

# UK Housing Market Chart Book

Credit still tight

16 April 2012

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### Prices stabilising, with large regional variations

- ▶ The level of house prices in the UK is still moving sideways (chart 1), and over the past few months growth has stabilised on a y-o-y basis (chart 2). The Nationwide house price index was down 1% m-o-m in March, but the Halifax index was up 2.2% m-o-m. Both asking-price surveys showed positive momentum, with the Hometrack index up 0.2% in March, and the April Rightmove price survey up 2.9% m-o-m (chart 5).
- ▶ The RICS survey improved in March by slightly more than consensus forecasts to its highest reading since June 2010, although it still showed a net balance of 10% of surveyors reporting falling prices (chart 3). Price expectations for three and 12 months ahead ticked down, suggesting that surveyors also think some of the recent optimism was driven by the end of the stamp duty tax break for first-time buyers on 23 March.
- ▶ The London housing market remains the strongest (chart 16), although new-buyer enquiries in the West of England and Wales have grown for the past two months (chart 18). Still, the average house price in London is GBP282,502 (taking the mean of the Halifax and Nationwide surveys), 74% higher than the national average of GBP162,409.

### Activity also stronger, but mortgage approvals disappoint

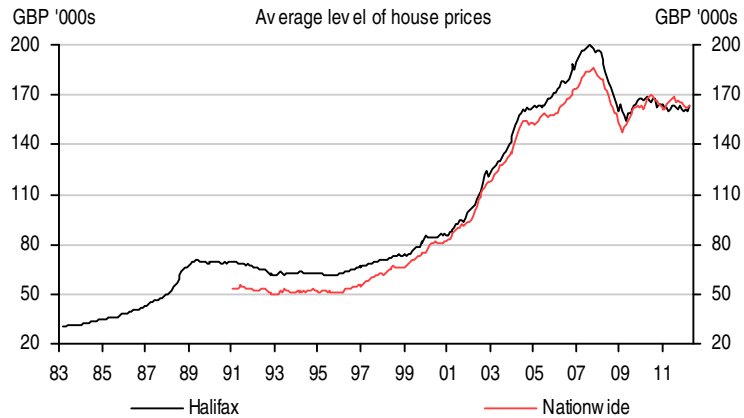
- ▶ March mortgage approvals were a lot weaker than expected, suggesting that the boost from the stamp duty tax holiday has already run its course (chart 10).
- ▶ But Homebuilders are reporting signs of site reservations and prices picking up (chart 13). The March construction PMI survey also suggested a strong increase in orders, though it was mainly driven by new construction on commercial and civil engineering projects rather than private housing (chart 38).

### Tight credit conditions mean a sustained recovery is unlikely

- ▶ The Bank of England's Q1 2012 Credit Conditions Survey showed that demand for mortgages is increasing, but lenders are actually tightening their lending criteria (chart 24), resulting in more rejections (chart 25).
- ▶ There was also significant widening in spreads on mortgage rates (chart 23), which may be because of financial market conditions taking another turn for the worse. Bank CDS spreads are widening again (chart 31), and interbank rates are still elevated (chart 29).
- ▶ And various macroeconomic factors are restraining demand. The labour market and consumer confidence remain weak. Nominal wages are still growing at a slower rate than inflation, squeezing real incomes (chart 33). Unemployment fears have eased since the start of the year, but workers are more worried about the state of their finances than before (chart 39).

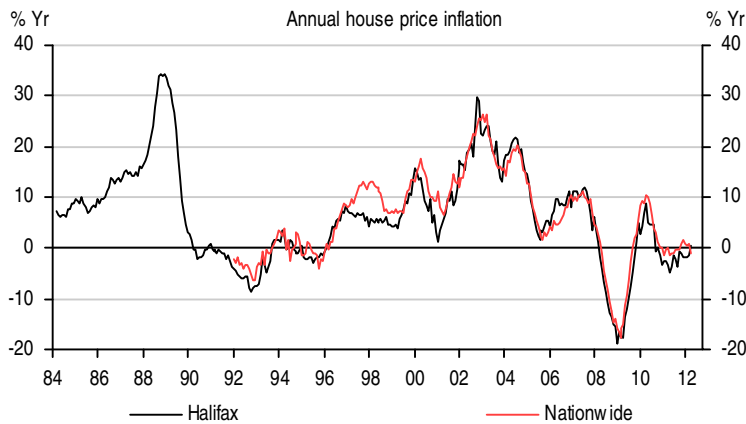
# 1. Prices

1. House prices in level terms still drifting sideways



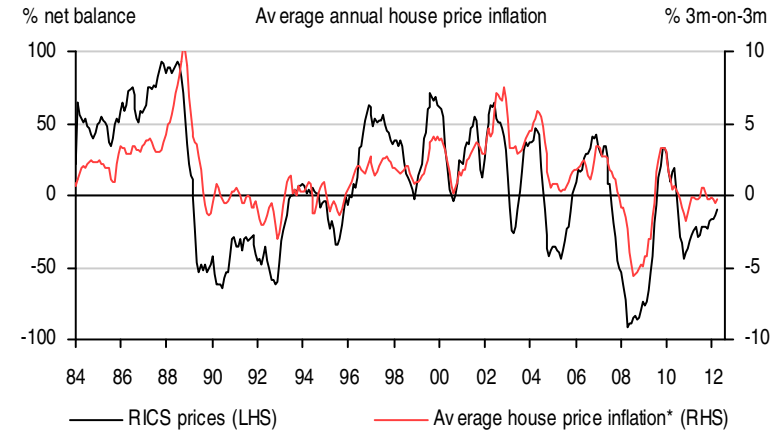
Source: Halifax and Nationwide

2. Annual price inflation turned positive for the first time since August 2010 according to the Halifax index. But the Nationwide index showed the first negative reading in six months



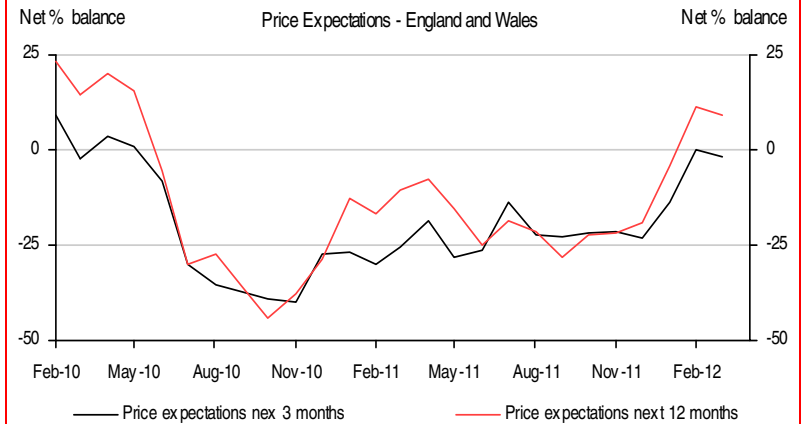
Source: Halifax and Nationwide

3. The RICS survey continues to stabilise, rising to -10% in March, the least negative reading since June 2010



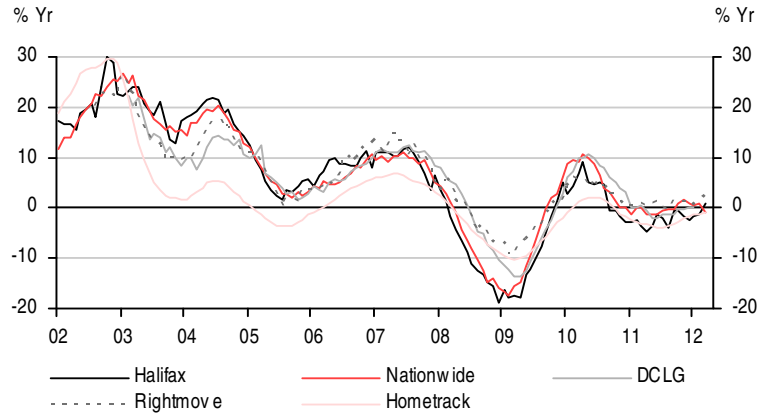
Source: Royal Institute of Chartered Surveyors, Nationwide and Halifax. Note: \*Average of Nationwide and Halifax.

4. However, price expectations for the next three and 12 months have moderated after improving rapidly in the past few months



Source: Royal Institute of Chartered Surveyors

5. The various price indices indicate stabilisation around flat house prices



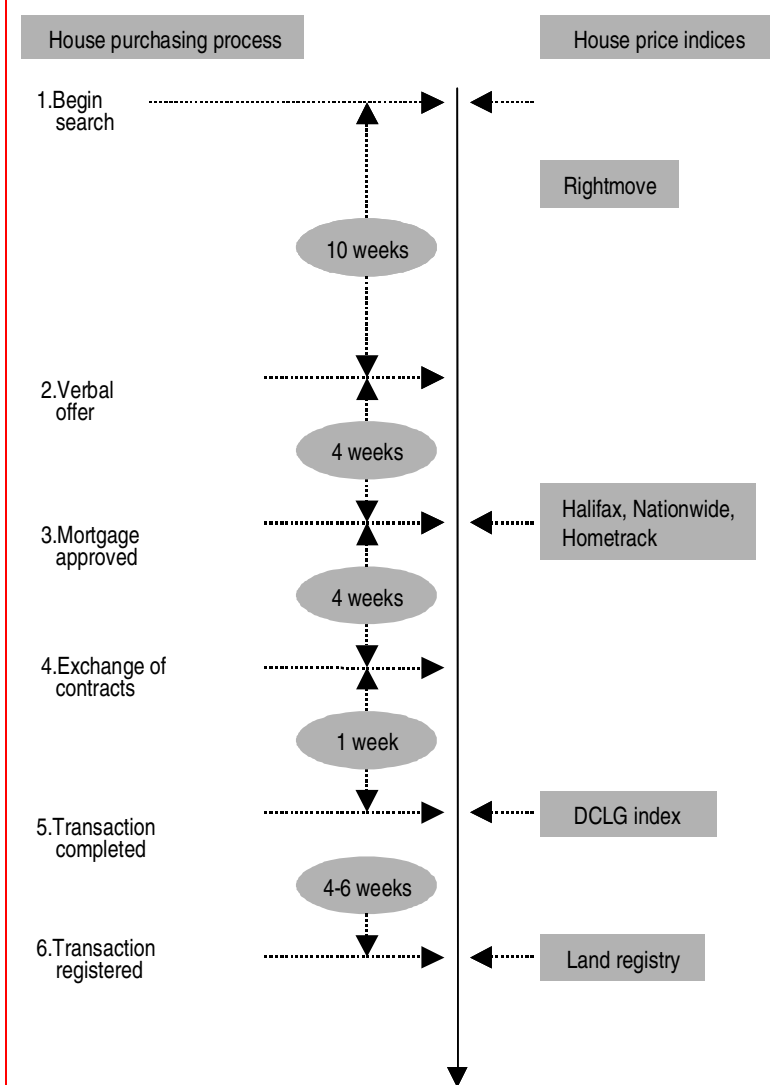
Source: Nationwide, Halifax, Rightmove, Hometrack and DCLG

6. UK house prices: definitions, pros & cons

Index	Rank	Sample	Seasonally adjusted?	Standardisation method	Weighting method
Nationwide	1	Loans approved for house purchase	Yes	Hedonic regression	Volumes
Halifax	1	Loans approved for house purchase	Yes	Hedonic regression	Volumes
DCLG	3	60% sample of Council of Mortgage Lenders completions/ transactions	No	Mix adjustment	Expenditure/ housing stock
Land Registry	4	Based on repeated sales. Excludes new builds.	No	Simple average	Expenditure/ housing stock
RICS	5	A selection of chartered surveyors	Yes	Simple average	Expenditure
Rightmove	6	Sellers' asking prices posted on website. No Short history	No	Mix adjustment	Expenditure/ housing stock
Hometrack	7	Survey of c4,000 estate agents' estimated local average prices. Short history	No	Mix adjustment	Expenditure/ housing stock

Note: Ranked according to reliability for monetary policy purposes.  
Source: HSBC

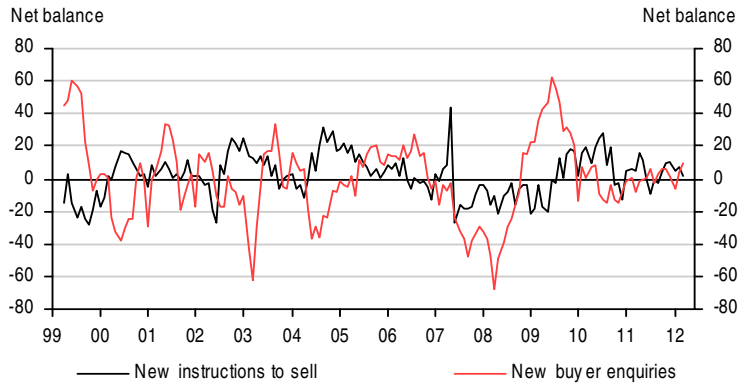
7. UK house prices: the transaction timeline



Source: Bank of England and HSBC

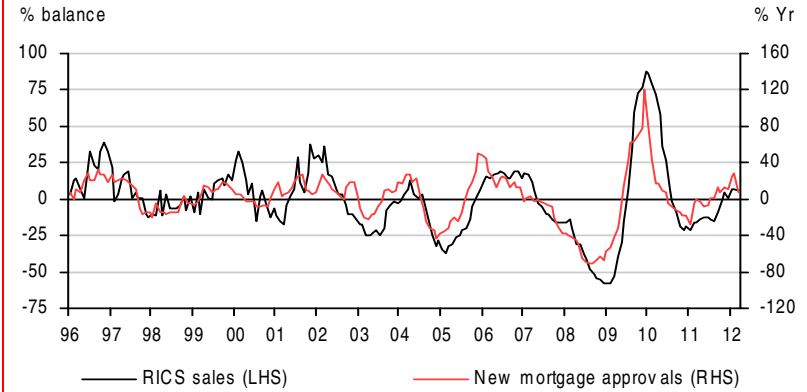
# 2. Housing activity

8. New buyer enquiries improved in March to a positive net balance after a disappointing February reading



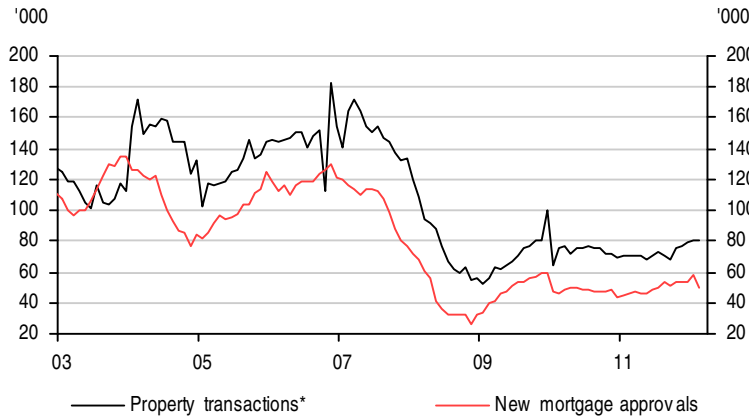
Source: Royal Institute of Chartered Surveyors

10. The disappointing mortgage approvals in March could mean that the nascent recovery in sales could be short-lived



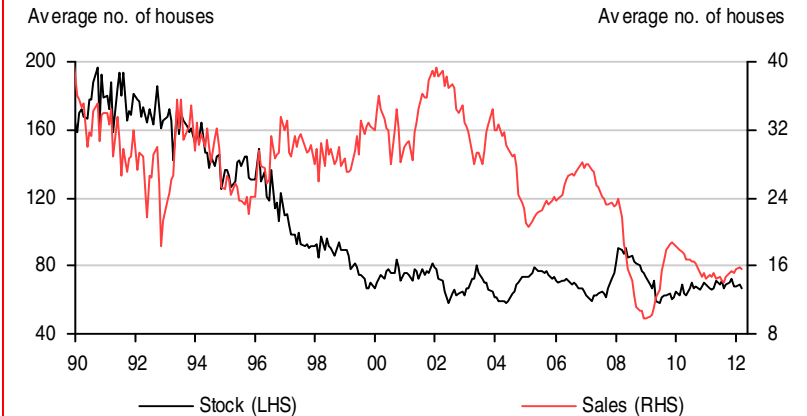
Source: RICS, Bank of England

9. However, mortgage approvals were much weaker than expected in March – this suggests that most of the stamp duty boost has already passed



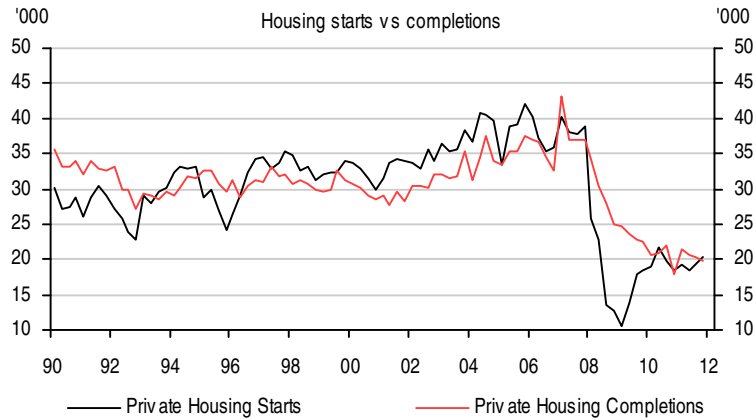
Note: \*Property transactions above GBP40,000 used from March 08.  
Source: HMRC, Bank of England

11. Average sales per surveyor fell in the three months to March, but the average number of unsold houses on surveyors' books fell by more, causing the sales/stock ratio to edge up to 23.3



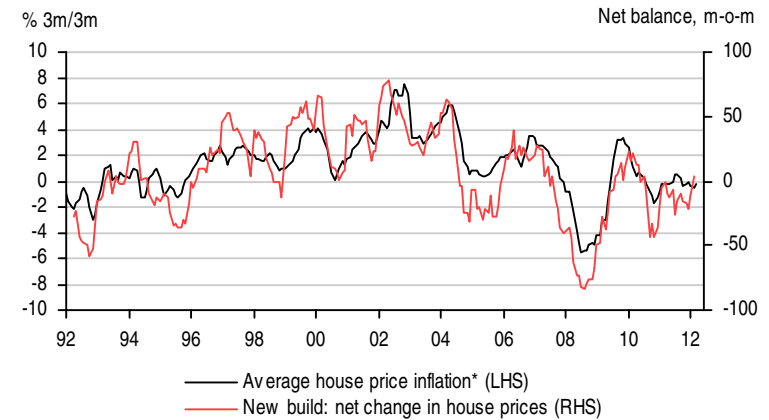
Source: Royal Institute of Chartered Surveyors

**12. New housing starts are recovering slowly, but remain very depressed compared to pre-crisis levels**



Source: DCLG and Thomson Reuters DataStream

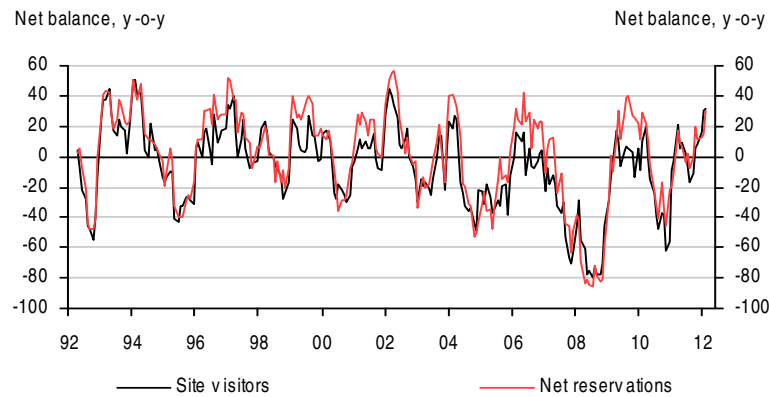
**14. In February, builders reporting prices rises outnumbered those reporting falls for the first time since July 2010**



Note: \*Average of Halifax and Nationwide house price inflation.

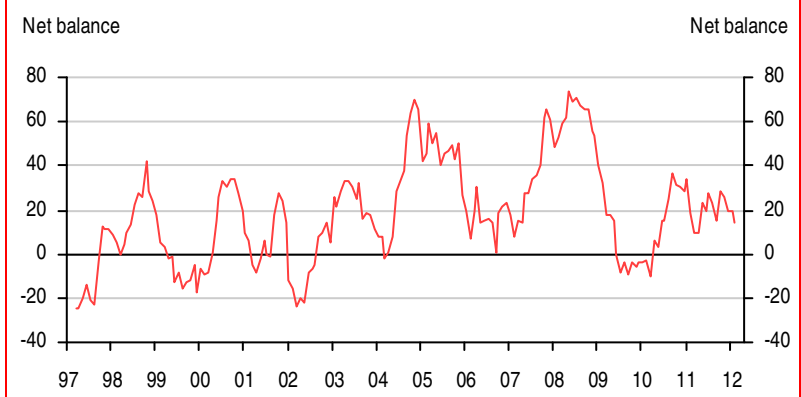
Source: The Housing Market Report, Homebuilders' Federation, Nationwide, Halifax and HSBC

**13. Net reservations and site visits both improved again in February. Site visits relative to a year ago recorded the strongest reading since April 2002**



Source: The Housing Market Report, Homebuilders' Federation

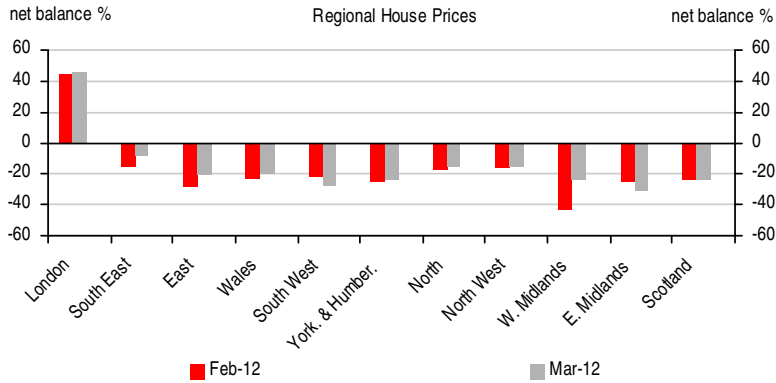
**15. But despite a rise in house prices, home builders are still increasing their use of sales incentives, although pace of increase declined in February**



Source: The Housing Market Report, Homebuilders' Federation

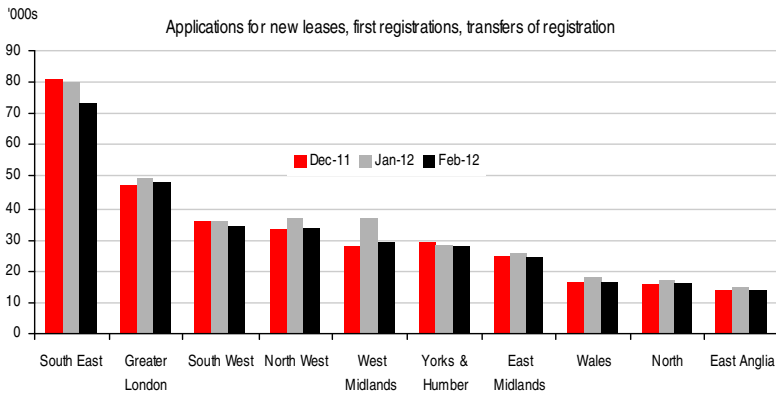
# 3. Regional variations

**16. London remains a huge outlier - it is the only region that is reporting an overall increase in house prices**



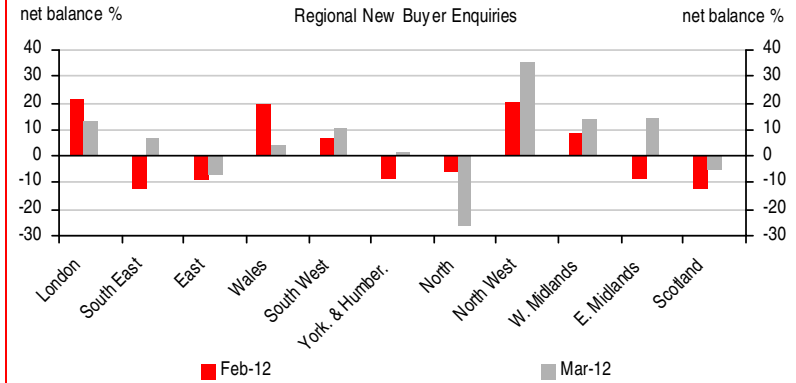
Source: RICS

**17. Land registry data on transactions show that activity has generally fallen back to or below January levels**



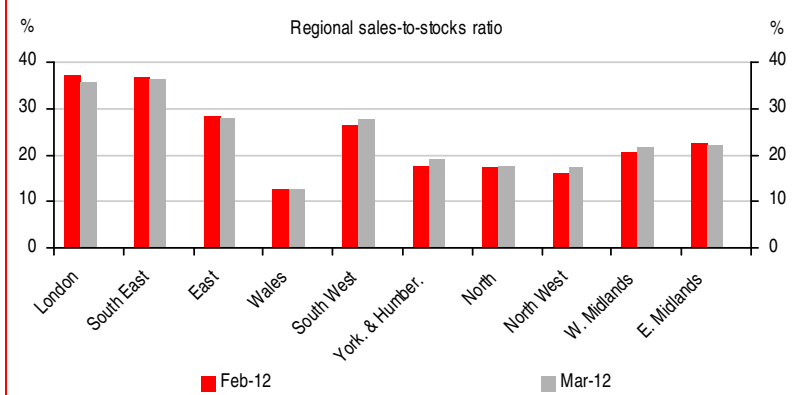
Source: Land Registry

**18. New buyer enquiries are usually robust in London, but have recently picked up strongly in the North West**



Source: RICS

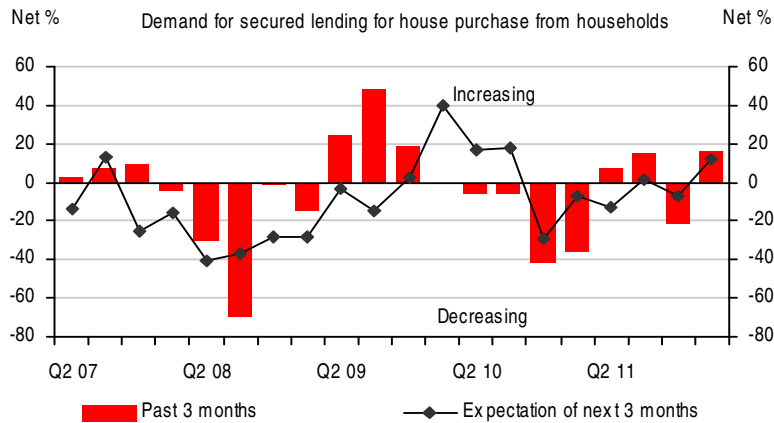
**19. Sales-to-stocks ratio also varies across regions, with the market tightest in London and the South East compared to the relatively slack markets in Wales and the North in general**



Source: RICS

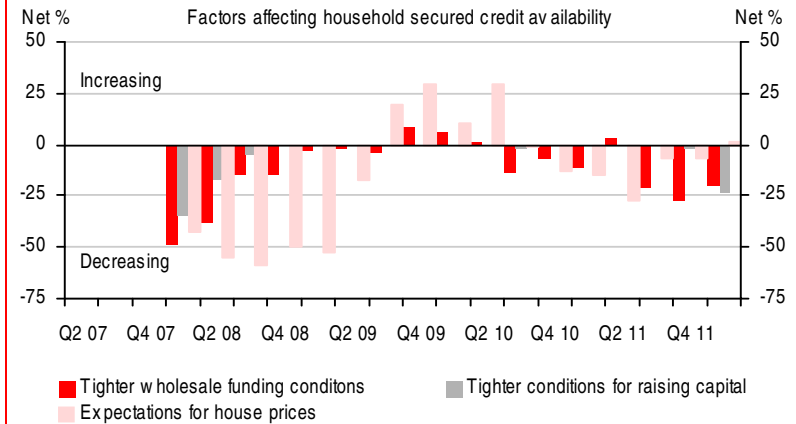
# 4. Credit conditions

**20. Demand for mortgages has picked up in Q1 2012, and lenders also expect growth in demand in Q2**



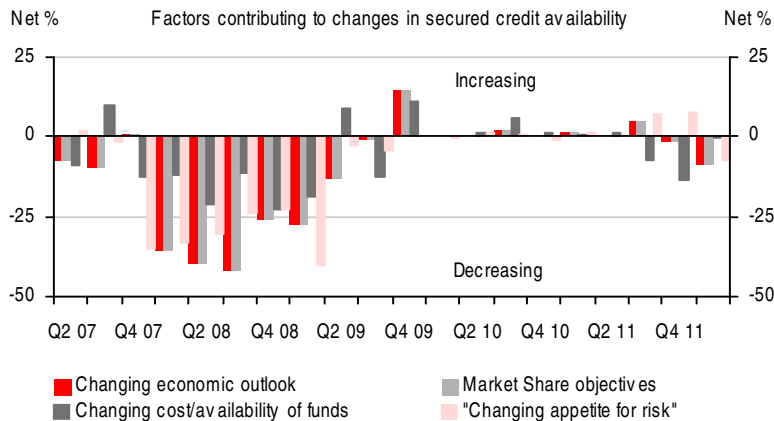
Source: Bank of England Credit Conditions Survey

**22. Lenders are being constrained by weak capital market conditions**



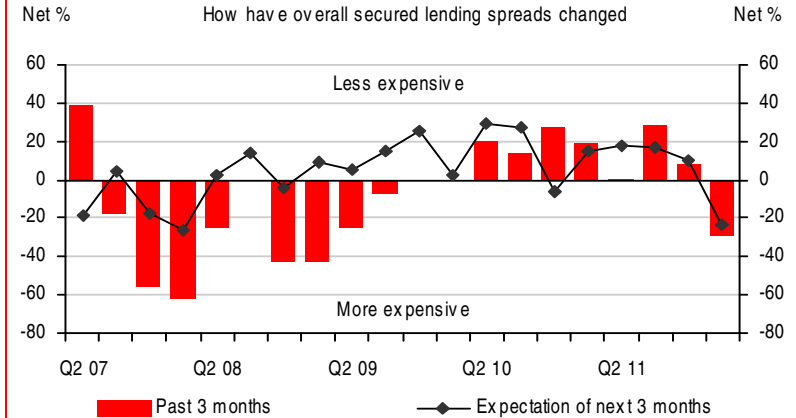
Source: Bank of England Credit Conditions Survey

**21. However, higher funding costs, reduced risk appetite and pessimistic economic outlooks means credit availability may not grow to match the increased demand**



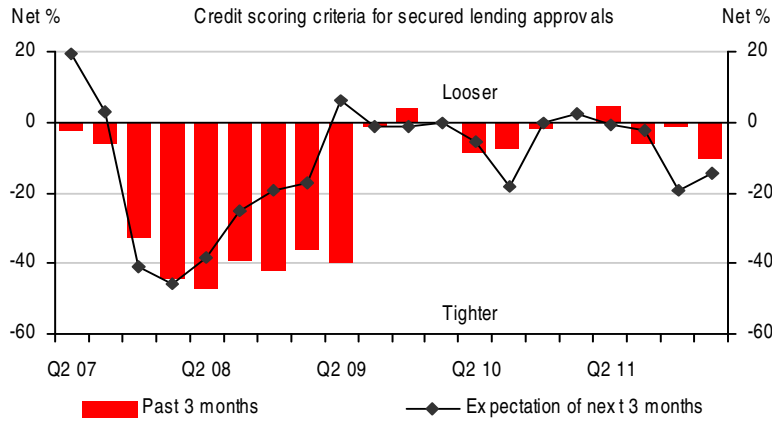
Source: Bank of England Credit Conditions Survey

**23. Mortgage spreads have widened again after narrowing in the previous two quarters, and lenders foresee a further widening in Q2**



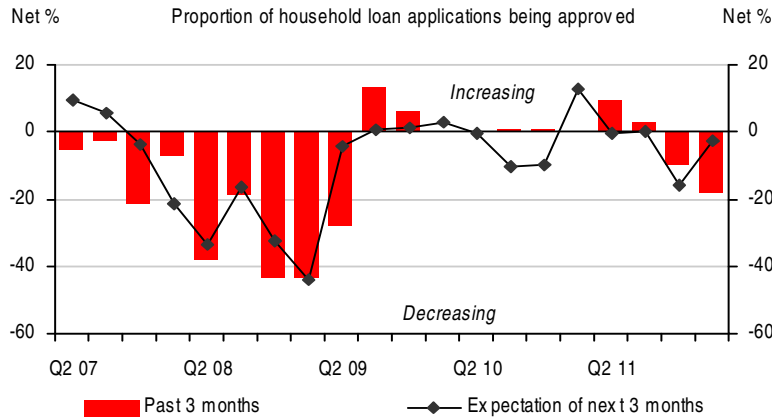
Source: Bank of England Credit Conditions Survey

24. Bank lending standards tightened in Q1 and are expected to tighten even faster in Q2



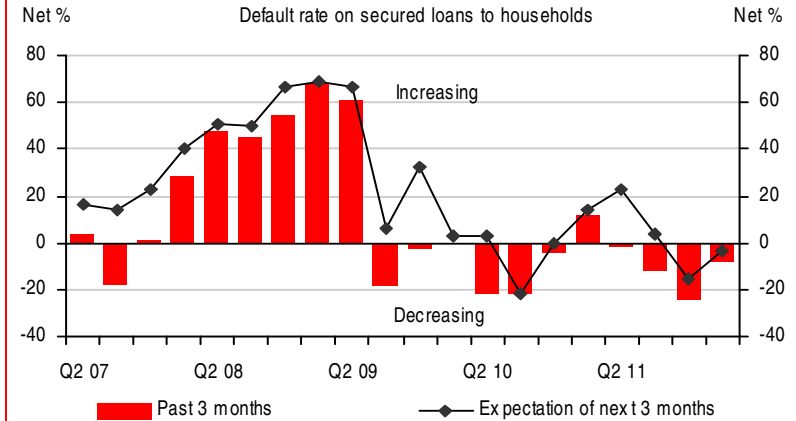
Source: Bank of England Credit Conditions Survey

25. The number of mortgage rejections have also accelerated



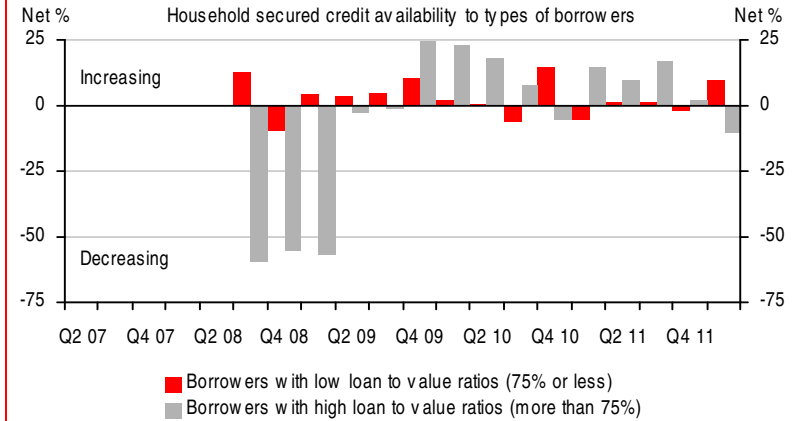
Source: Bank of England Credit Conditions Survey

26. Default rates have been falling for the past four quarters, although the rate of improvement has slowed slightly in Q1 2012



Source: Bank of England Credit Conditions Survey

27. There was a sharp reduction in credit availability to high-LTV borrowers in Q1

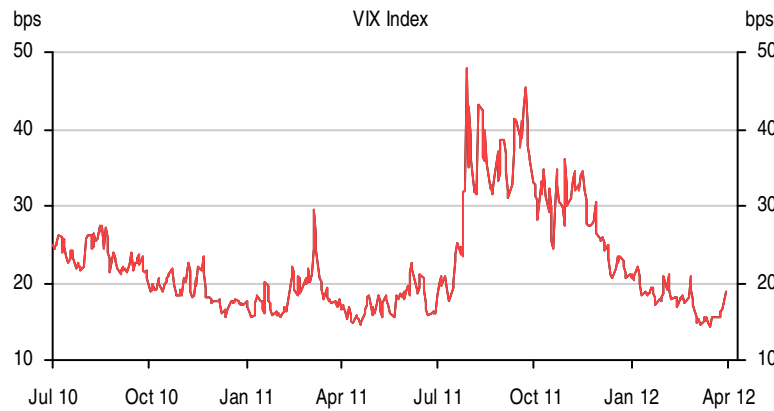


Source: Bank of England Credit Conditions Survey

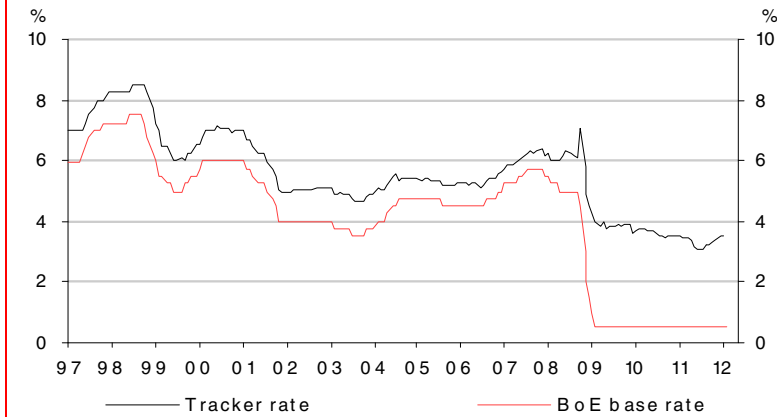


# 5. Indicators of stress

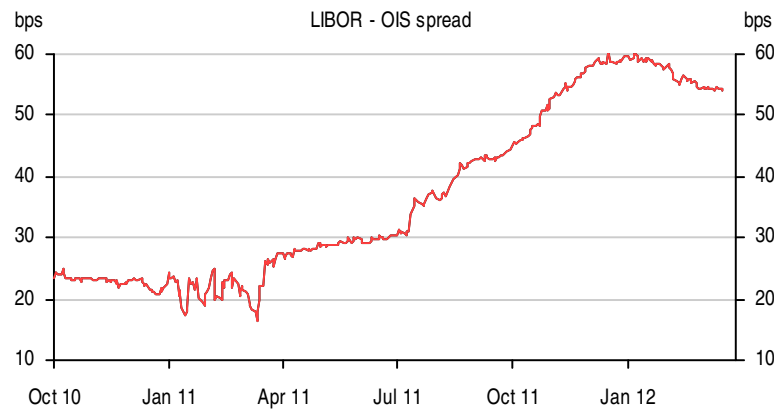
28. The VIX index, a measure of market volatility, has picked up again



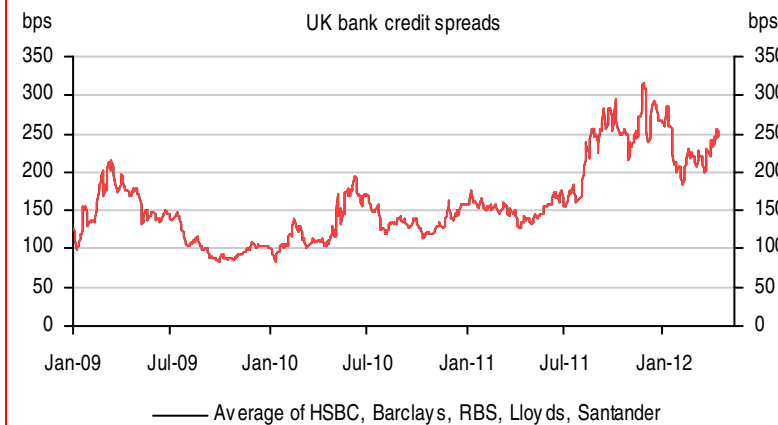
30. Tracker rates have been drifting up recently, and this is despite the further rounds of QE and LTRO from the Bank of England and the ECB, respectively



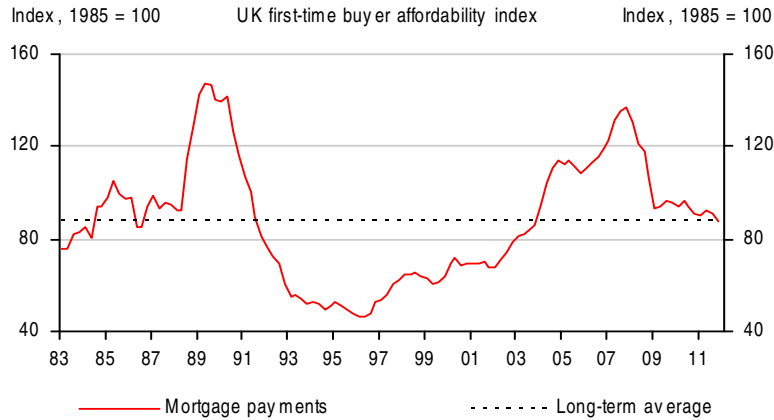
29. Interbank market conditions have narrowed from Q4 levels but remain stubbornly high compared with a year ago



31. UK banks' CDS spreads have started to widen again



**32. Affordability for first-time buyers has fallen back to its long-term average**



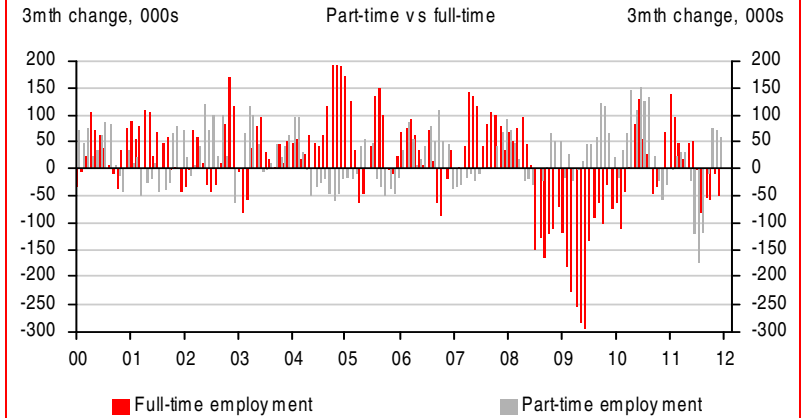
Source: ONS

**33. But real wages are still being squeezed by a combination of low nominal income growth and sticky inflation**



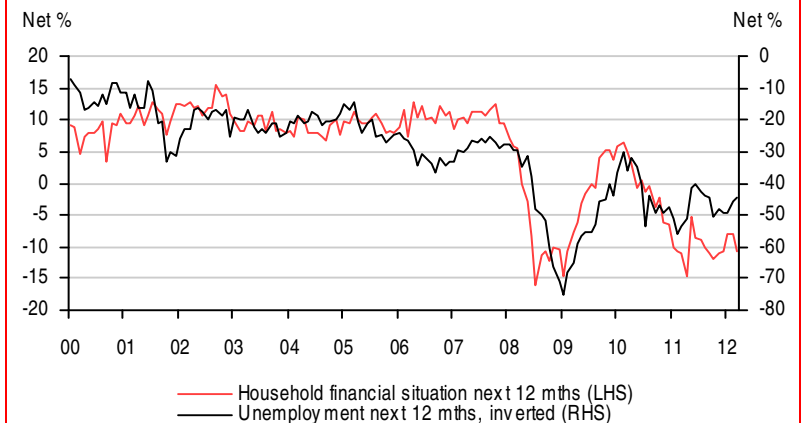
\*Average weekly earnings growth excluding bonuses deflated by retail price inflation  
Source: ONS, HSBC

**34. Unemployment is stabilising, but most of the improvement is from an involuntary shift to part-time or self-employment – the economy is actually shedding full-time jobs**



Source: Nationwide

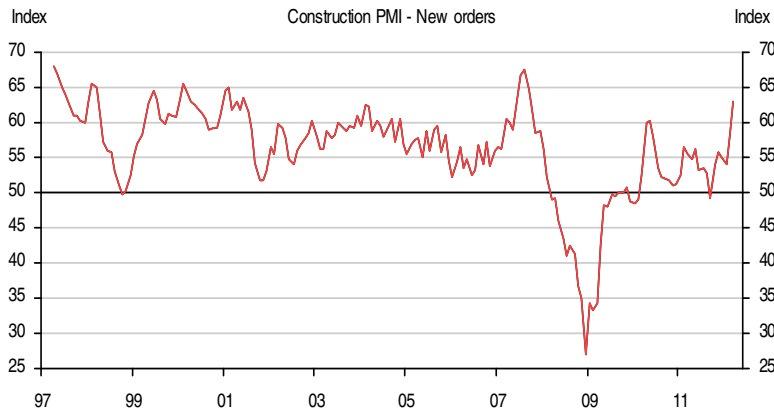
**35. Fears over unemployment, although still above normal, has been less intense since the start of 2012; however, more households are worried about their finances**



Source: DG-ECFIN

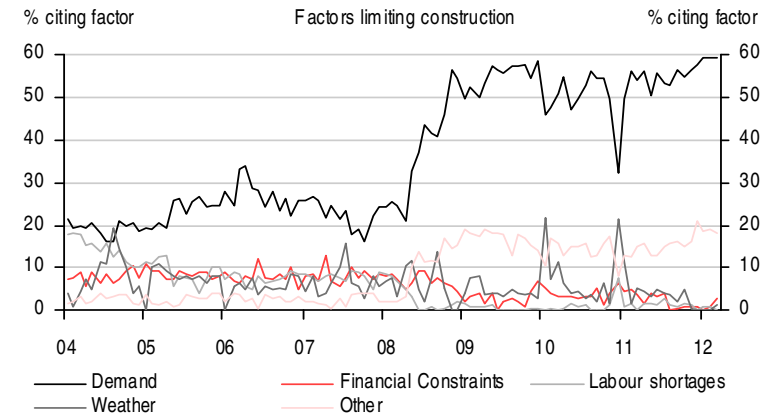
# 6. Construction

36. PMI New orders have jumped in the past few months



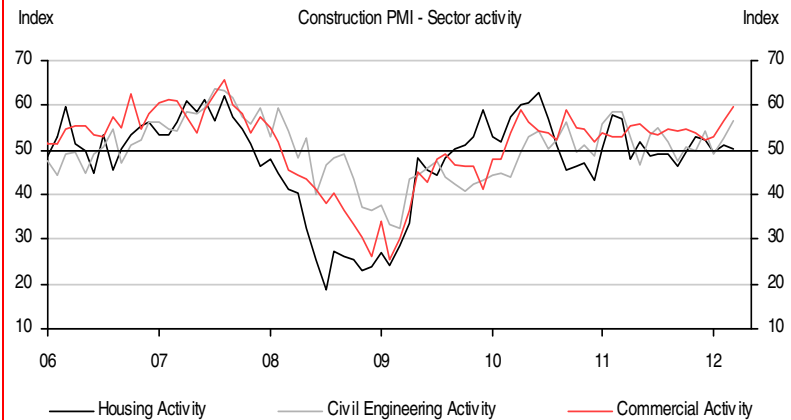
Source: Markit

37. But lack of demand is still by far the most cited reason for why construction activity is not higher



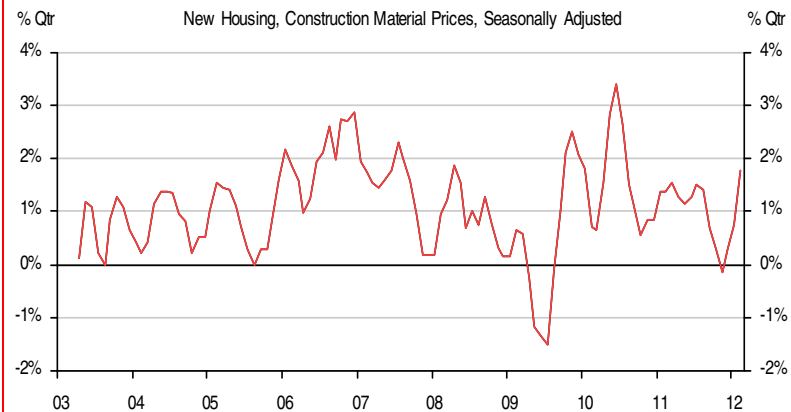
Source: DG-ECFIN

38. Activity also varies depending on the type of construction— the recovery in housing construction has been weaker than commercial or civil engineering sectors



Source: Markit

39. Construction costs have also started to rise and prices have accelerated this year



Source: ONS, HSBC

# Notes

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