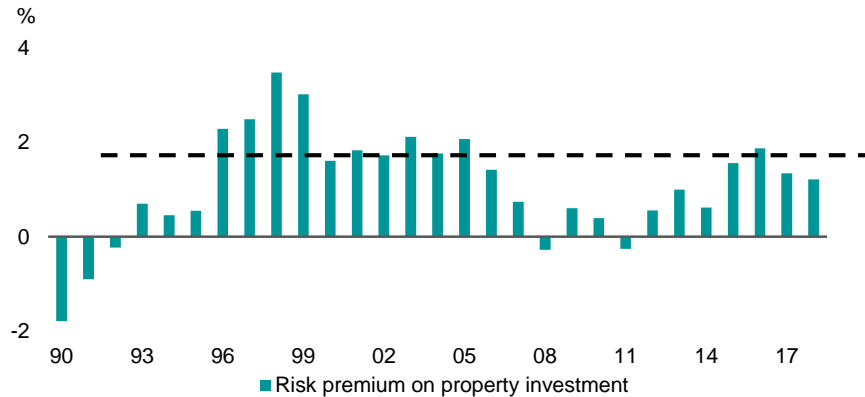
### Fewer developer-led new builds coming on the market

- The slump in sales of new homes is partly due to weak supply.
- The number of properties placed on the market in the “developer” segment fell sharply in non-pressure zones in 2019 (down 31% in zone B2), driven down by the fall (past and future) in sales and the refocusing of tax incentive measures. But there is also a steep drop in pressure zones (-19% decline in zone A/Abis).
- The paucity of housing supply in pressure zones is attributable to:
  - Land scarcity,
  - Building regulations,
  - Abusive judicial recourses, and
  - Lead times for permits. The impact of these factors intensified in 2019 in the run-up to the municipal elections in March 2020, when local councilors are more reluctant to grant building permits.

### “Supply shock” in the offing

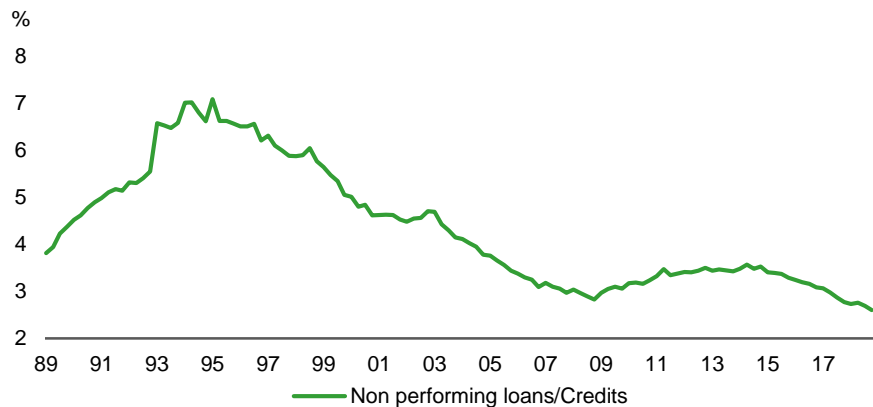
- The ELAN plan puts forward a series of measures to offset these headwinds, to build more houses and bring down prices. The Grand Paris project and 2024 Olympic Games will also boost the supply of new builds.
- However, the impact of tax incentives introduced to stimulate the sale of land and free up privately-owned land is likely to be fairly modest.
- And because of the lead time to completion, this supply-side shock will have only a very gradual and limited impact on the construction and sale of homes to 2020-2021.

### Paris risk premium (residential)



Sources: OLAP, Notaries, Banque de France, Crédit agricole SA / ECO

### Ratio of non-performing loans: households



Sources: Banque de France, Crédit Agricole SA / ECO

In our opinion, prices overall are not overvalued and we do not see a real estate bubble throughout France as a major risk. But prices are very high and clearly overvalued in Paris and in some of the big cities (Bordeaux, Lyon or Nantes).

Prices in these cities are expected to continue their strong upward trajectory in 2020, before slowing little by little. A sudden sharp increase in rates or an event in the general economy could deliver a noticeable correction. **That said, the current boom in these cities is not like the speculation-fuelled bubble in 1985-1991.**

At the time – and especially in Ile-de-France – **there were many indicators of the existence of a speculative bubble:**

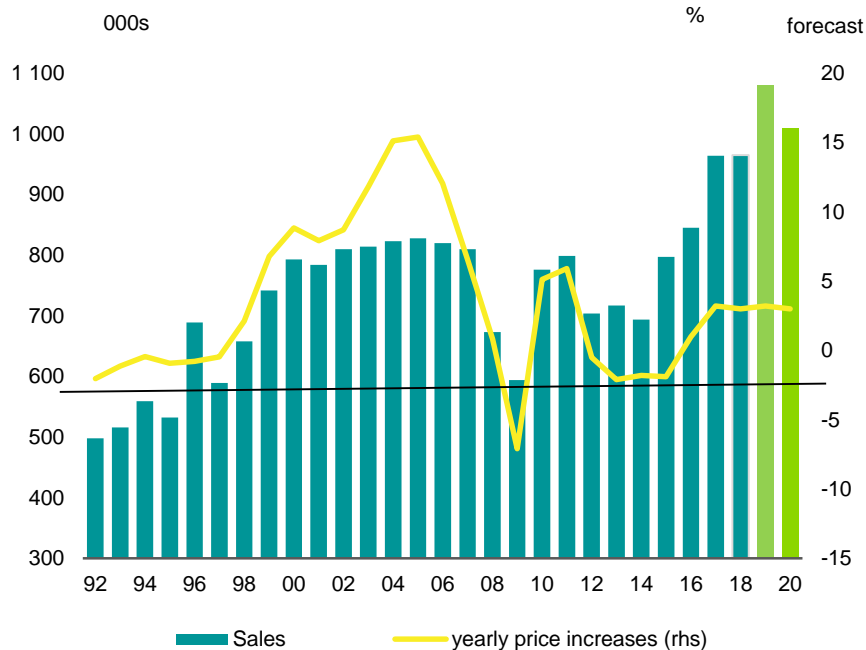
- Shortcomings in banks' risk control measures,
- High percentage of developers and real estate agents in the market, together with clearly speculative behaviour and a rush to short-term gains,
- Negative risk premium in Paris,
- Overblown forecasts (for rents, prices and income) by "traditional" buyers,
- Overheated sales, markets and lending,
- Very steep price increases (+17% a year in Paris),
- Sharp increase in non-performing loans.

These indicators are not evident in the current boom.

# ANALYSIS AND OUTLOOK

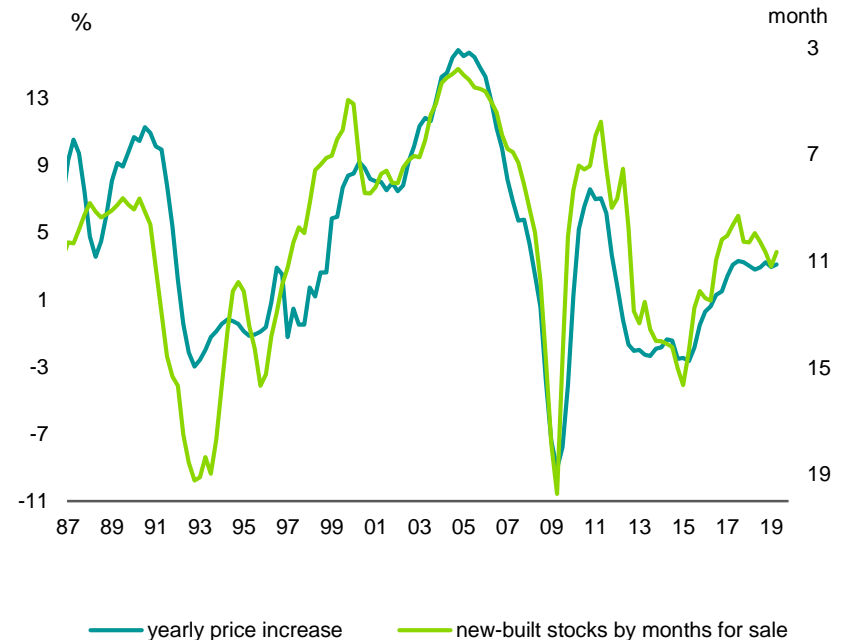
## SLIGHT MARKET DOWNTURN IN 2020

### Existing homes sales and prices



Sources: CGEDD, Notaries, INSEE, Crédit Agricole SA / ECO

### Prices of existing homes and stock of new builds



Sources: Ministry of Ecology, Notaries, Crédit Agricole SA / ECO

Baseline scenario: no speculative boom and no sudden shock.

In 2020, we expect the market to stay strong, but with a slight downturn: erosion in purchasing power; support measures a little less favourable for the new build segment; slightly tighter lending; short supply of new builds.

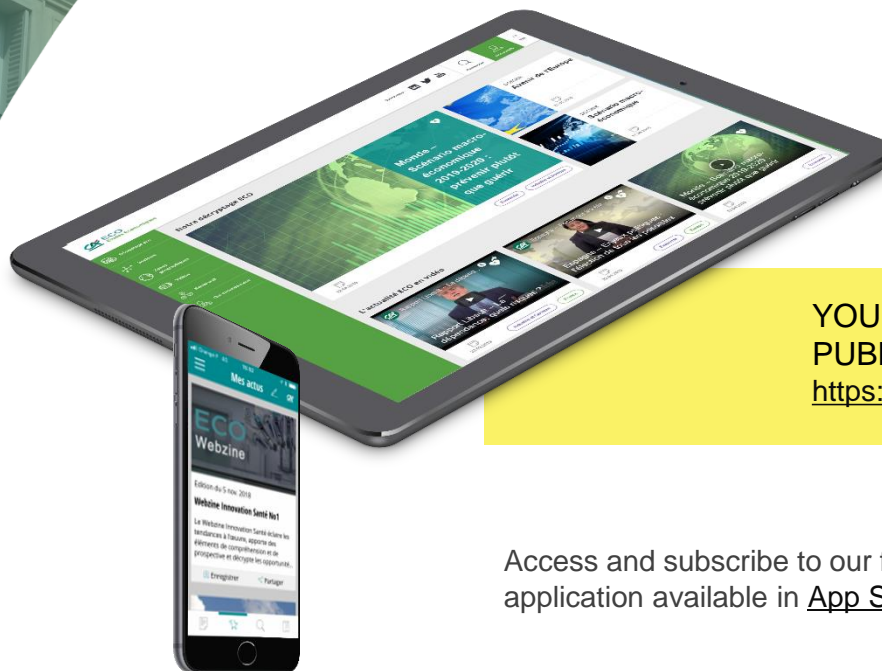
Volumes down roughly -6% in existing and new homes in 2020. Prices are expected to rise by +3% in existing homes and +4% for new builds.



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