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FOR IMMEDIATE RELEASE

Halifax UK Housing Market Outlook for 2015

Predicted House Price Inflation for 2015: 3% to 5%

- A further moderation in house price growth is likely next year. House prices nationally are expected to increase in a range of 3-5% in 2015.
- The prospect of higher interest rates at some point in the year and the deterioration in affordability over the past year are expected to be key factors curbing housing demand.
- But housing demand should be supported by solid economic growth, higher employment, still low mortgage rates and the first gain in 'real' earnings for several years.
- We expect to see a more even regional pattern in house price growth during 2015.
- Global economic worries could reduce demand and activity at the top end of the London market in 2015.
- Further ahead, price growth is expected to rise broadly in line with income growth, as rising interest rates increase the affordability constraint on the market. Higher levels of housebuilding should also limit upward house price pressure.

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

"The fortunes of the housing market are closely tied to developments in the wider economy. The strengthening in the UK economy has contributed to higher housing demand over the past 18-24 months. There has been an increase in the number of buyers, fuelled by rising confidence and the improved cost and availability of credit. Higher demand, however, has not been matched by an increase in the number of sellers in the market, resulting in strong upward pressure on house prices in some parts of the UK.

"The deterioration in housing affordability as a result of higher house prices, earnings growth that has been consistently below consumer price inflation until very recently and increased talk of an interest rate rise, appear to have combined to temper housing demand since the summer. Tighter mortgage rules may also have acted as a brake on activity. The weakening in housing demand has led to a modest easing in both price growth and sales.

"House prices in the three months to October were 0.8% higher than in the preceding three months. This was the third consecutive decline in the quarterly rate of increase and the

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smallest rise since December 2012. Annual price growth in the three months to October slowed to 8.8% from 9.6% in September. Activity has also declined with mortgage approvals in September falling for the third successive month to a 14 month low, whilst home sales are at their lowest level since October 2013.

Growth in economic activity has eased but expected to remain robust in 2015

“There has been a slight easing in economic momentum during the second half of 2014, mainly reflecting global economic developments, particularly the slowdown in the euro zone. Despite slowing moderately, the pace of growth remains robust. Moreover, the UK economy has moved from a period of prolonged stagnation to growth at, or above, its long run trend over the past 18 months or so. Overall, UK economic activity is forecast to grow by around 3% in both 2014 and 2015.

“Signs that tightening conditions in the labour market are translating into stronger wage growth are now becoming apparent. Official data indicates an acceleration in regular annual pay growth to 1.3% in September from 0.9% previously, driven by a pick-up in private sector wages. Whilst wage growth remains modest, the increase has been sufficient to close the gap with the current rate of consumer price inflation (1.3%), helping to relieve some of the pressure on household finances. This trend in wage growth is expected to continue, providing the recovery with an additional boost.

Uncertainty regarding the timing of the first interest rate rise but the pace of increase will be gradual

“The MPC’s November Inflation Report suggests the likelihood of rates remaining on hold through the first half of 2015 has risen. An emphasis on downside risks to the UK economy from the external environment, stemming mainly from the euro zone, reinforced the impression that the MPC is less likely to raise interest rates in early 2015 than appeared a few months ago. Nevertheless, with the timing of a rate rise dependent on the Committee’s assessment of the information contained in the flow of economic data, an increase as early as February cannot be ruled out, but compelling evidence of an accelerating pace of wage growth would need to build in the months ahead to trigger a rise in early 2015.

“Regardless of the precise timing of the first move in official interest rates since March 2009, the Bank of England is likely to adopt a cautious approach to raising rates initially due to concerns about the ability of many households to make higher repayments on their debts. Interest rates are, therefore, likely to rise at a gradual pace.

House price growth to moderate further next year...

“Annual house price inflation is expected to have peaked at around 10% in July 2014. A further moderation in house price growth is likely in 2015 as supply and demand become increasingly better balanced. The prospect of higher interest rates at some point in the year and reduced affordability are expected to be key factors curbing housing demand. A looming

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general election next May could also raise uncertainty, resulting in a lull in activity in the early months of the year.

"Despite these downward pressures, housing demand should be supported by continuing economic recovery, growth in employment and still low mortgage rates. Average earnings also appear set to rise more quickly than inflation next year, with the first gain in 'real' earnings for several years stimulating demand. Overall, house prices nationally are expected to increase in a range of 3-5% in 2015.

...with a more even regional picture

"House price growth in the UK during 2013 and 2014 has been very much led by London – and to a lesser extent - the rest of southern England. With mortgage affordability in London now worse than its long run average, there has been a notable cooling of buyer interest in property in the capital in the last few months. Global economic worries could also reduce demand and activity at the top end of the London market in 2015.

"Outside the South East and London, house prices do not appear markedly out of line with fundamentals. We, therefore, expect to see a more even regional pattern in house price growth during 2015.

Increased housebuilding to constrain house prices longer-term

"Further ahead, price growth is expected to be broadly in line with income growth, as steadily rising interest rates increase the affordability constraint on the market.

"Whilst levels of housebuilding remain well below those required to keep up with the pace of household formation, the latest data shows signs of a revival. A continuation of this upward trend in housebuilding would help to bring demand and supply into better balance, curbing upward pressure on house prices.

"The Financial Policy Committee announced in late June 2014 that lenders are to (i) limit mortgages with a loan-to-income ratio of 4.5 or over to 15% of their lending, and (ii) must test whether borrowers are able to afford their mortgage if the prevailing mortgage rates were to increase by three percentage points over the first five years of the loan. These measures are designed to prevent a future build-up of mortgage debt threatening financial stability and should help to constrain house price growth over the medium and longer-terms."

ENDS

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