Market Briefing: December 2024

Key developments in the economy, housing and mortgage markets

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Executive summary

- GDP growth has disappointed in recent months. After a strong H1, growth in Q3 was only 0.1%, but the economy contracted by 0.1% in both September and October. Manufacturing was particularly weak.

- The Bank of England cut Bank Rate by 0.25% in November, the second cut this year. However, it has warned that it plans to take a cautious approach to rate cuts in 2025 because of stubbornly high underlying inflation and concern that budget measures could put additional upward pressure on prices.

- CPI inflation rose to 2.6% in November. Core inflation rose from 3.3% to 3.5% while services inflation was unchanged at 5.0%.

- The number of job vacancies, probably the best guide to the state of the labour market, continues to decline gradually, falling 137,000 in the year to October but the unemployment rate has remained broadly stable at 4.3% in September.

- The housing market strengthened heading into the Autumn. Housing turnover reached 111,000 in October, the highest figure for nearly two years. The RICS Residential Market Survey for November points to a further improvement in the coming months.

- House prices are also showing the effect of a relatively buoyant market. The latest figures from the Land Registry, Nationwide and Halifax all show the fastest growth so far this year with the Land Registry index up 3.4% in the year to October and growth of 3.7% and 4.8% from Nationwide and Halifax in November.

- Mortgage approvals have been buoyant, particularly those for house purchase, which reached £17.5 billion in October, the highest monthly total since August 2022.

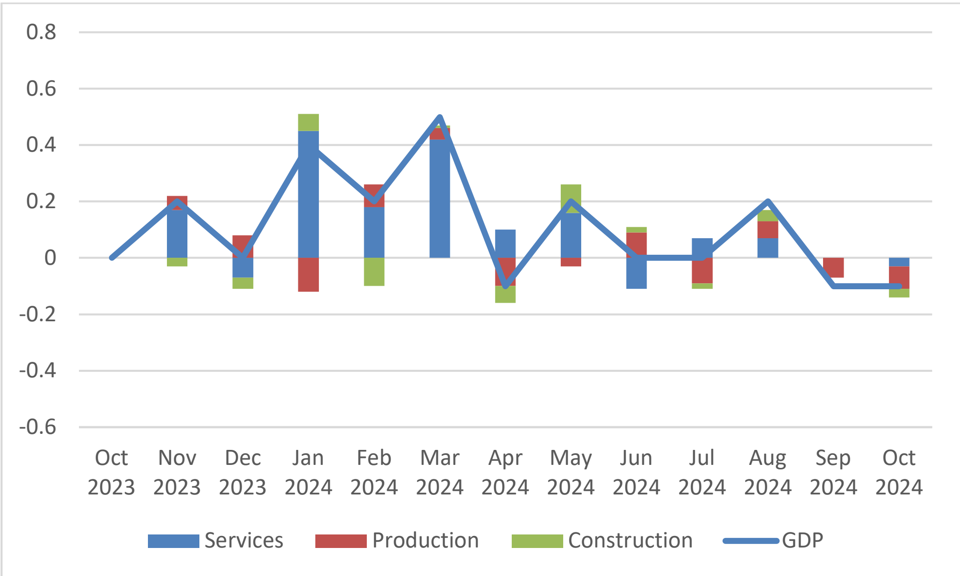
- Mortgage arrears over 2.5% of the loan balance fell slightly in Q3 in both the owner-occupied market (down from 1.10% of mortgages to 1.08%) and in buy-to-let (down from 0.69% to 0.67%), demonstrating that most households have adjusted well to a higher interest rate environment.

The economy

Output

Early estimates suggest the economy disappointed in the autumn. Output rose by just 0.1% in Q3 and fell by 0.1% in both September and October (see Chart 1). Production led the decline, with manufacturing being the largest component, falling 1.5% in September and 0.6% in October but services also disappointed with no growth in either month. These figures predated the sharp fall in business confidence that followed the 30 October budget but followed strong growth in the first half of the year.

Chart 1 – Sources of monthly GDP growth %

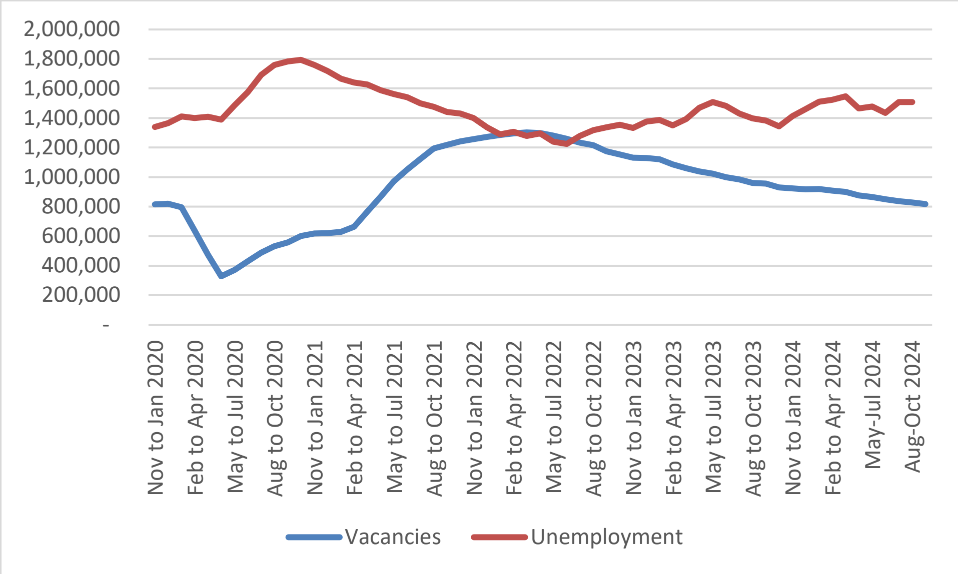


Source: Office for National Statistics

Labour market

The number of vacancies is probably the best guide to the state of the labour market so the steady decline in vacancies since April 2022 (as shown in Chart 2) signals a softening market. Vacancies fell by 137,000 in the year to October and are now back to their pre-pandemic level. However, unemployment has shown only a very gradual upward trend over the past two years, leaving the unemployment rate at 4.3% in September, almost unchanged from the level of January.

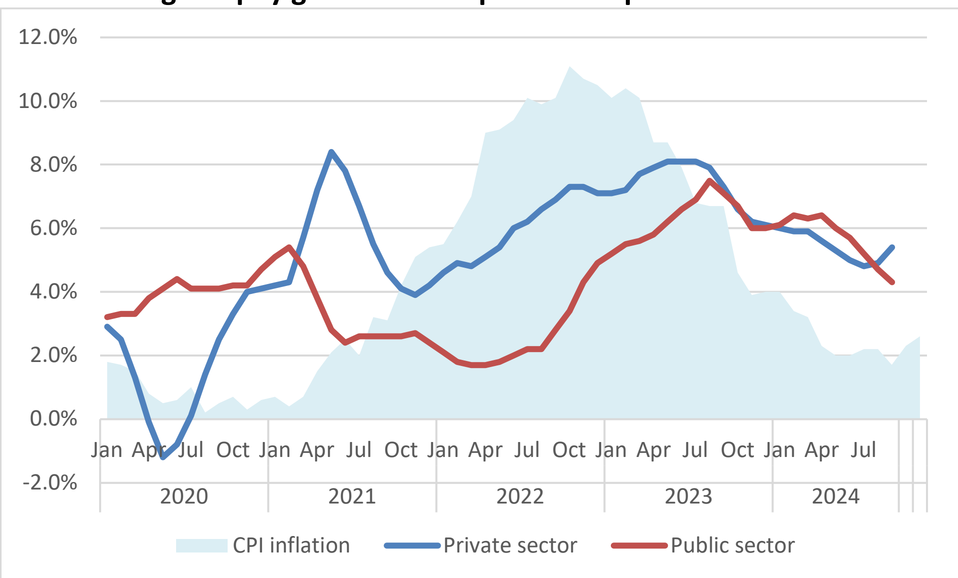
Chart 2 – Job vacancies and unemployment



Source: Office for National Statistics

Despite significantly lower headline inflation in recent months, earnings growth rose to 5.2% in October. The private sector is now driving higher wage growth with regular pay up 5.4% in October against 4.3% in the public sector (see Chart 3). The increase in employers' National Insurance announced in the budget will put pressure on firms to contain wages and the OBR forecasts that earnings growth will slow to 2.3% by Q4 2025, but the labour market remains relatively tight so wage growth might not slow this quickly.

Chart 3 – Regular pay growth in the public and private sectors



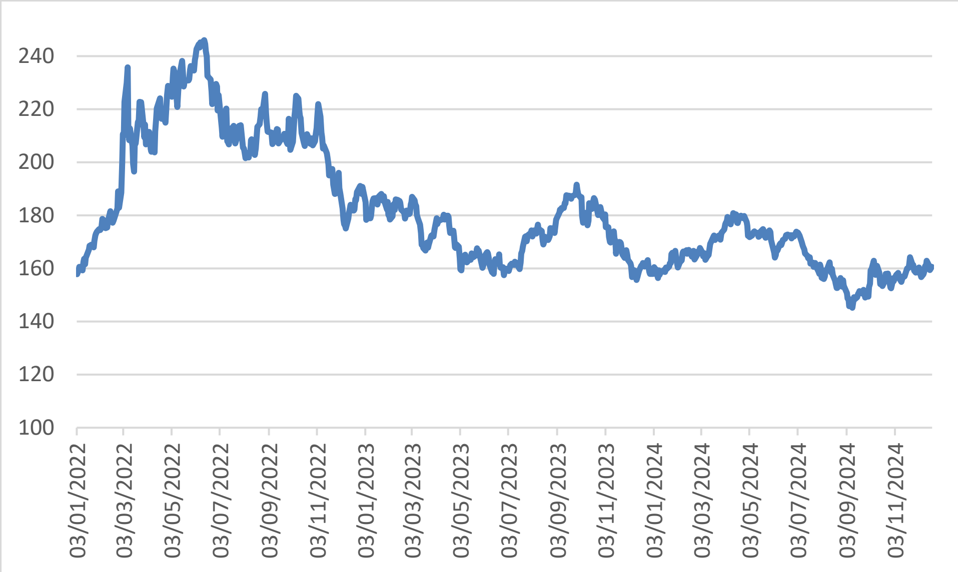
Source: Office for National Statistics

Inflation and interest rates

As Chart 4 shows, global commodity prices remain subdued. Although the S&P GSCI Global Commodities Price Index is 11% above its 2024 low, recorded in mid-

September, it remains 2% below the average for 2024. Oil prices have been below $70 a barrel despite the recent tension in the Middle East.

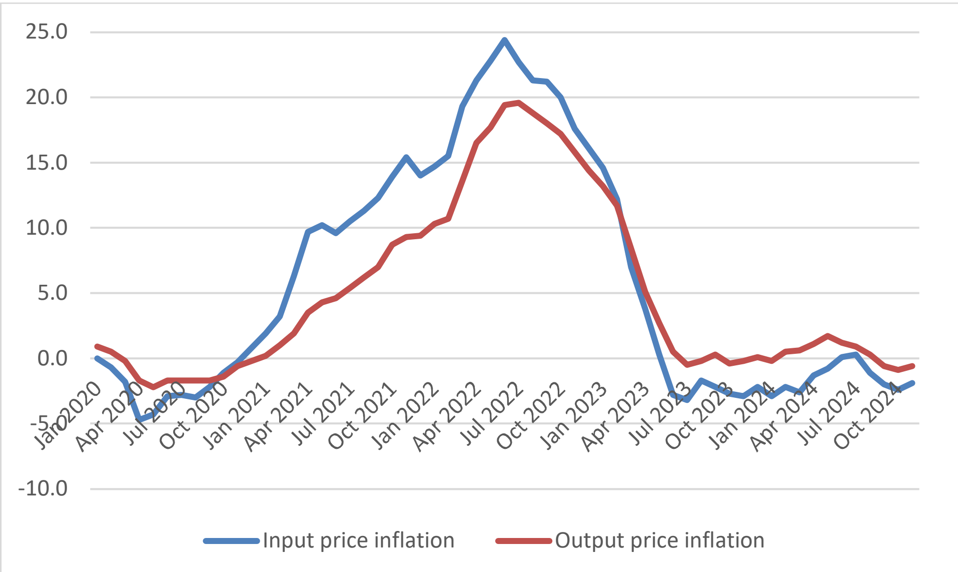
Chart 4 – S&P GSCI Global Commodities Price Index in Sterling



Source: S&P

With commodity prices remaining subdued, producer input prices have been falling for much of the past 10 months. In the year to November, they were down 1.9% (see chart 5). Producer output prices are now also falling slightly, down 0.6% over the same period. Although producer output prices have quite a modest influence on consumer prices, these figures will help to contain consumer price inflation over the next few months.

Chart 5 – Producer prices (% annual increase)

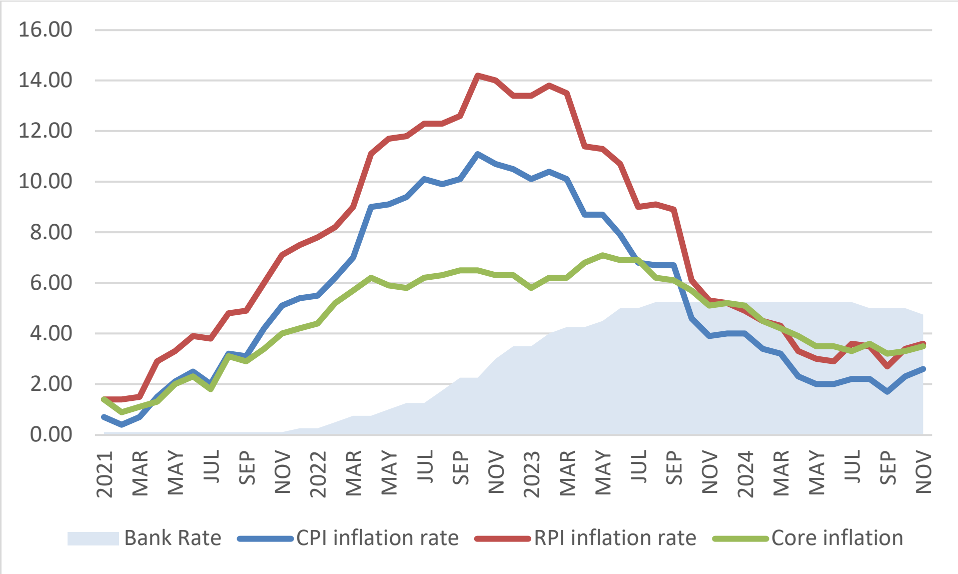


Source: Office for National Statistics

CPI inflation fell below the Bank of England target rate of 2% in September but rose to 2.6% by November. This was not unexpected as a fall in prices between October and

November 2023 dropped out of the 12-month comparison. With an even larger fall occurring between December 2023 and January 2024, CPI inflation could reach 3% in January but should fall back in the following months. Of slightly more concern is the trend in core inflation which rose to 3.5% in November and services inflation, which was stuck at 5.0%, while the October budget is expected to put upward pressure on prices as businesses seek to recoup higher National Insurance costs.

Chart 6 – CPI, RPI and core annual inflation and Bank Rate



Source: Office for National Statistics

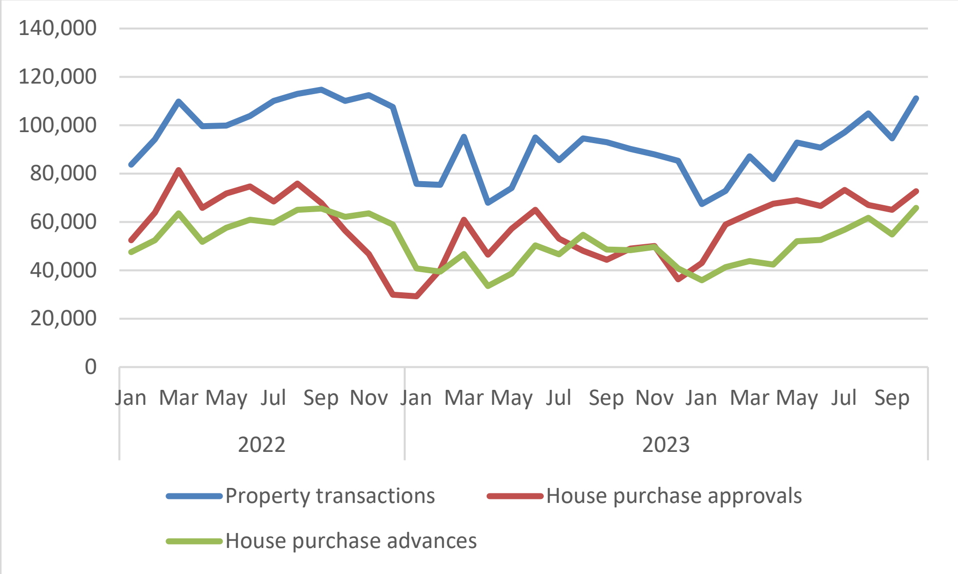
The Bank of England cut Bank Rate by 0.25% to 4.75% in November but held rates in December as it signalled that it plans only a gradual reduction in rates over the course of 2025 as it remains concerned about underlying inflation and the impact of budget announcements including a higher Living Wage from next April.

Housing and mortgage markets

Activity

In October, housing turnover reached 111,000, its highest level since November 2022, continuing the improving trend seen over the course of 2024 and mortgage lending shows a similarly positive picture (see Chart 7). The November RICS Residential Market Survey suggests that this trend will continue both on a 3- and 12-month horizon while mortgage approvals, which typically lead advances by about 3 months, were also higher in October. The changes to stamp duty announced in the budget, with lower thresholds both for existing owners and first-time buyers from 1 April, are likely to affect the profile of transactions next year, bringing forward purchases to beat the deadline. Estate agents report that the increase in the stamp duty rate for additional properties to 5% has so far had a limited impact.

Chart 7 – Housing transactions and mortgage approvals and advances (monthly)

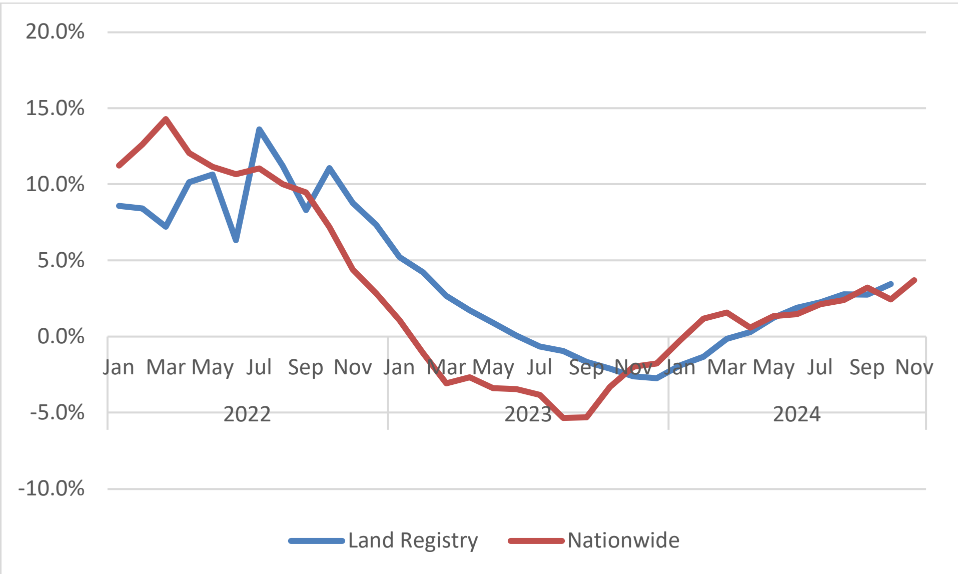


Source: HMRC, Bank of England, UK Finance

House prices and rents

After slipping slightly in 2023, house prices have strengthened over the course of 2024 (see Chart 8). The Land Registry figures rose by 3.4% in the year to October, while Nationwide and Halifax reported rises of 3.7% and 4.8% respectively in the year to November. Two rate cuts since August have aided confidence but will not have had much impact on sale prices yet while a rush to beat the changes in stamp duty thresholds in April could also add some momentum to prices.

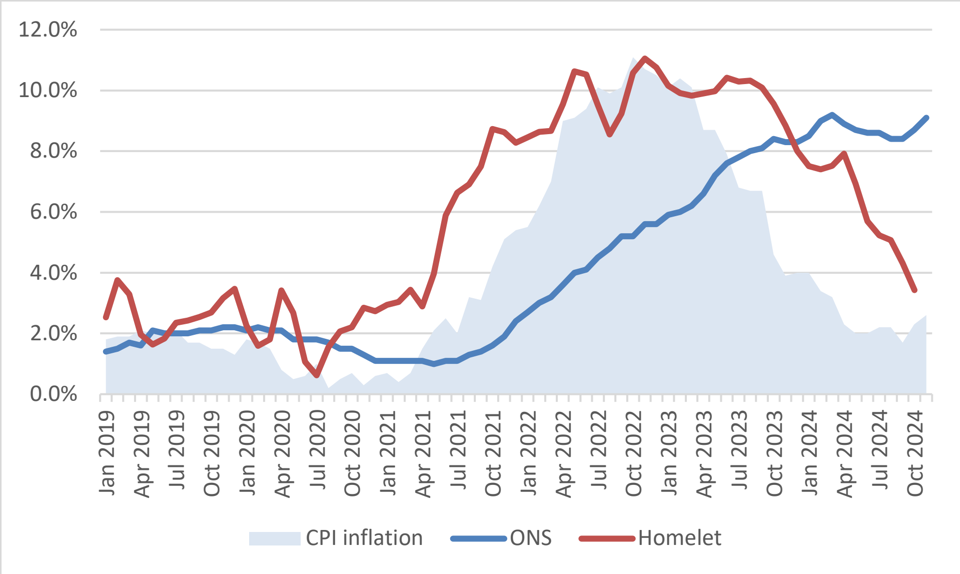
Chart 8 – House prices (annual growth rate)



Source: HM Land Registry, Nationwide Building Society

As Chart 9 illustrates, for a long period the rise in the Homelet Rental Index outpaced the ONS series for private rents. This reflected the different coverage, with Homelet only recording new tenancies, the cost of which rose rapidly as demand outstripped supply in the post-pandemic period, while the ONS series includes both new and existing tenancies, which tend to be less volatile as landlords often decide not to pass on the full increase in market rents to existing tenants.

Chart 9 – Private rents (annual % growth)

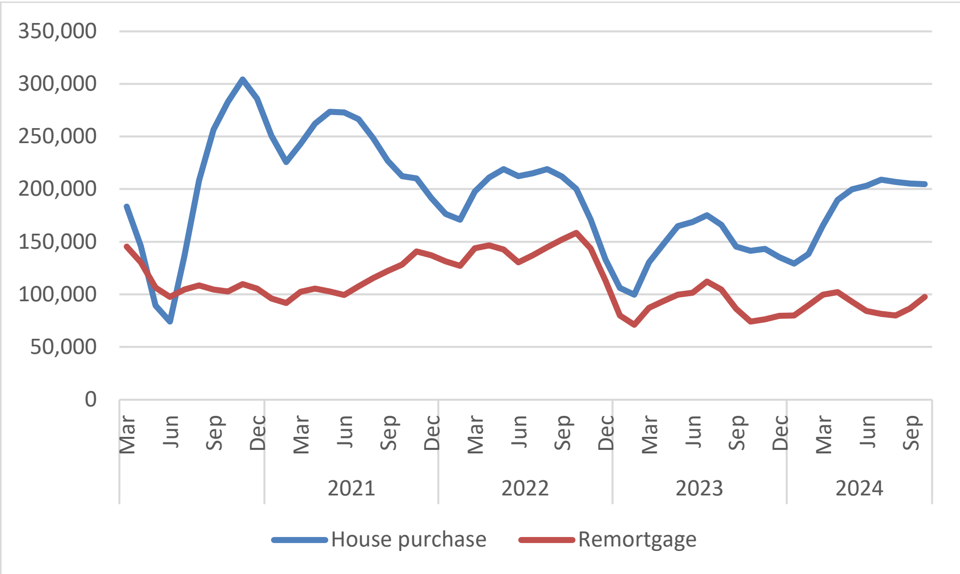


Source: Office for National Statistics, Homelet

Now it is clear from the Homelet Index that the rental market is cooling with growth of 3.4% in the year to October, although this is still above CPI inflation. In London, the index shows rents up only 0.9% over the same period. The ONS Index is likely to the follow the Homelet Index in slowing down in the coming months.

Mortgage lending

Chart 10 – Number of mortgage approvals (3 month rolling average)

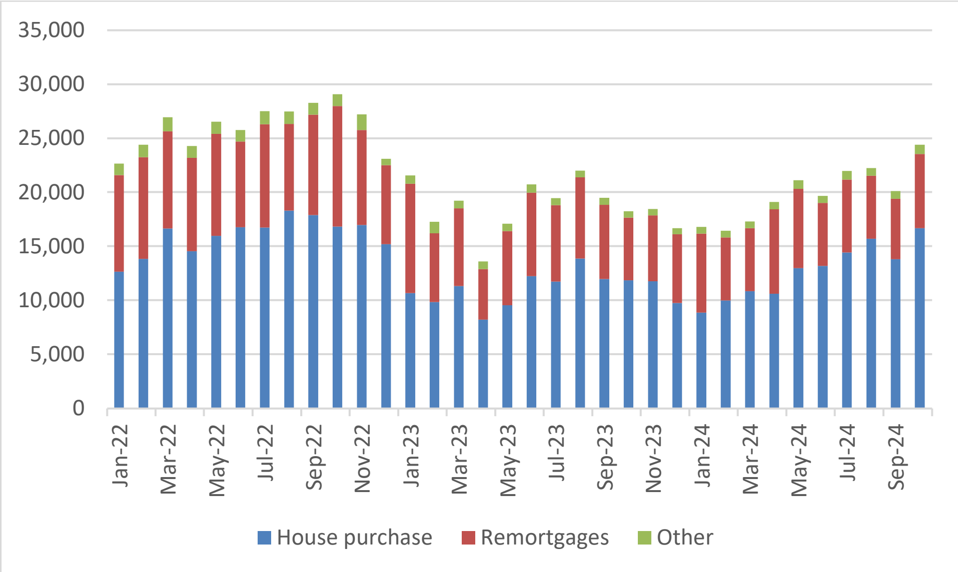


Source: Bank of England

House purchase approvals have been particularly strong this year as Chart 10 shows, averaging £15.1 billion a month, 42% above the 2023 monthly average. Remortgages have been less buoyant but did climb to £8.2 billion in October, the highest figure for two years.

Mortgage advances tell a similar positive story (see Chart 11), led by house purchase lending. The fall in mortgage rates over the course of the year has improved affordability. October was a particularly strong month with house purchase approvals 41% above a year earlier although remortgaging shows a more subdued picture with the monthly average for 2024 below 2023's level.

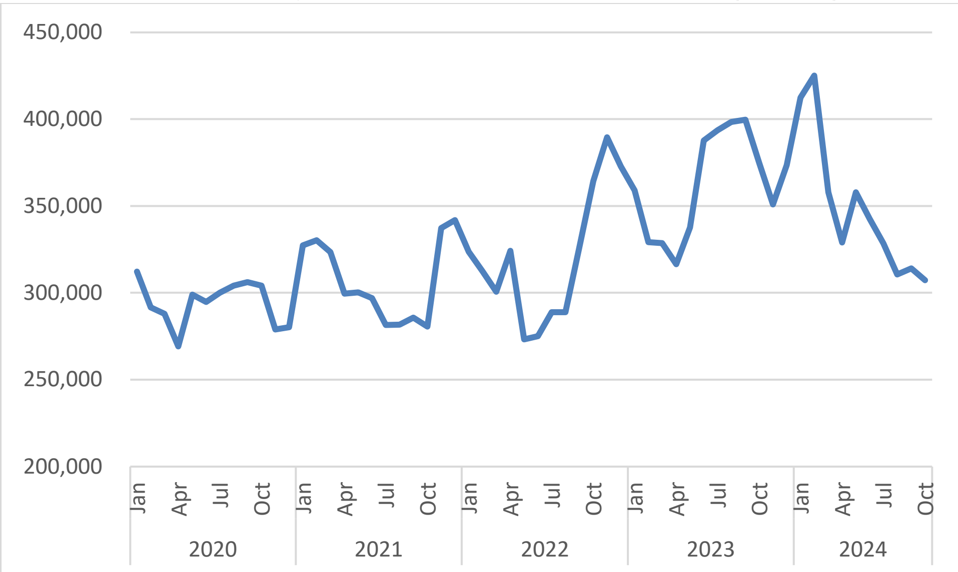
Chart 11 – Monthly mortgage lending (£ million)



Source: Bank of England

Product transfers

Chart 12 – Number of product transfers (3 month rolling average)



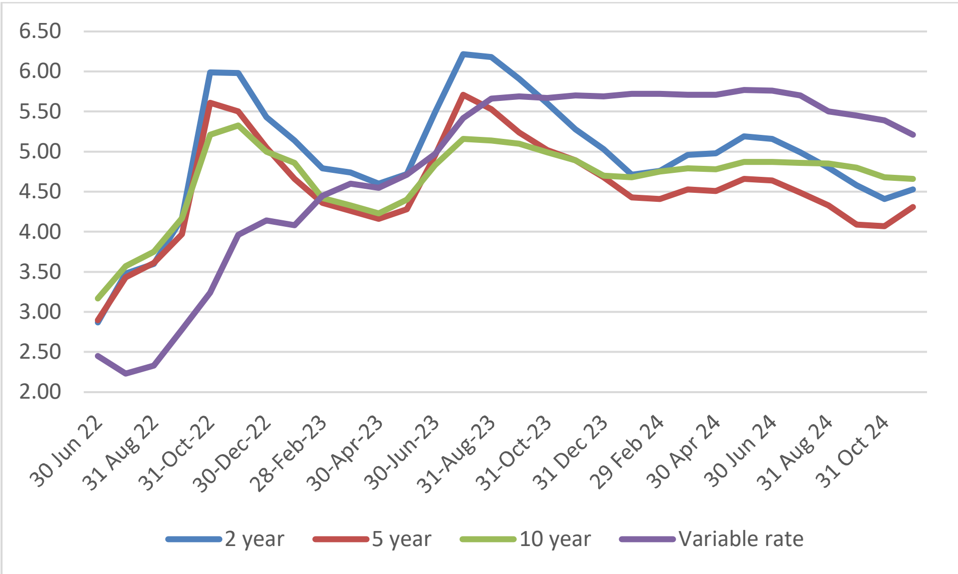
Source: UK Finance

As Chart 12 shows, the number of product transfers was on a strong upward trend until the start of 2024, since when it has fallen back. It may be that lower mortgage rates have opened up more possibilities for borrowers to save from remortgaging rather than taking a product transfer. The average amount of a product transfer has also fallen slightly since 2023 to £160,900.

Mortgage pricing and products

There was a rise in interest rate swap rates after the budget on 30 October, reflecting market concern about higher future government borrowing. This pushed up the cost of 2 and 5-year fixed rate mortgages but the Bank Rate cut to 4.75% in November ensured that variable rates continued to fall (see Chart 13). Despite the rise in swap rates, fixed-rate mortgage pricing was still below its 2024 average at the end of November.

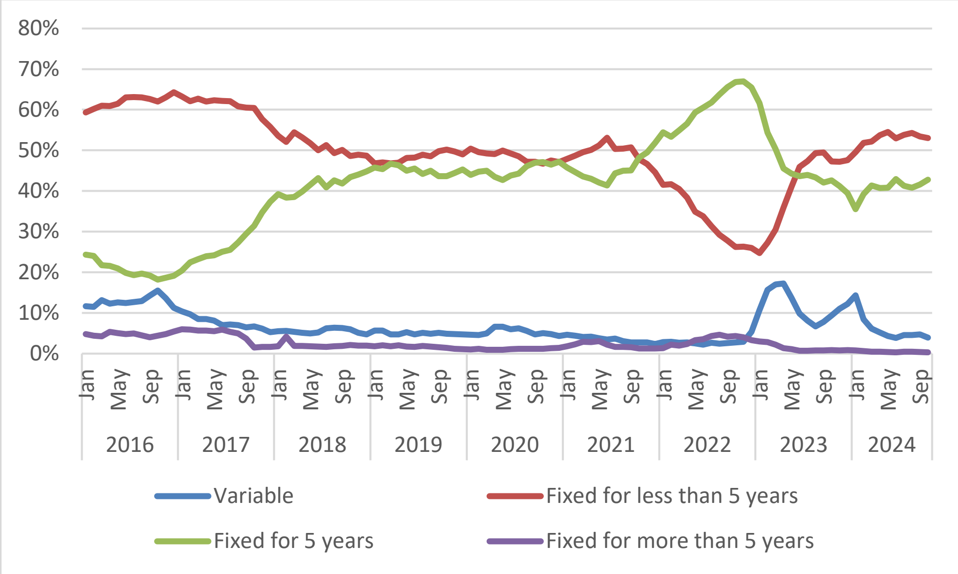
Chart 13 – Mortgage pricing by LTV



Source: Bank of England

Higher short-term fixed-rate pricing had little impact on the popularity of these products (see Chart 14). As Chart 13 shows, these remain the cheapest options on the market so borrowers have little incentive to switch to tracker rates.

Chart 14 – Fixed and variable rate share of new lending

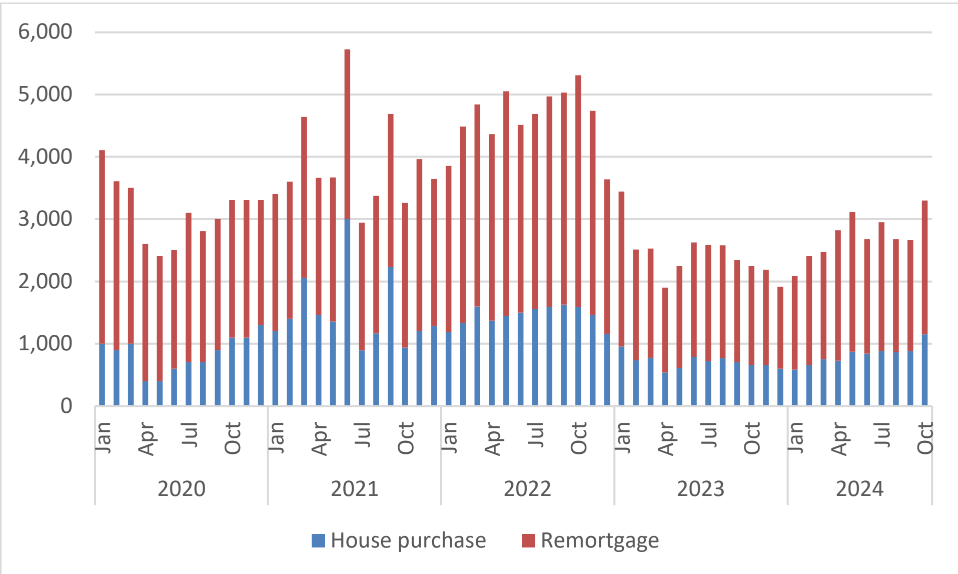


Source: UK Finance

Buy-to-let market

Buy-to-let lending has followed a similar profile to the wide market over 2024, with a broad upward trend (see Chart 15). House purchase lending has been particularly robust in recent months reaching £1.15 billion in October, as the combination of falling mortgage rates and rising rents encouraged more landlords to expand. So far, anecdotal evidence suggests that the increase in the additional dwelling stamp duty surcharge in the budget may not have too great an impact on landlord purchase decisions going forward.

Chart 15 – Buy-to-let lending (monthly £million)



Source: UK Finance

October budget measures

On 30 October, Rachel Reeves unveiled the new government's first budget. Ministers had already emphasised the need for tough decisions to address concerns about the fiscal deficit.

Some 70% of projected tax rises came from a single measure, the rise in employers' National Insurance, but there was also an increase in capital gains tax for non-residential property assets and a widening of the inheritance tax net to include pensions, AIM listed shares, agricultural land and family businesses. Non-domicile tax status is also being abolished. The OBR says the budget will also push up government borrowing by £20 billion this year and £160 billion over five years.

Measures directly affecting the housing market

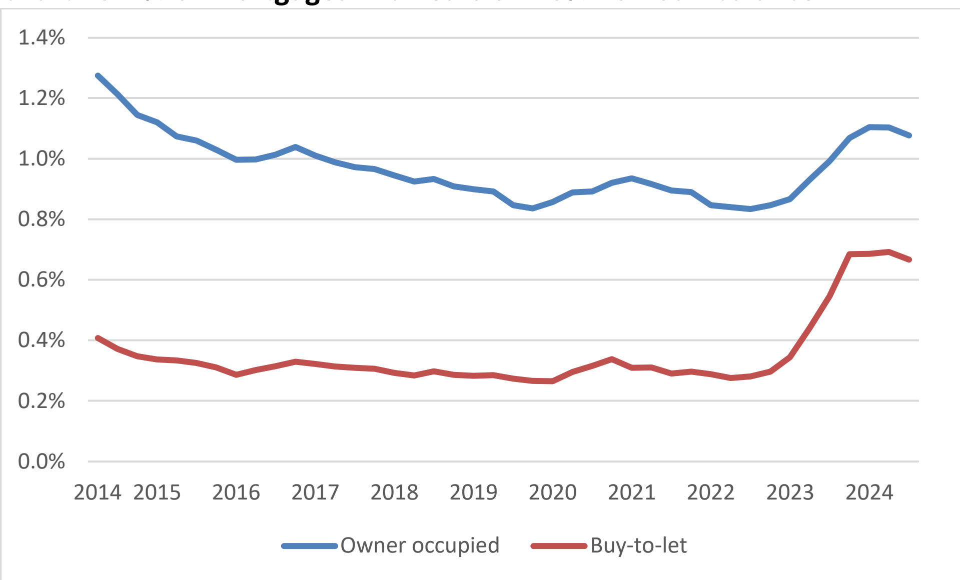
The stamp duty surcharge for additional properties was increased from 3% to 5%. The government has also decided not to extend a temporary increase in stamp duty thresholds that will expire in April 2025. The threshold for first-time buyers will fall from £400,000 to £325,000 and from £250,000 to £125,000 for existing homeowners. The maximum price at which first-time buyer relief can be claimed is also falling from £625,000 to £500,000.

The Planning system will be overhauled to promote more housebuilding and infrastructure projects.

The local housing allowance, which determines the level of housing assistance the government pays to low income households, is to be frozen next year after the previous Chancellor Jeremy Hunt unfroze it earlier this year.

Arrears and possessions

Chart 16 – % of mortgages in arrears of 2.5%+ of loan balance



Source: UK Finance

Both owner-occupied and buy-to-let arrears of more than 2.5% of the loan balance fell in the third quarter - down from 1.10% to 1.08% and 0.69% to 0.67% of mortgages respectively (see Chart 16), suggesting the cyclical peak has been passed. Only longer-term arrears (10% or more of loan balances) continued to rise but even here the figures appear to be stabilising for owner-occupied borrowers at least, with only a marginal increase in Q3.

Prospects

As had been expected, the budget on 30 October included substantial tax increases aimed primarily at business as well as a decision to spend more on investment and current spending, partly funded through higher government borrowing. Unsurprisingly, there was an adverse reaction from the business community, particularly to the employers' National Insurance increase, with business confidence falling sharply in response.

But from a broader economic perspective, the rise in employers' National Insurance was partially offset by Jeremy Hunt's employees' National Insurance cut in March. The two events together represent a shift in tax from households to businesses. This may well prove to be negative for the economy in the longer term if businesses cannot claw back the extra tax in lower wages, but could be positive for activity in the short term as it boosted real take-home pay at a time when households are likely to spend most of the additional income.

As probably the largest two drivers for the housing market are household incomes and interest rates, the extra money in people's pockets from the March National Insurance cut and continuing real wage growth, combined with cuts in Bank Rate since the summer, should underpin the housing recovery. The prospects for the market going into 2025 are thus good.