Press Release

23/12/2013

HALIFAX

Halifax UK Housing Market Outlook for 2014

House Price Inflation for 2014:	***4% to 8%***
Bank of England Bank Rate to end 2014:	***0.5%***

- House prices to continue to rise during 2014, at a broadly similar pace to 2013.
- Further economic recovery and low interest rates to support the market.
- But several factors – including continuing pressures on household finances and the potential for more properties to come on to the market - should limit the increase.
- There is little current sign of the excessive behaviour associated with a house price bubble. The authorities are also on guard to take action in the event of signs of overheating.
- The regional pattern is expected to be more even in 2014 with all regions experiencing price gains.
- Only muted rises in house prices after 2014 as increased supply, eventual interest rates rises and high house prices relative to incomes, dampen upward pressure.

Halifax's housing economist, Martin Ellis, provides his thoughts on the housing market for the year ahead:

"The housing market has been stronger than expected during 2013. Higher demand, combined with an insufficient rise in housing supply, has resulted in increases in house prices and higher activity this year. Low interest rates, and higher consumer confidence due to the increasing evidence that a sustainable economic recovery may now be underway, are helping to stimulate housing demand. Schemes, such as Funding for Lending and Help to Buy, also appear to have boosted demand.

"Nationally, house prices have increased by 7% in the first 11 months of the year. Activity has also picked up with transactions likely to exceed one million for the first time since 2007.

2014 to be similar to 2013

"We expect house prices to continue to rise during 2014, most likely at a broadly similar pace to that during 2013. Overall, prices nationally are forecast to increase in a range of between 4% and 8% next year.

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Further economic recovery and low interest rates to support the market...

"Mounting signs that the economic recovery is becoming firmly established, together with a predicted decline in unemployment, should further boost consumer confidence. This will increase the likelihood that more people will consider buying a property in 2014, therefore supporting housing demand.

"We also expect the Bank of England Bank Rate to remain very low, helping to support low mortgage rates and, therefore, housing demand. Typical mortgage payments for a new borrower - both first-time buyers and homemovers – at the long-term average loan to value ratio, accounted for 27% of disposable earnings in 2013 Quarter 3; its lowest proportion since 1999 Quarter 2 and comfortably below the average of 36% over the past 30 years.

"The Help to Buy scheme should stimulate housing demand in 2014 by helping potential buyers, who have been struggling to accumulate a sufficient deposit, to enter the market. Whilst there are many uncertainties around the impact of the Help to Buy mortgage guarantee, we do consider that the likely impact has most probably been exaggerated by a number of commentators.

…but several factors should limit the increase in house prices

"Continuing pressures on household finances, as earnings again fail to keep pace with consumer price inflation, are expected to continue to contain the upward pressure on the rate of growth of house prices in 2014.

"The recent strengthening in house prices is increasing the amount of equity that many homeowners have in their home. This should enable more to put their property on the market for sale over the coming year, boosting supply and helping to curb the upward pressure on prices.

"The recent decision to end the Bank of England's support for mortgages under the Funding for Lending Scheme is also likely to act as a constraint on the market.

Too early to talk of a 'housing bubble'

"Despite the recent gains, house prices remain 12% below their August 2007 peak and transactions in 2013 are still around a third below the average for 2006 and 2007. House prices are also lower in relation to earnings with the average price currently 4.8 times average annual earnings compared with a multiple of 5.8 in 2007.

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"There is little sign of the excessive behaviour associated with a house price bubble at present. There has been no evidence of acceleration in house prices over the past six months with prices rising at a quarterly rate of around 2% consistently throughout this period. Another year of similar price rises to those in 2013 next year would not be sufficient to create a bubble. In contrast, there were double digit percentage increases each year between 2001 and 2004. Overall, prices increased by 150% in the eight years leading up to the house price peak in 2007.

"The authorities, primarily in the form of the Bank of England's Financial Policy Committee (FPC), are also on guard to implement measures to dampen the housing market should signs of overheating materialise.

Fewer regional variations than in 2013

"London has led the recovery in house prices during 2013, but there are signs that the improvement is becoming more broadly based with much of the country now recording price rises. We expect the regional pattern to be more even in 2014 with all regions experiencing price gains. On a regional basis, it is only London where prices relative to incomes, appear higher than long-term averages to any significant degree. We expect this factor to act as a constraint on house prices in the capital, leading to a slowdown next year.

Beyond 2014: only muted rises in house prices

"We are seeing signs of a revival in housebuilding, according to the latest data. Private sector housing starts in England increased by 10% between the second and third quarters of 2013 to 26,380; the highest level since 2008 and 28% higher than in 2012 Quarter 3. Higher levels of housebuilding should help bring supply and demand into better balance and contain the upward pressure on prices over the medium and longer terms.

"We also expect continuing subdued earnings growth over the next few years and, at some point, interest rates will begin to increase returning towards more 'normal' levels. These factors, combined with the ratio of house prices to earnings still being above its long term average, are expected to mean that any price growth is likely to remain relatively weak over the years beyond 2014."

Ends

For the latest housing research, previous releases, and for information on the Halifax House Price Index, please follow this link:
http://www.lloydsbankinggroup.com/media1/economic_insight/halifax_house_price_index_page.asp

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