Economic and mortgage market review

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Economy

Bank of England still divided over stimulus funds

Members of the Bank of England's rate-setting committee remain divided over whether to inject more stimulus money into the UK economy, minutes of its March meeting have revealed. For the second month, three members, including Sir Mervyn King, voted to extend the quantitative easing scheme. However, they were again outvoted by the six others.

One member of the MPC also raised concerns about the continuing weakness of the pound, which has fallen by as much as 8% against the dollar since the start of the year because of fears about the weakness of the UK economy. Ian McCafferty warned that a further fall in sterling could raise inflation, which might have "damaging" consequences.

As expected, the MPC decided to keep interest rates at 0.5%, which they have been since March 2009. (BBC 20/3)

UK unemployment rises to 2.52m

Unemployment rose by 7,000 to 2.52 million between November and January. The number of people claiming Jobseeker's Allowance in February fell by 1,500 to 1.54 million, the lowest level since June 2011, the Office for National Statistics (ONS) said. Despite the unemployment rise, the overall figure held at 7.8%.

The number of young people aged 16-24 without a job rose to 993,000 over the three months, taking the youth unemployment rate to 21.2%. Unemployment is still 152,000 lower than a year ago, while private sector employment rose by 151,000 to 24 million over the three months.

Workers' average earnings rose 1.2% over the three months, compared to the same period in 2011-12 (BBC 20/3)

UK inflation rate nudged up to 2.8% by rising fuel costs

UK consumer price inflation (CPI) rose to 2.8% in February, thanks to in part to rising energy prices, according to official figures from the ONS. The headline rate of retail price index (RPI) inflation fell to 3.2% in February, from 3.3% in January (BBC 19/3)

UK services sector grew in January

The UK's services sector grew at its fastest pace for five months in January, raising hopes that the economy will avoid falling back into recession. Output rose by 0.3% in January from December, the ONS said. Compared with a year earlier, the services sector - which makes up more than three-quarters of the UK's annual economic output - rose 0.8%. The largest contributions came from transport and financial services. (BBC 28/3)

The UK is set to avoid falling back into recession

The UK is set to avoid falling back into recession, according to the British Chamber of Commerce. It believes a strong performance by Britain's service industries during the first three months of the year has kept the economy growing. The weakness of the pound has also given exports a boost, it said. The BCC's survey of more than 7,000 firms also showed improvements in the manufacturing sector, although employment had weakened. (BBC 2/4)

Retail sales bounce back in February

Retail sales rose 2.1% in February compared with January, when bad weather was blamed for keeping sales low. The ONS said the rise was thanks to sales in computers and technology, and goods bought online. Sales were up 2.6% compared with February last year. (BBC 21/3)

Construction output drops in January

The output of the UK's construction sector dropped sharply in January from a year earlier. Construction output for the month was down 7.9% compared with January 2012, according to the ONS. The figures suggest the sector is continuing to struggle in the UK's tough economic climate. Construction accounts for just 7% of the UK economy, but the sector's troubles have been a drag on growth. Last year, its poor performance was blamed for helping to push the economy back into recession. The figure for the three months from November to January painted an even grimmer picture. Construction output was down more than 10% compared with a year earlier, with output totalling £6.7bn. (BBC 8/3)

Manufacturing activity falls again

Britain's manufacturing activity shrank for a second consecutive month in March, a survey showed, leaving the country's more resilient services sector as the best hope of avoiding a new recession. The Markit/CIPS manufacturing purchasing managers' index came in at 48.3, only slightly above February's surprisingly poor reading of 47.9, and a touch weaker than the consensus forecast. (Reuters 2/4)

Budget Key points

- Growth forecast for 2013 halved to 0.6% from 1.2% in December
- Office for Budget Responsibility (OBR) watchdog predicts UK will escape recession this year
- Growth predicted to be 1.8% in 2014; 2.3% in 2015; 2.7% in 2016 and 2.8% in 2017.
- Limit at which people start paying tax to be raised to £10,000 in 2014 - a year earlier than planned
- Shared equity schemes extended, with interest-free loans for homebuyers up to 20% of value of new-build properties
- Bank guarantees to underpin £130bn of new mortgage lending for three years from 2014
- Corporation tax to be cut from 21% to 20% in 2015
- Bank remit to be changed to focus on growth as well as inflation (BBC 20/3)

Mortgage and housing market

Mortgage advances down slightly in February

Seasonally adjusted house purchase approvals fell slightly to 51,700 cases in February, from 54,200 in January. There was a slight pick up in remortgage activity from 25,800 to 26,800 cases.

Gross advances softened to £10.4bn, from £11.5bn in January. (Nationwide analysis of BoE figures)

UK house prices unchanged in March

House Price Indices	Monthly % Change in Prices				
	Dec	Jan	Feb	Mar	Yr on Yr
Nationwide	**-0.1**	**+0.5**	**+0.2**	**0.0**	**+0.8**
Halifax	+1.0	-0.2	+0.5	n/a	+1.9
HMLR	+0.8	+1.0	+0.2	n/a	+1.0

Commenting on the figures, Robert Gardner, Nationwide's Chief Economist, said: “House prices were unchanged between February and March after taking account of usual seasonal effects. However, in annual terms, house price growth moved into positive territory for the first time since February 2012. In recent months buyer demand has been supported by healthy rates of employment growth, as well as the Funding for Lending Scheme, which has helped to reduce mortgage costs and increase credit availability. At the same time housing supply has remained relatively constrained. The outlook for the housing market is unusually uncertain at present, in part because the prospects for the wider economy are unclear, but also as the impact of a number of policy initiatives is hard to gauge.“ (Nationwide)

UK housing market picking up, says Rics

UK house sales hit their highest level in more than two-and-a-half years in February, but the figures do not signal a housing boom, surveyors say. The number of mortgages on the market has increased by about a third since the launch of the Funding for Lending scheme, which was aimed at encouraging lending by offering cheap funds to mortgage and loan providers.

"It is encouraging to see that the housing market now appears to be picking up across most parts of the UK despite ongoing concerns about the health of the economy," said Peter Bolton King, global residential director at Rics. "This may, in part, be down to the growing availability of mortgage finance through schemes such as Funding for Lending. However, even with activity running at its best level since the middle of 2010, it is still well down on its pre-crisis norm."

The number of homes being sold at present in the UK is about half the total seen in 2007 before the financial crisis hit, according to figures from HM Revenue and Customs. (BBC 12/3)

CML’s budget summary

Following the Budget announcement of a "Help to Buy" package incorporating a new government guarantee scheme designed to support the widening of availability of low deposit mortgages, the Council of Mortgage Lenders confirms that it will work constructively with Government to help deliver a workable scheme, but emphasises that the detail of its operation will be crucial to its success.

Clearly, to be successful the voluntary scheme will need to be robust, not overly complex, result in the delivery of products that are attractive to borrowers, and be commercially viable for lenders. To achieve this, the scheme will need to ensure that all lenders will be able to gain capital relief in recognition of the risk mitigation offered by the Government guarantee. Without capital relief, and depending on the size of the fee, the cost of the commercial fee that lenders will have to pay to gain the benefit of the scheme could make the scheme uneconomical.

Because it will take some months to design and put the scheme in place, the benefits will not be immediate. However, a successful scheme could ultimately enable lenders to offer more low-deposit loans than they would otherwise be able to do without incurring concerns from funding markets, prudential regulators, or their own internal risk committees. (CML 20/3)

Rental costs down 0.1% in February, says LSL

The cost of renting a home in England and Wales fell by 0.1% in February, but remained higher than a year earlier. The average rent fell by one pound compared with January to £731 a month in February, according to LSL Property Services. This was the fourth monthly fall in a row, the survey found. However, the costs facing tenants remained 3.3% higher than February 2012, LSL said.

"The rental market has not yet burst into life, but we are seeing more vitality than last year's timid February market, when tenant demand was impacted by the rush to buy homes before the stamp duty deadline," said director David Newnes. "In the longer-term, the supply of rental homes will have to increase considerably to prevent monthly rent rises when the rental market re-enters its traditional peak season.“ (BBC 15/3)