

UK HOUSING MARKET MONTHLY

October 2009



A monthly review of recent developments in UK housing markets

Editor: Roger Bootle

Tentative signs of renewed house price weakness ahead

- **The economic backdrop – page 2**

Although the economy *may* now have started to grow again, conditions will continue to *feel* recessionary for many households, as the recovery struggles to gain traction and unemployment rises further. In turn, average earnings growth will remain under downward pressure, as will inflation. Accordingly, we see little scope for monetary policy to be tightened for at least another year.

- **Housing market data and the homebuying process – page 3**

Several indicators have shown tentative signs of renewed weakness in the past month. The RICS new buyer enquiries balance fell, while new sales instructions rose for the second consecutive month. The stock of property for sale has continued to rise, while mortgage approvals stabilised in August.

- **Market conditions and search activity – page 4**

The latest RICS survey indicated that the temporary imbalance between the number of willing buyers and sellers may be easing. While it is early days, if this continues, upwards price pressures will ease.

- **Agreed sales, mortgage approvals and transactions – page 5**

The recovery in mortgage approvals may already be losing steam. For the first time since February, mortgage approvals failed to rise in August. As a result, approvals remain 35% lower than the levels which have been historically consistent with rising prices.

- **House prices – page 6**

The Nationwide index is now at the same level it was in September 2008, while the Halifax index shows that house prices are 7.4% lower than a year ago. By contrast, the Land Registry index fell marginally in August, leaving house prices 9.4% lower than in August 2008.

- **Conclusions**

House prices are being driven up by a shortage of property for sale. However, reports of rising prices are likely to encourage more owners to put their properties on the market, while discouraging some buyers. So we doubt that this support for prices will be sustained too much longer. The bigger picture is that unemployment will continue to rise long after the recession ends, mortgage credit conditions show little sign of easing, and the housing market remains overvalued. As such, in our view, the correction is far from over.

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The economic backdrop

- The quarterly drop in GDP in Q2 was revised from 0.7% to 0.6% last month. Recent surveys suggest that the economy grew modestly in Q3. (See Chart 1.) However, the services sector appears to be driving the upturn, while the manufacturing and construction sectors have started to flag. Indeed, August's unexpectedly sharp 1.9% monthly drop in industrial production underlines the fragility of the economic recovery.
- So while the economy *may* have pulled out of recession in the third quarter, a rapid return to trend rates of growth seems highly unlikely. This means that unemployment is likely to continue to increase until at least late 2010. Consistent with that, surveys of employment intentions, although improving, only point to a slower pace of job losses. (See Chart 2.)
- High unemployment is taking its toll on pay growth. The annual growth rate of average earnings including bonuses slowed from 1.9% to 1.0% in July. Excluding bonuses, growth was a bit higher at 1.7%, but this was still down from 3% this time last year. (Chart 3.) Average earnings growth may well turn negative over the next year or so.
- Such an outcome would intensify the downward pressure on inflation that is already being generated by the growing amount of spare capacity in the economy. Accordingly, we think deflation remains more likely than rampant inflation over the medium-term. (See Chart 4.) Consistent with all of this, we expect the repo rate to stay at 0.5% for a prolonged period.

Chart 1: GDP and weighted CIPS/Markit activity indices, 2001 - September 2009

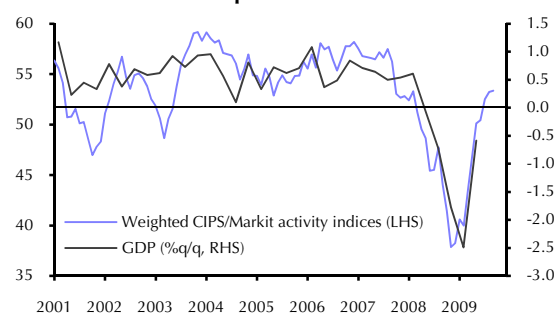


Chart 2: Employment and BoE Agents' Scores of Employment Intentions, 2000 - August 2009

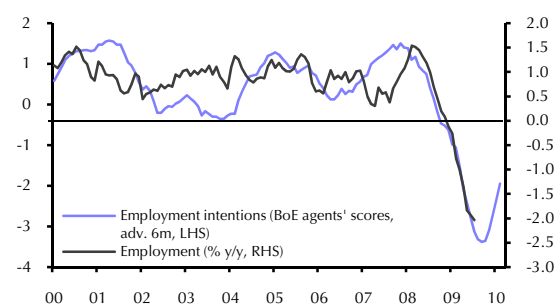


Chart 3: Average earnings, %y/y, 2004 - July 2009

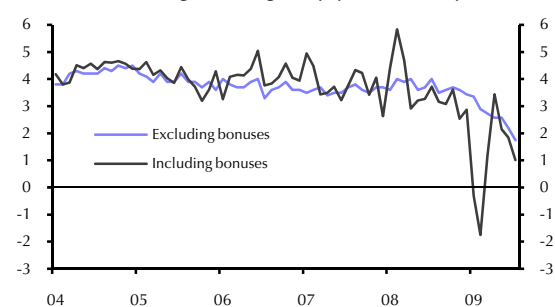
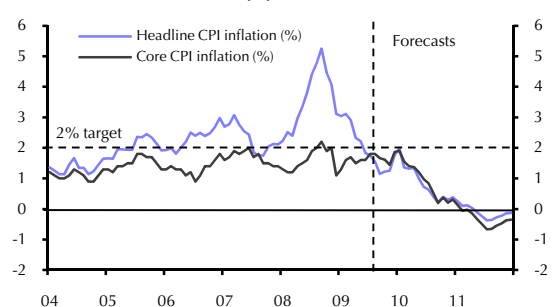


Chart 4: Inflation, %y/y, 2004 - December 2010



Sources – Thomson Datastream, Capital Economics

Housing market data and the home buying process

Steps in the process	Typical timeline	Available data	Published by	Data for	Latest data	Prev. data	Market weakening?
Begin search							
		Unsold property per surveyor (No.)	RICS	Aug	63	60	Y
		New properties for sale (% bal)	RICS	Aug	12	4	Y
	10 weeks	New buyer interest (% bal)	RICS	Aug	49	61	N
		Site visits (new housing, % bal)	HBF	Jul	3	-6	N
		Asking prices (% m/m)	Rightmove	Sep	0.6	-2.2	N
		Use of sales incentives (% bal)	HBF	Jul	-8	0	N
Verbal offer							
		Agreed sales prices (% m/m)	Hometrack	Sep	0.2	0.1	N
		(% bal)	RICS	Aug	11	-6	Y
		Sale price (% asking price)	Hometrack	Sep	92.4	92.1	N
	4 weeks	New homes prices (% bal)	HBF	Jul	-6	-8	Y
		Net reservations of new homes (% bal)	HBF	Jul	28	12	N
		Agreed sales (% bal)	RICS	Aug	34	45	N
		Time on the market (Weeks)	Hometrack	Sep	8.6	8.7	N
		Viewings per sale (No.)	Hometrack	Sep	11.2	11.4	N
		Price expectations - next 3m (% bal)	RICS	Sep-Nov	17	7	N
		Sales expectations - next 3m (% bal)	RICS	Sep-Nov	29	28	N
Mortgage approval							
		Mortgage approvals (000s)	BBA	Aug	38	38	Unch.
			BoE	Aug	52	52	Unch.
	4 weeks	Mortgage advances (000s)	CML	Jul	56	45	N
		House prices (% m/m)	Nationwide	Sep	0.9	1.4	N
			Halifax	Sep	1.6	0.8	N
Exchange contracts							
	1 week	Completed sales per surveyor	RICS	Aug	17.0	15.3	N
Complete transaction							
	4-6 weeks	House prices (% m/m)	CLG	Jul	2.6	1.6	N
Register transaction							
	Time elapsed 24 weeks	House prices (% m/m)	Land Registry ¹	Aug	-0.1	1.8	Y
			FT	Aug	0.4	0.2	N
		Property transactions (000s)	HMRC	Aug	74	80	Y
			Land Registry ²	Jun	44	40	N

Source – Capital Economics

1. Data from the Land Registry's monthly house price index, seasonally adjusted month-on-month changes

2. Data also from the Land Registry's index, 3-month moving average of seasonally adjusted transaction volumes

Comment:

Several indicators have shown tentative signs of renewed weakness in the past month. The RICS new buyer enquiries balance fell again in July, although it still remains firmly in positive territory. New sales instruction rose for the second consecutive month, leading to a further increase in the number of unsold properties on surveyors' books. Mortgage approvals failed to rise for the first time since February. Although most major house price indices are still showing monthly price rises, the Land Registry index fell marginally in August.

Market conditions and search activity

- After dipping from +30 in May to +12 in June, the balance of house-builders reporting a rise in reservations compared to a year ago rose to +28 in July. By contrast, however, house-builders reported only a very slight rise in site visitors in July compared with a year ago. (See Chart 1.) Given the extreme weakness of the market last year, this is not an encouraging reading.
- There are tentative signs that the strength of buyer interest is beginning to ebb. The RICS new buyer enquiries balance dropped from +61 in July to +49 in August. Meanwhile, reports of rising prices appear to have encouraged more people to put their properties up for sale. The new sales instructions balance rose from +4 in July to +12 in August, the second consecutive positive reading. (See Chart 2.)
- The rise in new sales instructions contributed to an increase in the average number of unsold properties on surveyors' books, from 61 in July to 63 in August. (See Chart 3.) Admittedly, despite the increase in unsold stock, the sales to stock ratio, a measure of market tightness, rose further. However, if more vendors continue to put their properties on the market, price pressures will ease.
- According to Hometrack, the length of time a property spends on the market edged down from 8.7 weeks in August to 8.6 weeks in September, comparable to the situation in early 2008. The number of viewings required to achieve a sale has also been falling. At 11.2 in September, viewings per sale look to be in line with the average figures reported between 2003 and mid-2007. (See Chart 4).

Chart 1: House-builders reporting a rise in site visits and net reservations, % balance, 2000 – July 2009

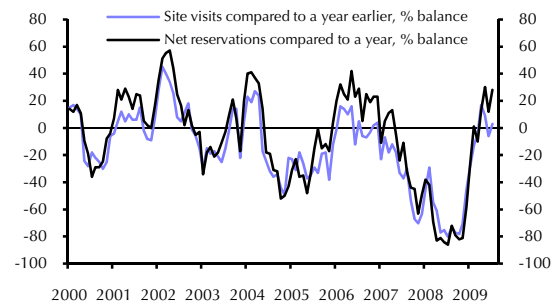


Chart 2: RICS new buyer enquiries and new sales instructions, % balances, 2000 - August 2009

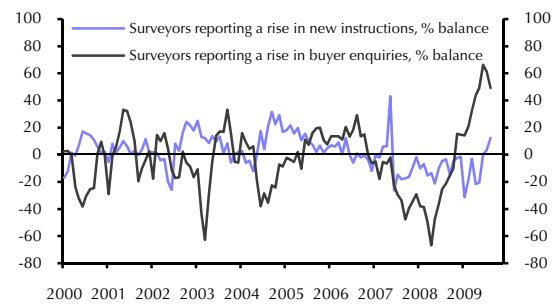


Chart 3: Number of unsold properties on surveyors' books, 2005 – August 2009

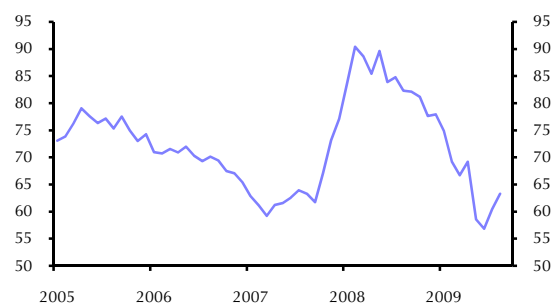
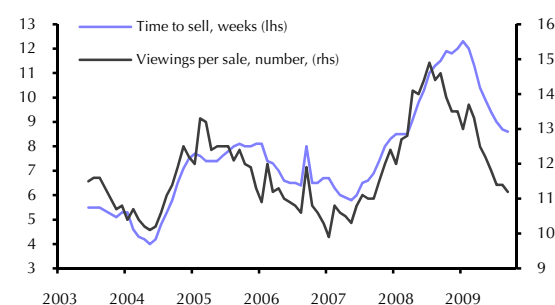


Chart 4: Time taken to sell a property and viewings per sale, June 2003 – September 2009



Sources –HBF, RICS, Hometrack

Agreed sales, mortgage approvals and transactions

- Mortgage approvals for new house purchase edged down from 52,404 in July to 52,317 in August, the first month since February that approvals have failed to rise. The number of completed sales has been slightly stronger than the number of mortgage approvals indicates that it should have been. (See Chart 1.) This seems to echo anecdotal evidence of increased demand from cash buyers.
- There were 29,059 loans approved for remortgaging in August. This was the lowest figure in almost a decade. (See Chart 2.) Weak remortgaging activity largely reflects the higher cost of new mortgages relative to the rates that borrowers are currently paying on existing mortgage loans. In addition, tighter lending criteria are limiting the number of borrowers who qualify for the best deals.
- The latest Bank of England Credit Conditions survey confirmed that the housing market has had to be strongly reliant on demand from cash buyers. Despite intending to increase the availability of mortgage credit, in fact, lenders reduced it in the three months to September. (See Chart 3.) Although households' demand for mortgage credit rose in Q3, lenders anticipate that it will fall back in Q4.
- The RICS agreed sales balance dropped from +45 in July to +34 in August. (See Chart 4.) Aside from a marginal dip in May, this was the first fall in the agreed sales balance so far this year. Whilst we cannot read too much into one month's data, we would not be surprised to see housing market activity tail off in the coming months as, amongst other factors, there must be limited scope for demand from cash buyers to rise further.

Chart 1: Mortgage approvals and completed sales, 000s, 2003 – August 2009

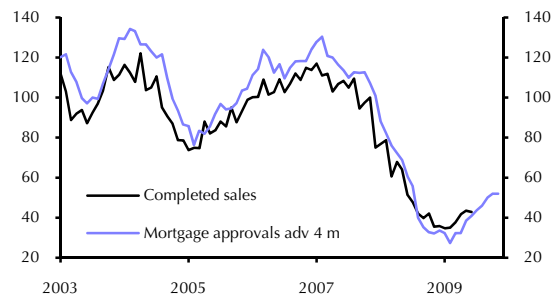


Chart 2: Loans approved for remortgage, 000s, 2000 – August 2009

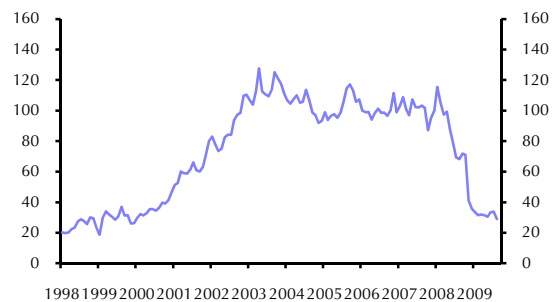


Chart 3: Lenders reporting a rise in the availability of mortgage credit, % balance, 2008 – 2009Q3

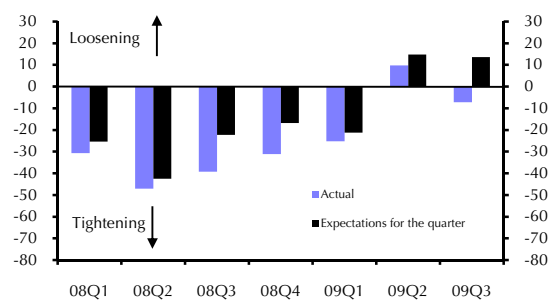
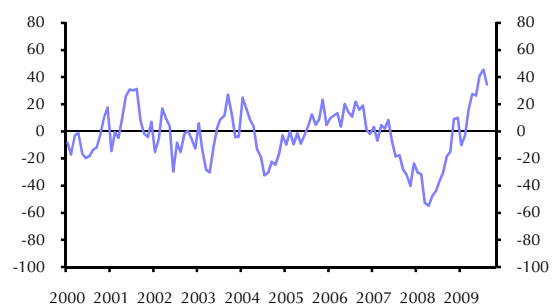


Chart 4: RICS newly agreed sales, % balance, 2000 – August 2009



Sources –BoE, Datastream, Nationwide, RICS, Land Registry

House prices

- According to Rightmove, asking prices rose by 0.6% in September, leaving them just 1.5% lower than a year ago. The upturn in asking prices is more evident in the South than the North. Asking prices are higher than a year ago in East Anglia and the South East, and in the South West and London they are only marginally down on the year. (See Chart 1.)
- The Nationwide index rose by 0.9% in September, leaving it 4.1% higher than in December 2008 and 14% lower than its October 2007 peak. The Halifax index rose by a seasonally adjusted 1.6% in September, its third consecutive monthly rise. However, in contrast to the Nationwide, the Halifax is only 1.7% higher than at the end of 2008, and prices are still 18% below their August 2007 peak. (See Chart 2.)
- According to the Land Registry index, house prices fell by a seasonally adjusted 0.1% in August, the first decline since April. Prices are down 9.4% on the year and down 15.4% on the peak. The FT index, which is based on Land Registry data, has shown a very similar trend. (See Chart 3.) While FT prices rose by 0.4% in August, they remain 8.6% lower than a year earlier and 13% lower than their peak.
- According to the Nationwide, house prices rose by 3.7%q/q in Q3. Prices rose in all twelve of the UK's regions, but Southern regions tended to fare best. For example, prices rose by more than 4%q/q in the South East and South West and by less than 2%q/q in the East Midlands and Yorkshire & Humberside. Even after the latest quarterly rises, however, house prices in most regions remain 10% to 15% lower than at their peak. (See Chart 4.)

Chart 1: House prices: Rightmove asking prices, %y/y, September 2009

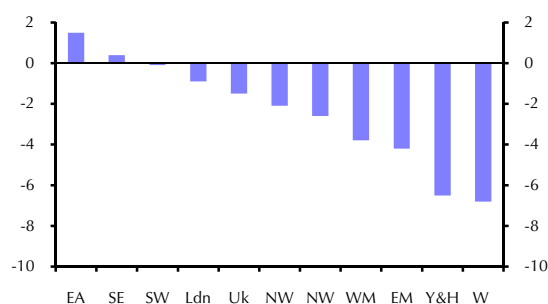


Chart 2: House prices: mortgage approval stage, Nationwide and Halifax indices, £000s, 2003 – September 2009

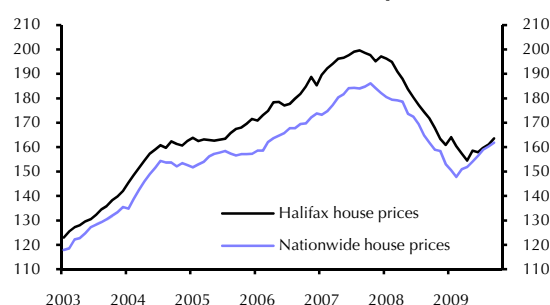


Chart 3: House prices: completion stage, Land Registry and FT indices, £000s, 2003 – August 2009

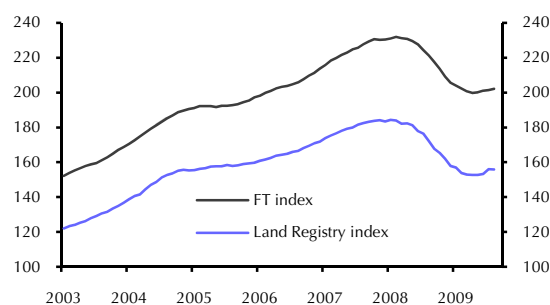
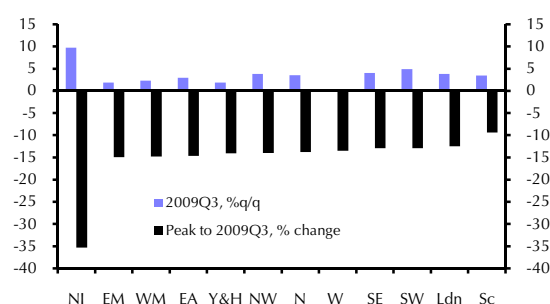


Chart 4: House prices: mortgage approval stage, Nationwide house prices, by region



Sources – Rightmove, Halifax, Nationwide, Land Registry

Housing market data snapshot

TABLE 1: ALTERNATIVE MEASURES OF HOUSE PRICES

	Latest data	Avg. price £000s	% m/m			% y/y		
			12m earlier	Previous	Latest	12m earlier	Previous	Latest
Rightmove (nsa)	Sep	224.0	-1.0	-2.2	0.6	-3.3	-3.1	-1.5
Hometrack (nsa)	Sep	156.1	-1.0	0.1	0.2	-6.2	-6.7	-5.6
Nationwide (sa)	Sep	161.8	-1.8	1.4	0.9	-12.4	-2.7	0.0
Halifax (sa)	Sep	163.5	-1.4	0.8	1.6	-12.4	-10.0	-7.4
CLG (nsa)	Jul	196.3	-0.1	1.6	2.6	-1.4	-10.7	-8.3
FT (sa)	Aug	202.2	-1.4	0.2	0.4	-2.8	-10.2	-8.6
Land Registry (sa)	Aug	156.0	-2.4	1.8	-0.1	-5.7	-11.5	-9.4

Sources – Rightmove, Hometrack, Nationwide, Halifax, CLG, FT/Acadametrics, Land Registry

TABLE 2: MORTGAGE BORROWING AND RESIDENTIAL PROPERTY TRANSACTIONS

August 2009	Levels			% y/y			Year to date	
	12m earlier	Previous	Latest	12m earlier	Previous	Latest	Previous year	Current year
BBA Net mortgage lending £bn, sa	2.4	1.9	2.8	-60.6	-60.4	17.7	34.8	22.2
BoE Value of loans approved, £bn, sa	13.9	12.7	12.1	-54.0	-14.9	-13.1	164.3	86.0
- For house purchase, £bn, sa	4.0	7.1	7.2	-74.0	67.5	79.5	56.0	46.1
- Re-mortgage, £bn, sa	8.9	4.4	3.8	-30.5	-52.8	-57.2	97.6	32.6
BoE Mortgage approvals, 000s								
Total	139	114	108	-49.3	-21.4	-22.7	1,503	849
- For house purchase	32	52	52	-70.0	60.4	63.4	398	360
- Re-mortgage	68	34	29	-33.9	-51.1	-57.4	723	255
- Other	39	27	26	-39.4	-36.0	-32.4	383	233
HMRC Transactions, 000s, sa	62	80	74	-57.5	15.9	19.4	678	510
CML/BankSearch Regulated Mortgage Survey (latest, July 2009)								
- FTB share of house purchase loans	35	38	36					

Sources – British Bankers' Association, Bank of England, HM Revenue and Customs, Council of Mortgage Lenders/BankSearch

TABLE 3: REGIONAL SNAPSHOT

	Latest data	Regional												
		Ldn	S.E	E.A	Wal	S.W	Y&H	N.E	N.W	W.M	E.M	Scot	N.I	
House prices, N'wide, %y/y														
- Latest	Q3	-1.9	-1.7	-2.2	-3.5	-1.6	-4.3	-5.7	-4.6	-4.7	-5.4	-1.0	-8.0	
- Previous	Q2	-10.2	-11.1	-10.9	-6.2	-13.1	-9.8	-13.2	-12.2	-11.4	-11.4	-10.0	-25.8	
- Same period a year earlier	Q3	-9.4	-11.0	-11.5	-9.2	-11.5	-10.2	-8.6	-9.2	-9.2	-9.8	-7.1	-29.8	
Property sales, Land Reg., latest three month average														
- '000s	June	4.8	8.2	5.2	2.1	5.4	4.0	1.9	4.9	3.8	3.7	n/a	n/a	
- %y/y	June	-37.0	-21.2	-23.5	-31.2	-16.4	-35.0	-37.5	-35.9	-28.3	-35.3	n/a	n/a	

Sources – Nationwide, Land Registry