Uncertainty is not the same as disaster

By Bob Pannell, Economic Adviser to the Intermediary Mortgage Lenders Association (IMLA)

I wonder if, like me, you find things to fret about each New Year.

Some issues, such as over-consumption of mince pies, can be quickly and personally resolved; others, such as the obscene quantity of plastic in our oceans, threaten to overwhelm us, as they require unprecedented levels of global effort over many years.

Recently, there has been a lot for us to fret about in the wider economy.

Financial markets ended the closing weeks of 2018 in seeming disarray as to whether the long period of global economic recovery was drawing to a close. Sino-US trade relations remain at a low ebb. And closer to home, the Brexit process unfolds in a manner that to many appears chaotic, divisive and disruptive.

In short, we don't need to look far to see signs that uncertainty has been undermining business and household sentiment. The early signs are that economic growth will be anaemic in Q4. And I suspect that few of us would be surprised if January saw a string of retail casualties on the high street.

Given such a gloomy backdrop, it is imperative that IMLA and other market commentators do not add to the sense of foreboding by dwelling only on negative news or by overlooking more positive aspects.

A little ironically, given its earlier association with one Armageddon-like scenario, the Bank of England has recently offered one such glimmer of light. Its annual update on the financial position of households, based on online survey responses in September.

Admittedly, it was easy to miss, appearing as it did just a few days before Christmas. But truly an early Christmas present for economists everywhere, as the Bank also releases the full survey results that underpin its analysis!

This year's article attracted few headlines. This is a real shame, because one of its core messages is that the financial position of households has actually improved a little over the past year, helped by stronger income growth and the ability of households to refinance onto lower mortgage rates (even with higher base rates).

With many debt metrics comfortably better than at the time of the global financial crisis, it is not difficult to understand why mortgage arrears are at their lowest level for a generation.

So, overall, households start the year in relatively good shape, with the lowest exposure to high debt-to-income ratios or debt service burdens for three years. No mean achievement, given that 2018 saw record levels of mortgage lending (when product transfers are taken into account).

Of course, we should not lose sight of the fact that some households are concerned about their debt position. But the proportion is "broadly flat", according to the Bank. Responses to this question are strongly influenced by whether or not a household has unsecured debt. Although use of unsecured debt has nudged a little lower in 2018, a growing share of those holding such debt see it as being a heavy burden and/or have missed some payments over the past year.

While we cannot wave a magic wand and make financial distress or economic uncertainty disappear, it is worth bearing in mind that downgrades to estimates of economic growth will impact monetary policy and soften the trajectory of future rate increases. Low mortgage rates for longer should provide a firm anchor for the vast majority of mortgage borrowers against bad news.

This year will, without doubt, offer numerous challenges for the housing market, and these will enhance the value of mortgage advice.

But households are less exposed to adverse shocks than they were, and many have built up a useful degree of resilience. And although weaker sentiment has caused house price increases to tail off in recent months, the flip side is better affordability and the likelihood that a correction, if it happens at all, will be limited. IMLA believes that longer-term market fundamentals remain strong.

Hopefully, such "glass half full" thoughts will get us through the darkness of January …!

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