25 January 2024

UK in Focus

Economics
United Kingdom

UK housing market – perking up?

- The UK housing market is showing signs of stabilisation, reflecting rising demand amid lower interest rates
- Rental inflation might be starting to soften as the gap between rental demand and supply narrows
- A less pronounced-than-feared mortgage squeeze and easing rent inflation could help boost household income this year

UK data review (Nov/Dec 2023)

- **GDP** rose 0.3% m-o-m in November (consensus: 0.2%) led by a 0.4% m-o-m rise in services activity. Wholesale and retail trade was also up (+0.5%) as were professional and scientific activities (+0.6%). While the reading is a positive surprise, the downward revisions to the Q3 data, which were published in the quarterly national accounts on 22 December, mean that GDP was still 0.2% lower on a 3m/3m basis. Assuming the current profile is unrevised, growth needs to be at least 0.0% m-o-m in December for Q4 to come in flat. If it falls at all, that will mean a fall in Q4 and hence a recession.
- **Retail sales** fell 3.2% m-o-m in December (consensus: -0.5% m-o-m), with the biggest drag coming from non-food stores (-3.9% m-o-m). Food stores also saw a hefty fall in volumes (-3.1%), continuing a post-pandemic downtrend, while non-store retail fell by 2.1% m-o-m, and fuel sales were down 1.9%. This meant that volumes fell 2.8% in the full year 2023, following a 3.4% fall in 2022, with all of the main categories (food, non-food, non-store retailing and fuel), seeing lower volumes in 2023. Such a big fall may increase the likelihood that GDP fell in December, and hence that the UK ended 2023 in recession.
- **CPI inflation** edged up unexpectedly in December, from 3.9% to 4.0% y-o-y (consensus 3.8%). The increase was partly driven by higher tobacco duty, but also an unexpectedly unchanged core CPI rate of 5.1% y-o-y (consensus 4.9%). We would warn against getting too carried away by the (modest) upside news, though. For one, some of the strength was in volatile components such as clothing, concert tickets and holidays. And crucially, the December surprise only partly offsets the big downside surprise seen in November. We now see CPI ending 2024 at 2.7% and ending 2025 at 2.0%.
- **UK annual regular wage growth** slowed in line with consensus for the three months to November, from 7.2% to 6.6%. However, much of that slowdown reflects October's unusual and surprising drop in the level of pay; indeed wages bounced back in November, posting a m-o-m annualised rate of 8.0%. Meanwhile, the unemployment rate was unchanged at 4.2%, with employment growth of 73k in the three months to November. This relatively solid employment data adds to a fairly cloudy picture for the Bank of England.

HSBC

UK housing market – perking up?

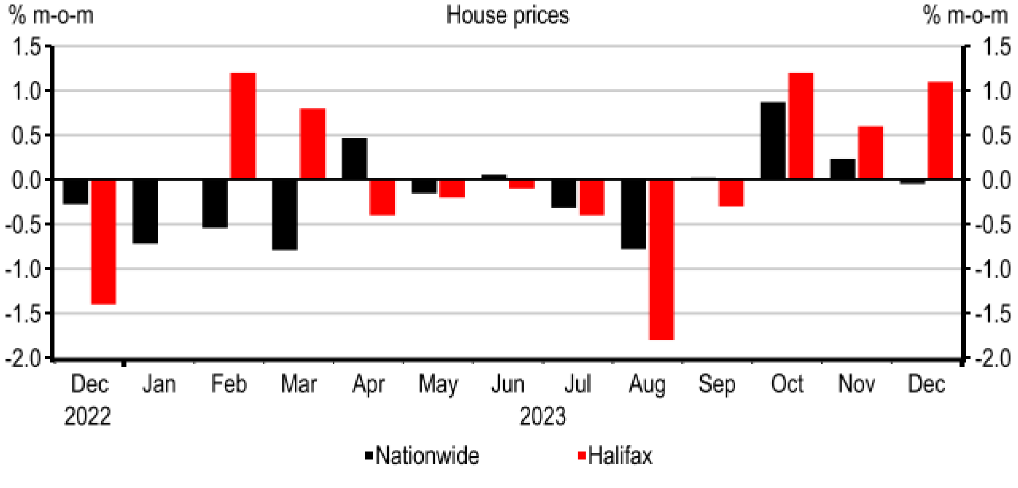
UK housing market indicators are stabilising…

Another month, another set of indicators **pointing to a stabilisation in the UK housing market**. On pricing, while our preferred Nationwide index was flat in December, the Halifax measure posted another month of solid growth (see Chart 1). 'Soft' house price indicators also point to stabilisation, or even the resumption of growth, in house prices: the main RICS house price index rose sharply again in December, from -41 to -30, Rightmove asking prices rose in January, and the RICS survey for expected house prices in 12 months' time has returned to positive territory (just) for the first time since August 2022.

…reflecting rising demand

This stabilisation in prices **appears to reflect rising demand**, albeit from a low base. Mortgage approvals rose back above 50k in November, and have returned to growth on a year-on-year basis, while the RICS index for buyer enquiries is recovering fast.

1. In December, the Nationwide index was flat but the Halifax measure rose strongly again



Source: Halifax, Nationwide., Macrobond

This time has been different

The downturn has been comparatively mild

If the house price stabilisation sticks (our central case is for flat house prices this year), that would reflect **a remarkably mild correction compared to previous downturns**. That is certainly the case in terms of nominal house prices but, despite high recent inflation, is also the case in terms of real house prices. Unlike after the Global Financial crisis or the early 1990s, **we have not seen a credit crunch and the labour market has remained robust**. And while higher mortgage rates (on mortgages which are much bigger than in the 1990s) have been a significant headwind, we could be past the worst on that front.

Mortgage rates are falling (for now)

Lower mortgage rates may be underpinning the recent demand recovery

Indeed, mortgage rates have been falling. Having risen to around 6% last summer, rates on typical 5-year mortgages are still falling and are now quoted below 4% (This is Money, 17 January). Not only does this reduce the hit to households as they re-fix their mortgages, it might also be starting to **underpin the recent recovery in demand**.

That said, we do think that market expectations for policy rates, which underpin mortgage pricing, have been somewhat too dovish for some time. Those expectations appear to have moved past peak-dovishness so far this year, and swap rates have edged up. So **we might see the local trough in mortgage rates coming soon**.

Rental market relief?

Easing rent inflation may help lift real household income growth

Housing market developments have, of course, not been good for everyone. While many owner-occupiers (particularly those without mortgages) may cheer ongoing price resilience, those priced out of the market will not. Many of those people are private renters, who have had a particularly tough time, with new private rent inflation having run in the double digits over the past two years.

However, even this issue might be starting to ease a little. The RICS survey points to a **softening in rental demand and an easing degree of weakness in rental supply**. After all, lower rates could pave the way for some renters to buy, and could also bring landlords back to the market. So alongside a less pronounced-than-feared squeeze on mortgagors, **an easing squeeze on renters might help lift real household income growth**, consistent with our outlook for a gentle recovery in UK growth more broadly this year.

Key upcoming UK economic data

Date	Indicator	Period	Prior
1 Feb	Bank of England interest rate announcement	-	5.25%
7 Feb	Halifax House Prices y-o-y	Jan	1.70%
13 Feb	ILO Unemployment Rate	Dec	4.2%
14 Feb	CPI y-o-y	Jan	4.0%
15 Feb	GDP y-o-y	Q4	0.3%
16 Feb	Retail Sales y-o-y	Jan	-2.4%

Source: Refinitiv Eikon

Disclosure appendix

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