FOR IMMEDIATE RELEASE ON 19 DECEMBER 2017

Halifax UK Housing Market Outlook for 2018

Expected annual house price inflation for 2018: 0% to 3% by year end

- Continuing broad stability in house prices nationally in 2018
- Economic growth to continue below trend, but unemployment to remain low
- Continuing pressure on household finances together with affordability constraints likely to limit housing demand during 2018
- Shortage of homes for sale, low levels of housebuilding, and continuing low interest rates will support prices
- House price growth likely to be weakest in London and the South East
- Changes to Stamp Duty may boost first-time buyers

Halifax Bank's Managing Director, Russell Galley, provides his thoughts on the housing market for the year ahead:

"The UK housing market in 2017 followed a similar pattern to the previous year. House price growth has slowed, whilst building activity, completed sales and mortgage approvals for house purchase have all remained flat. This is driven by a combination of the continuing uncertainty regarding the future of the UK economy, and the ongoing challenge for prospective buyers to build up the appropriate deposits to support purchases.

"On the flip side UK House Prices in general are likely to be supported, seeing modest growth in 2018, through the combination of a shortage of properties for sale, continued low levels of housebuilding, low unemployment levels and finally good levels of affordability due to the low interest rate environment. Despite the recent rate rise we do not expect this to have an adverse impact on transactions. A further rate rise is not seen as imminent and we may not see one until the latter part of 2018, if at all.

HALIFAX PRESS TEAM
Angus Cheyne: 0131 655 7019 / 07970 566 594 **angus.cheyne@lloydsbanking.com**
Kimberley Hamilton: 07557 257 298 **kimberley.hamilton@lloydsbanking.com**

UK economy in 2017

“Official data shows GDP grew by 0.4% in Q3 and the economy appears to have maintained its recent momentum so far in the fourth quarter. The economy is on course to grow by 1.5% this year, below the long-term annual trend rate of 2.5%. The key driver of activity in Q3 was real household spending growth - which has halved since 2016.

“Despite unemployment falling to a 42-year low, we haven’t seen an accompanying pick-up in wage growth. In fact, pay growth has averaged 2.2% for much of the year. As a result, household finances have come under strain with earnings failing to keep pace with consumer price inflation. Even with inflation expected to fall next year, household budgets are likely to remain strained in the absence of accelerating wage growth.

“Because of the heightened uncertainty and a slowdown in household spending, there is an expectation for slower economic growth in 2018, though unemployment is likely to remain low.

House price trends in 2018 similar to 2017

“Overall, we expect annual house price growth nationally to stay low and in the range of 0-3% by the end of 2018. The main driver of this forecast is the continuing effects of this year’s squeeze on spending power as inflation has outstripped wage growth and the uncertainty regarding the prospects for the UK economy next year.

“As for this year, annual UK house price growth has gradually fallen from 10%[1] in March 2016 to a recent low of 2.1% in July 2017, although levels have recovered in recent months to around 4%.

“The imbalance between supply and demand continues. On the demand side, new buyer enquiries have been weakening for much of the year[2]. At a regional level, this measure has deteriorated far more sharply in London, the South East and East Anglia compared to other parts of the UK. On the supply side, new instructions had held broadly stable, however, the latest data shows the supply of homes for sale sharply deteriorating. On this measure, supply has now fallen in 21 consecutive months to November. There is little reason to expect any fundamental shift in the key housing market drivers in the immediate future.

Regional prices in 2017

“In contrast to the trend seen for much of the past decade, latest data indicates that property price momentum was strongest in northern England but weaker in the South East and London.

“At 9.1%[3] in Q3 2017, the North saw the steepest annual rate of house price growth, followed by the East Midlands and the North West. London was the weakest performing English region with an annual rate of 2.6%, down from a recent peak of 21% in Q1 2016. In the South East, for the first time in three-and-a-half years, house prices increased at a softer pace than the UK as a whole.

HALIFAX PRESS TEAM
Angus Cheyne: 0131 655 7019 / 07970 566 594 **angus.cheyne@lloydsbanking.com**
Kimberley Hamilton: 07557 257 298 **kimberley.hamilton@lloydsbanking.com**

"As a result of the rapid price growth in the capital, house prices in relation to average earnings are still very high in London; at 8.8 times annual average earnings they are close to the historical high of 9. Additionally, mortgage affordability in London is worse than its long run average, the only region in the UK where this is so. These affordability issues suggest that price growth will continue to remain low. Outside London, there are few signs of significant stresses and imbalances at present, limiting the risk of a sharp slowdown elsewhere.

Housing Activity

"Measures of activity showed some mixed results in the latest data. On the one hand, completed transactions rose in October to 105,000[4] – the highest reading in 18 months. House sales in 2017 are expected to total around 1.23[4] million. However, mortgage approvals and newly agreed sales fell, suggesting that the rise in transactions was not the start of a revival in activity. In the past year mortgage approvals have been in the narrow range of 64,600 to 69,600[5].

First-Time Buyers

"The changes to Stamp Duty – announced in the 2017 Budget – should provide a boost for those hoping to take their first step on to the property ladder. Today's first-time buyers need to find an average deposit of around £33,000[6]. If they do manage to purchase their first home, they are on average £651 a year better off compared to renting, on top of the savings they make from the duty change. It's encouraging to see that the number of first-time buyers getting on the housing ladder has now exceeded 150,000[7] for the third time in four years – a level of momentum not seen since before the financial crisis.

Housebuilding

"There were 153,330[8] new builds completed in the year to June 2017, which is 11% higher than in the year to June 2016. Annual completions are 43% above the recent trough in the year to Q2 2013. Despite fluctuations, completions have increased gradually since 2013-14, averaging around 146,000 for the past two years.

"In the recent Budget the government announced plans to build 300,000 additional net new homes per year by the mid-2020s – this would require doubling the current annual levels. 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.

"Both demand and supply pressures in the market have altered little during the course of 2017, and this has been the key reason for the lack of direction in either sales or prices at a national level."

ENDS

HALIFAX PRESS TEAM
Angus Cheyne: 0131 655 7019 / 07970 566 594 **angus.cheyne@lloydsbanking.com**
Kimberley Hamilton: 07557 257 298 **kimberley.hamilton@lloydsbanking.com**

[1] Source: Halifax House Price Index. Annual rate as measured by the latest 3 months compared with the same 3 months a year earlier
[2] Source: Royal Institution of Chartered Surveyors' (RICS) monthly report
[3] IHS Markit Halifax Quarterly House Price index
[4] Source: HMRC and Forecast by Halifax based on data from HMRC, seasonally-adjusted figures
[5] Bank of England
[6] Halifax calculations
[7] UK Finance – refers to half year (not annual)
[8] Source: DCLG

HALIFAX PRESS TEAM
Angus Cheyne: 0131 655 7019 / 07970 566 594 **angus.cheyne@lloydsbanking.com**
Kimberley Hamilton: 07557 257 298 **kimberley.hamilton@lloydsbanking.com**