17 May 2024

UK in Focus

Economics
United Kingdom

A different North-South housing divide

- UK GDP rose at its fastest rate for two years in Q1 …
- … while wage growth showed further resilience
- Meanwhile, the Bank of England opened the door to interest rate cuts a little wider

UK data review (Jan/Feb 2024)

- **The BoE's Monetary Policy Committee (MPC) voted by 7-2 to keep Bank Rate on hold at 5.25% at their latest meeting on 2 May**. The addition of a second MPC member opting for a cut in the Bank Rate plus a further softening in their language pointed to the likelihood of a rate cut in the near future, possibly as soon as their next policy meeting (20 June). However, Governor Bailey noted that a change in Bank Rate in June was not a fait accompli nor ruled out. He pointed to the decision being informed by the data before the next meeting and alluded to some tolerance of upside surprises.
- The day following the 2 May BoE meeting saw GDP data for Q1 released. The report **confirmed that the UK was no longer in recession** and, in fact, rose faster than expected in the first quarter at +0.6% (BoE and market consensus: 0.4%). While there is a risk that the data are revised as more information is obtained, the print offered a very welcome start to 2024, ending two-years of stagnation. The industrial production sector recorded the fastest growth +0.8% q-o-q – largely driven by manufacturing – while the services sector rose 0.7% q-o-q. However, less positively, construction was down 0.9% q-o-q with considerable weakness in 'new work' that declined by 1.8% over the quarter.
- **Meanwhile, the UK Labour Market in the first quarter was a mixed bag.** The number of people employed fell (-178k) in the quarter, however, much of the decline was seen in self-employment (-119k) while the number of people in full-time work rose (+37k). Nonetheless, the number of unfilled vacancies continues to fall from its elevated levels pointing to softer labour demand. On the flipside, the unemployment rate, despite rising to 4.3%, remains historically low: the number of people reporting as inactive, i.e. not available to work, rose to its highest quarterly level in over a decade, and pay growth was stronger than expected.
- **Housing Market RICS survey** pointed to a stagnant housing market in April as higher mortgage rates added to already stretched affordability for many buyers. As such, the new buyer enquiries index cooled, falling to -1 from +6, ending three consecutive months of demand growth. Nonetheless, the new seller instructions index increased to +25, its highest level since 2020. However, with weaker demand and high interest rates, converting a listing into an agreed sale is proving more challenging.

HSBC

North-South housing divide

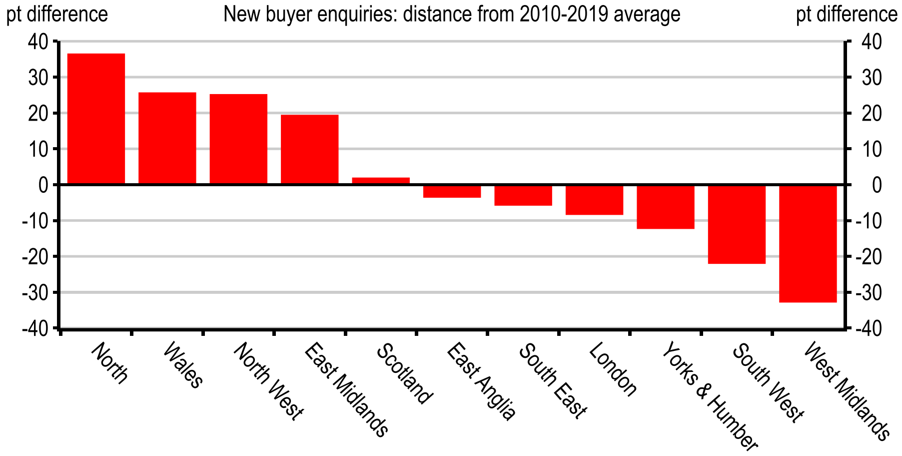
Stronger housing market activity in the North

While activity stagnated in April, the slowdown was unequal with a north-south divide reappearing. The RICS survey reported the largest loss of momentum in new buyer enquiries across the South, while demand rose in the North and Wales. In fact, demand is higher across the North and Wales versus their 2010s average (see chart 1).

As a result, house price growth is stronger, with price rises in the North East (+3%) and North West (+1.4%) a likely reflection of relative affordability. Prices in more expensive areas such as London and the South East fell by 4.8% and 2.1%, respectively.

Stretched affordability is perhaps the most dominant driver of near-term housing market activity. High house prices relative to incomes are not a new phenomenon; based on a general 5x earnings lending threshold, house prices have been 'unaffordable' since the early 2000s. But now, higher interest rates are adding to the difficulty

1. Despite the challenges, demand across the North, Wales, and East Midlands is high



Source: ONS, Macrobond

Higher interest rates and high prices will keep affordability stretched

Throughout the 2010s, low interest rates enabled many to increase their loan-to-income (LTI) ratio, particularly in high priced areas such as London and the South. However, more recently, LTI and loan-to-value multiples have fallen at a faster rate than house prices, yet monthly mortgage repayments have risen sharply, pointing to the impact of higher interest rates.

Notably, interest payments on new lending as a proportion of total mortgage costs has almost doubled in two years across all regions, also in part due to a lengthening of mortgage terms to help withstand higher interest rates. However, in real GBP terms, the greatest impact is being felt across the South where affordability is most stretched despite incomes falling in real terms across all regions. As such, while interest rates remain elevated, it is possible that the recovery in the housing market could see this North-South divide widen further.

Disclosure appendix

Important disclosures

Additional disclosures

1 This report is dated as at 17 May 2024.

2 All market data included in this report are dated as at close 15 May 2024, unless a different date and/or a specific time of day is indicated in the report.

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