Economic and mortgage market review

November 2012

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Economy

UK economic growth confirmed at 1%

The UK economy grew by 1% between July and September, latest official figures have confirmed. In October, the Office for National Statistics' first estimate showed the surprisingly strong growth, bringing to an end a nine-month long recession. The Olympic Games helped to boost growth over the summer. The new figures also showed the economy contracted by 0.1% compared with a year earlier, whereas the previous estimate had shown flat growth. An important factor behind the strong growth in the third quarter was consumer spending, which grew by 0.6% - the strongest rate for more than two years. The contraction in the construction sector was revised to show a slightly steeper drop. (BBC 27/11)

Mark Carney named new Bank of England governor

Mark Carney has been named as the new governor of the Bank of England by Chancellor George Osborne. Mr Carney, the governor of the Canadian central bank, will serve for five years and will hold new regulatory powers over banks. He was a surprise choice for the head of the UK's central bank and had previously ruled himself out. Current governor Sir Mervyn King steps down from the post next June. Sir Mervyn said Mr Carney represented "a new generation of leadership for the Bank of England, and is an outstanding choice to succeed me". (BBC 26/11)

Bank of England cuts UK growth forecast for 2013

The Bank of England has cut its growth forecast for next year to about 1% from nearer 2%, and said recovery will be "slow and protracted". It now thinks that the economy will not get back to pre-crisis levels until 2015, two years later than it previously predicted. The Bank also believes inflation will remain higher for longer. It forecast that inflation would not now fall towards the government's 2% target until mid-2013, rather than in the first half of next year as previously thought. (BBC 14/11)

Sir Mervyn King warns risk from eurozone has grown

The risk posed by the eurozone has grown, the departing Bank of England governor Sir Mervyn King has warned. The governor said problems in the eurozone, as well as the US and Asia, lay behind the Bank's recent pessimism about UK growth prospects in 2013-14. (BBC 27/11)

Bank of England split on quantitative easing impact

One member of the Bank of England's Monetary Policy Committee voted for more quantitative easing (QE) earlier this month, meeting notes have shown. The minutes of the November meeting also showed that "views differed over the exact impact" of QE. David Miles voted to inject a further £25bn into the UK economy, over and above the £375bn already committed under the asset purchase programme. The eight other members voted not to inject more money. However, all nine members of the committee voted in favour of keeping interest rates at a record low of 0.5%. (BBC 21/11)

UK unemployment falls to 2.51 million, ONS says

The number of people out of work in the UK has fallen to its lowest total for more than a year. Unemployment fell by 49,000 to 2.51 million in the three months to September, taking the jobless rate to 7.8% from 7.9%. The Office for National Statistics said that almost all the 49,000 fall was due to a decline in youth unemployment. But the ONS said that the claimant count rose by 10,100 last month to 1.58 million, the highest since July. The unemployment total is now 110,000 lower than for the July-September quarter last year, the ONS said. (BBC 14/11)

UK inflation rate rises to 2.7% in October

The UK's inflation rate rose sharply following an increase in tuition fees and food prices. The Office for National Statistics (ONS) said the rate of Consumer Prices Index (CPI) inflation rose to 2.7% in October, up from 2.2% the month before. It said education costs rose by 19.1% last month after the government lifted the cap on university fees. The Retail Prices Index (RPI) measure of inflation - which includes housing costs - rose to 3.2% from 2.6%. (BBC 13/11)

UK Manufacturing down 1% year-on-year

The manufacturing index, which specifically measures factory output, rose 0.1% in September compared with August, but fell 1% year-on-year. (BBC 6/11)
A separate PMI survey for manufacturing indicated that the sector shrank in October for the sixth month in a row, while the survey of the construction sector found that while output was slightly higher, new work and employment shrank. (BBC 5/11)

UK construction output fell further in September

UK construction activity fell 13.1% in September from a year ago, as the sector's downturn steepened, ONS figures have shown. The month saw further big drops in new building by the commercial and public sectors (excluding infrastructure projects), both of which were down by a fifth from a year ago. House building saw a 5% bounce in the month but remains 12% below a year ago. (BBC 9/11)

Retail sales weak and empty shop rate highest in 15 months

More than one in 10 shops is empty, according to the British Retail Consortium (BRC), the highest since it began collecting data on occupancy levels of High Street premises. The BRC survey also said that overall footfall dropped by 0.4% on a year ago in the three months to October, with a big drop-off in numbers in October itself, when numbers fell by 2.6%. The findings echo those from the ONS, which showed retail sales fell 0.8% in October. (BBC 19/11)

UK service sector growth 'weakest in almost two years'

Activity in the UK service sector grew at its slowest pace in almost two years in October, the PMI services index from Markit/CIPS survey has suggested. (BBC 5/11)

Mortgage and housing market

Increase in approvals

Seasonally adjusted house purchase approvals picked up to 53,000 cases in October, from 50,400 in September. This was the highest level of activity since the start of the year. There was also a slight pick up in remortgage activity from 28,600 to 29,400 cases, although activity remains weaker than the same period last year. Gross advances, at £12.8bn, were up from £11.4bn in September. (Nationwide summary of BoE results)

UK house prices unchanged in November

House Price Indices	Monthly % Change in Prices				
	Aug	Sep	Oct	Nov	Yr on Yr
Nationwide	**+1.1**	**-0.4**	**0.6**	**0.0**	**-1.2**
Halifax	-0.4	-0.4	-0.7	n/a	-1.5
HMLR	0.0	-0.3	-0.3	n/a	1.1

Commenting on the figures, Robert Gardner, Nationwide's Chief Economist, said: "The annual rate of house price inflation remained in negative territory for the ninth month in a row in November. However, the pace of decline remained extremely slow, with prices just 1.2% below the level prevailing in November 2011. "The predominant theme remains one of stability. Indeed, UK house prices were unchanged over the month in November, after taking account of normal seasonal factors. Moreover, annual price growth has remained in a narrow band between +1.5% and -1.5% on all but two occasions over the past two years.

Our view is that house prices are likely to remain broadly flat or decline modestly over the next twelve months". (Nationwide 29/11)

CML data shows lowest possessions number since 2007

CML data showed that arrears remained broadly stable in the third quarter of the year, while the number of properties taken into possession – at 8,200 – was the lowest quarterly total since 2007.

The decline in the number of homes taken into possession shows that lenders are continuing to assess carefully the needs of borrowers, and that keeping them in their homes where possible remains the priority. Lenders, borrowers and money advisers are collaborating effectively to help the majority of customers through a temporary period of payment difficulty.

At the end of the third quarter, the number of mortgages with arrears of 2.5% or more of the outstanding balance nudged up to 159,100, from 158,700 at the end of the preceding three months. But the total was lower than the 165,300 in arrears at the end of the same quarter a year earlier. [The percentage of mortgages which were more than 3 months in arrears was unchanged from Q2 at 1.93%, but lower than the 2.06% registered a year earlier. For BTL the figure was 1.22%, down from 1.44% a year earlier – Nationwide analysis of CML results.

In the first nine months of this year, a total of 26,300 properties were taken into possession, 8% fewer than over the same period in 2011. At the end of the third quarter, the possession rate stood at 0.06% in the owner-occupied sector and at 0.13% in the buy-to-let sector, giving an overall rate of 0.07%. (CML 14/11)

CML Market commentary

There are signs that the market weakness of recent months may be coming to an end. House purchase and remortgage activity are both likely to have picked up in October, in keeping with the underlying improvement in Bank of England approvals data over recent months.

Special factors have distorted the monthly pattern of house purchase activity, but the underlying picture appears to have settled into a pattern of modest year-on-year growth.

By contrast, remortgage activity had been very subdued through 2012, with low back book rates limiting incentives to refinance onto new deals. However, over recent months the cumulative effect of increases in SVRs by some mortgage firms and more competitive mortgage deals – on the back of better funding conditions – appears to have re-kindled some remortgaging appetite.

While this is from a low base - it does suggest that remortgage activity may act as less of a drag on overall lending going forwards.

An important development for the market is that the upward pressure on new mortgage rates - evident during the first half - has shown signs of abating in recent months.

As the Bank of England notes in its recent Inflation Report, average rates on fixed rate mortgage products - which represent about two thirds of new mortgage lending - have eased back lately. This reflects improvements in European funding conditions more generally and Funding for Lending Scheme effects. While much of the initial impact has focused around lower LTVs, there has been greater competition at higher LTVs and also some firms newly offering high LTV products.

But it is early days for the FLS, and the Bank rightly continues to urge caution regarding the likely scale and timing of FLS effects.

An important factor relevant to the longer-term impact of FLS will be the extent to which household demand - still constrained by the wider pressure on household finances - picks up in response. While a dramatic improvement seems unlikely, the latest RICS survey, reporting the strongest reading for house buyer interest in nearly three years, has been interpreted as an encouraging sign by some commentators. (CML 20/11)

BTL sector continues its recovery

The value of buy-to-let mortgages advanced in the third quarter totalled £4.2 billion, an 8% increase over the £3.9 billion advanced in the preceding three months. The figures confirmed the continuing strong recovery of the buy-to-let sector.

Our data showed that the value of buy-to-let lending in the first nine months of 2012 totalled £11.8 billion, 19% higher than the £9.9 billion advanced in the same period in the preceding year. Buy-to-let activity is, however, recovering from a low base and remains subdued, compared to the pre-credit crunch era. Lending this year is likely to total a little over one-third of its peak in 2007.

The stock of buy-to-let mortgages continues to grow. At the end of the third quarter, there were 1,444,000 buy-to-let loans outstanding, worth £164.3 billion (up from 1,414,000, worth £162.5 billion at the end of the preceding quarter, and from 1,367,000, worth £156.7 billion, a year earlier).

Buy-to-let lending criteria have remained virtually unchanged for more than three years. The average maximum loan-to-value ratio remains at 75%, with an average minimum rental cover of 125%.(CML 14/11)