



INDEPENDENT ANALYSIS , FORECASTS AND CONSULTANCY

In Partnership With The
 **Building Societies**
Association

The UK Housing Market Post-COVID

Andrew Wishart, Senior Property Economist

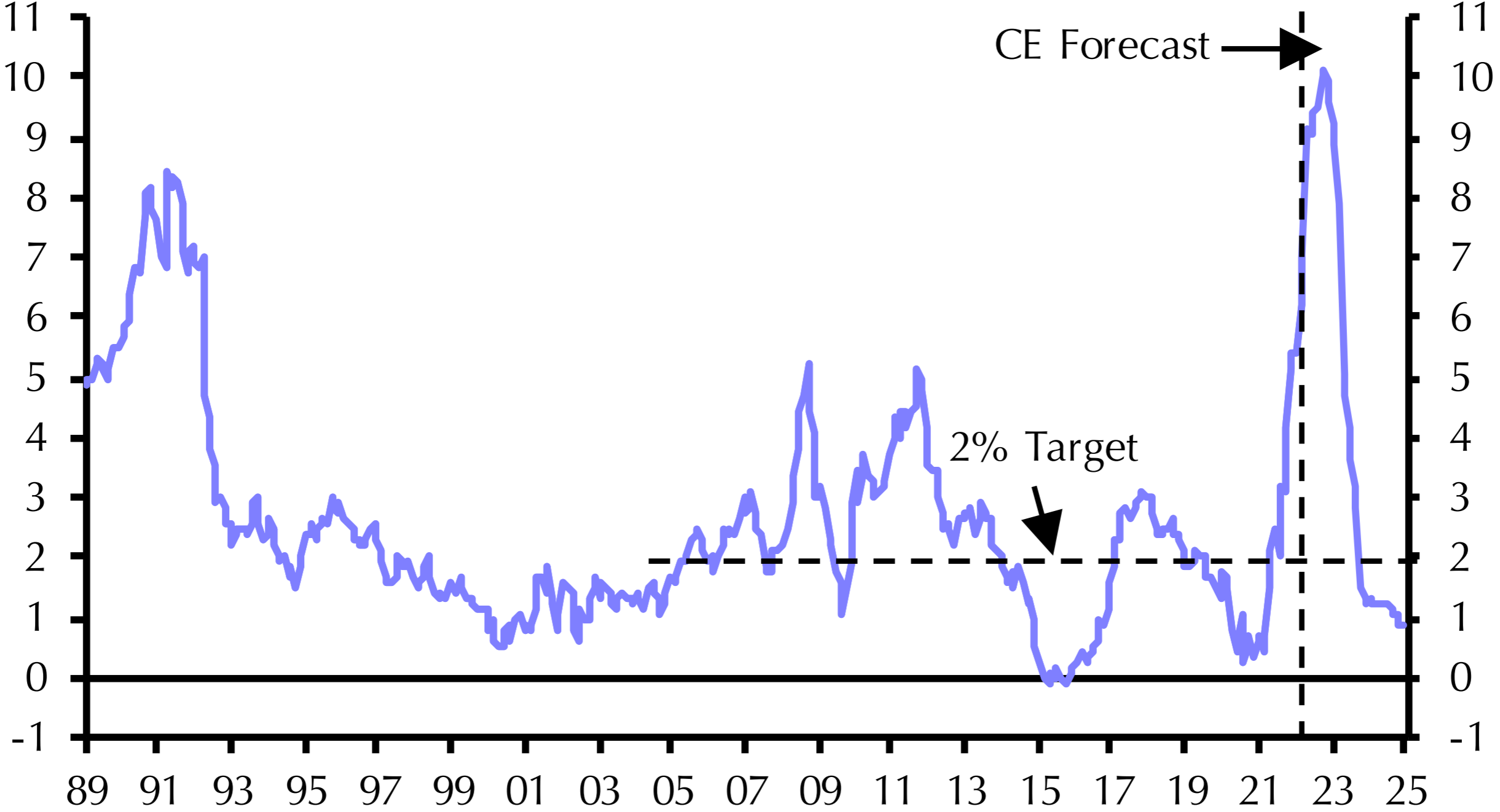
5th May 2022

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1. UK Economy

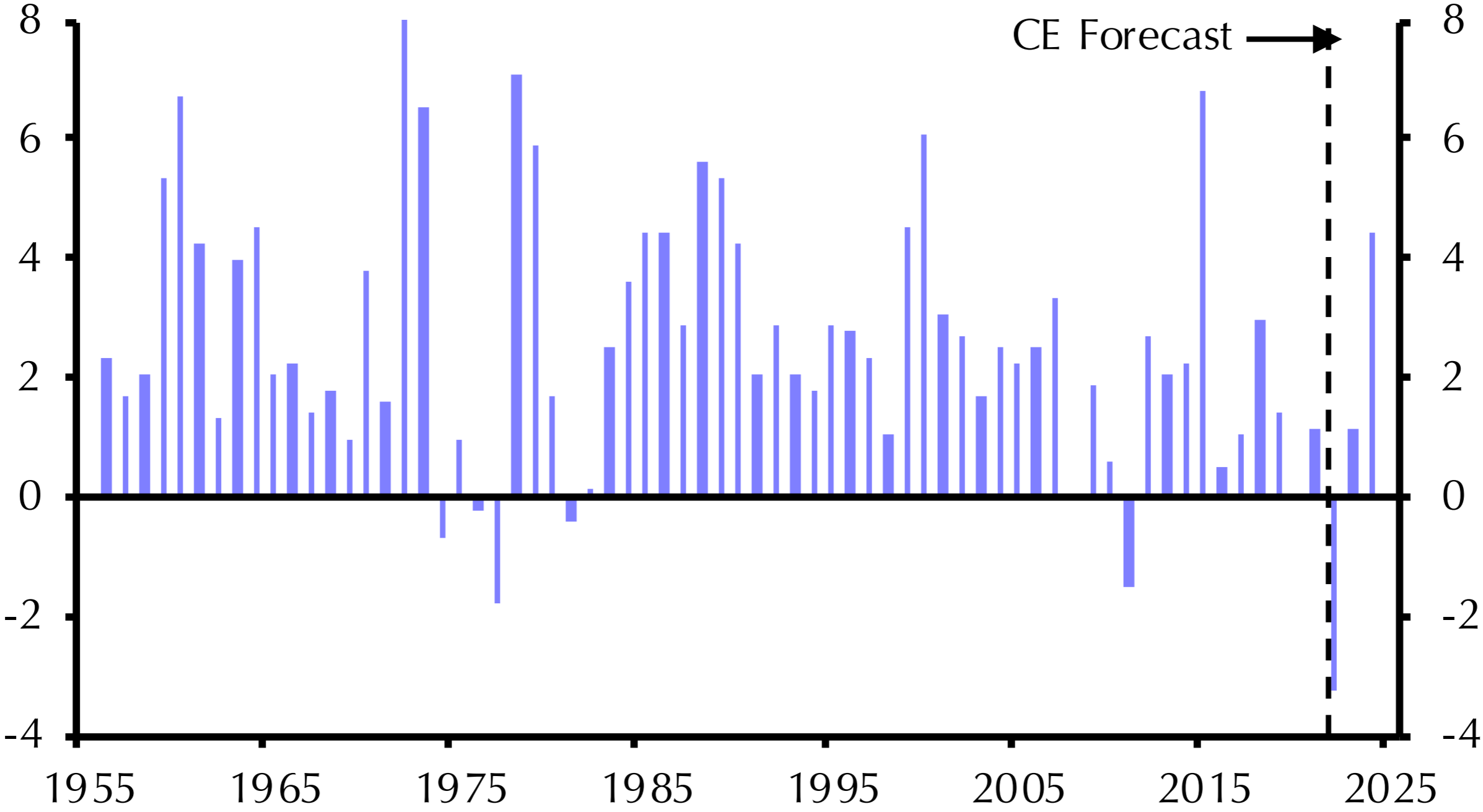
- How big a problem is inflation?
- How will the Bank of England respond?
- How will the real economy hold up?

2. CPI Inflation (%)



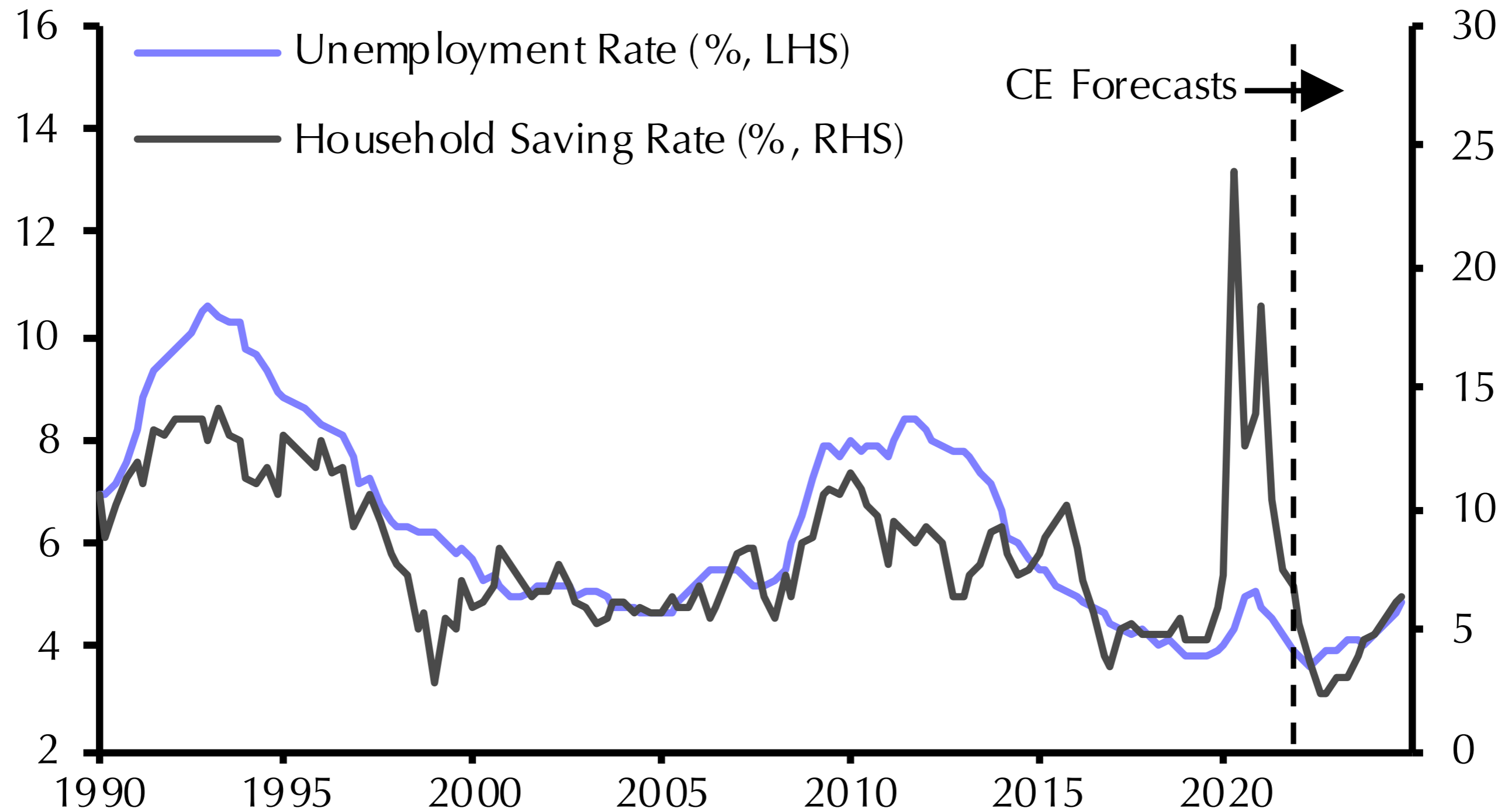
Sources: Refinitiv, Capital Economics

3. Real Household Disposable Income (% y/y)



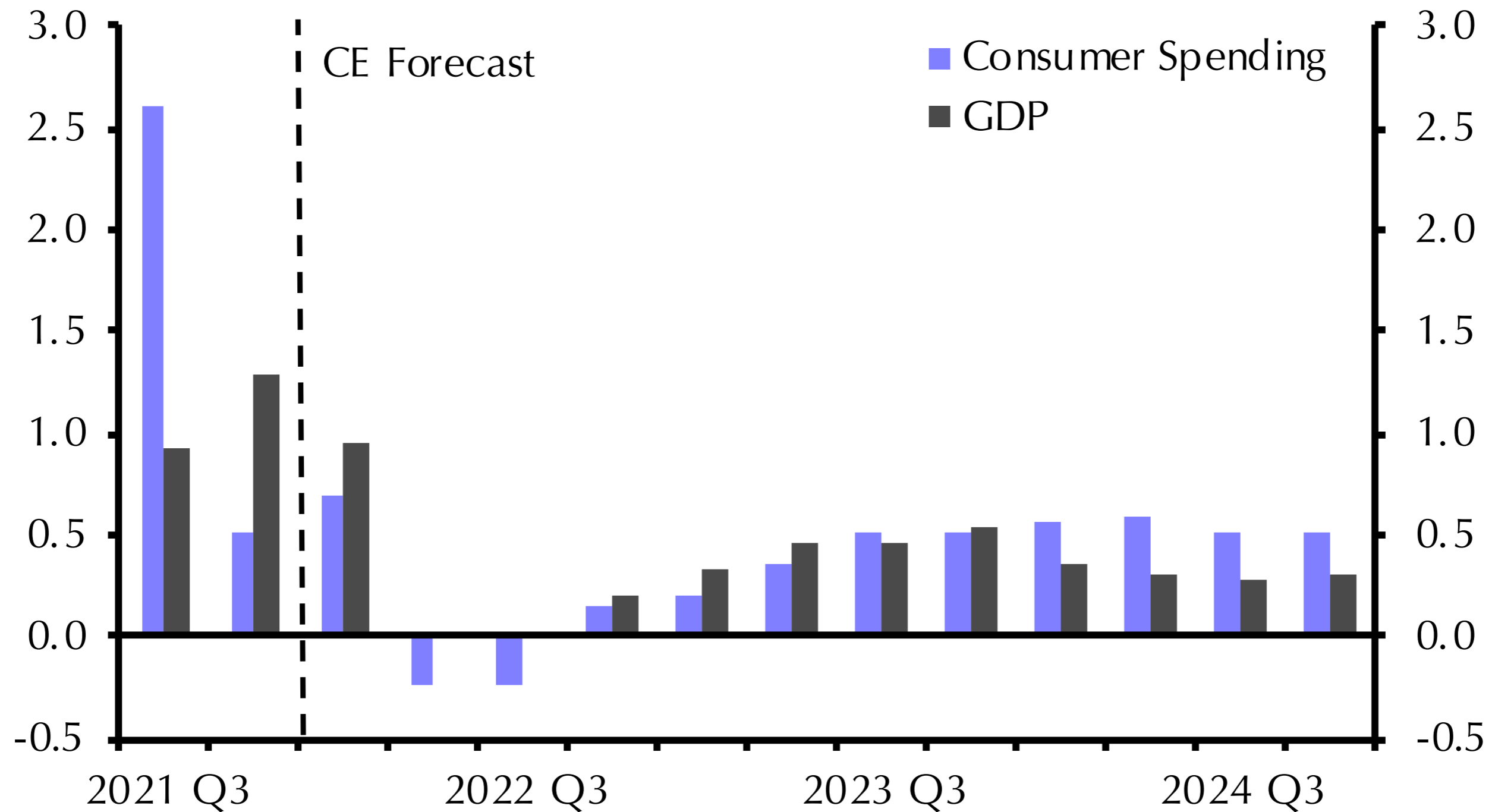
Sources: Refinitiv, Capital Economics

4. Unemployment Rate & Household Saving Rate



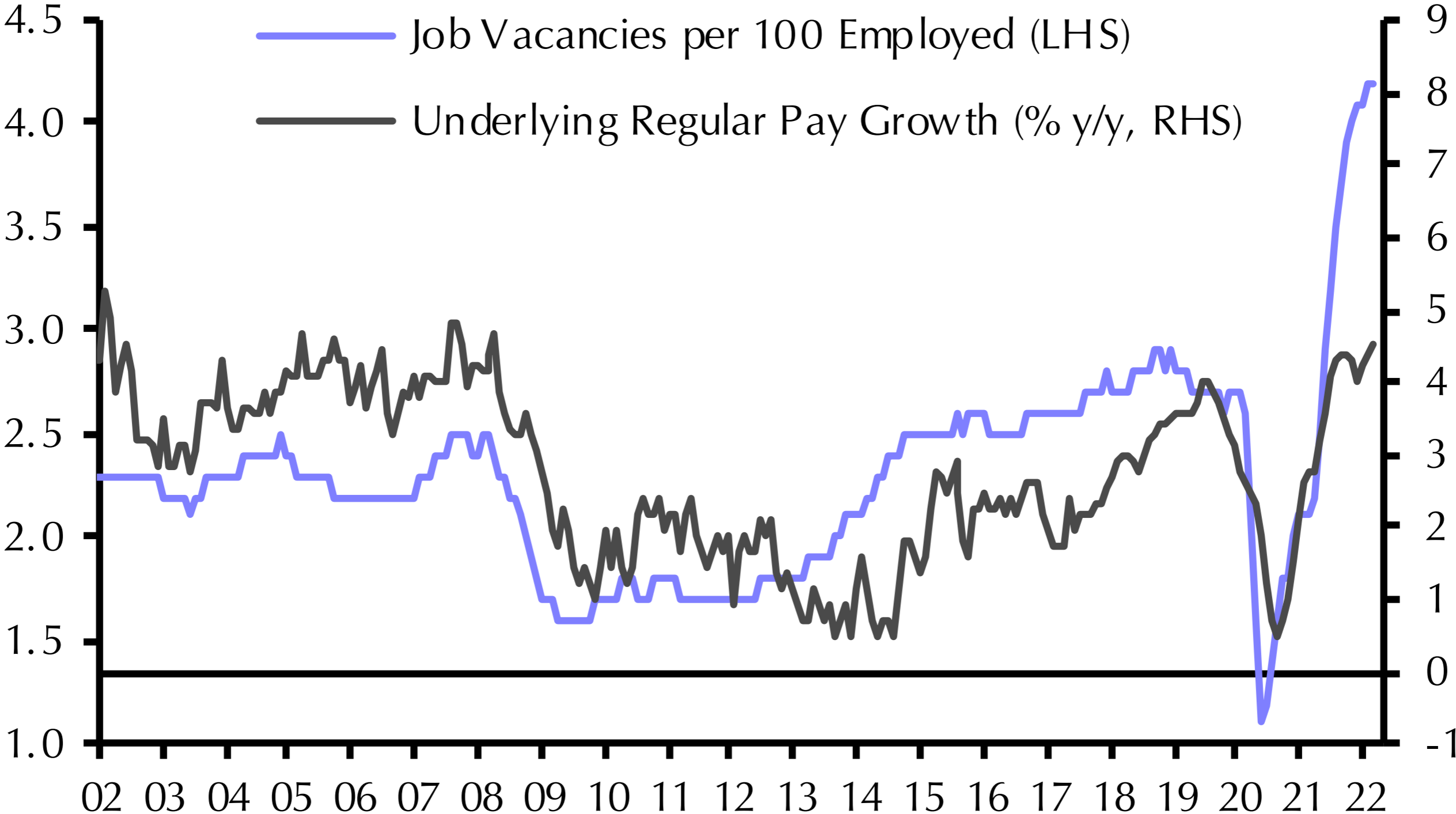
Sources: Refinitiv, Capital Economics

5. Real Consumer Spending & GDP (% q/q)



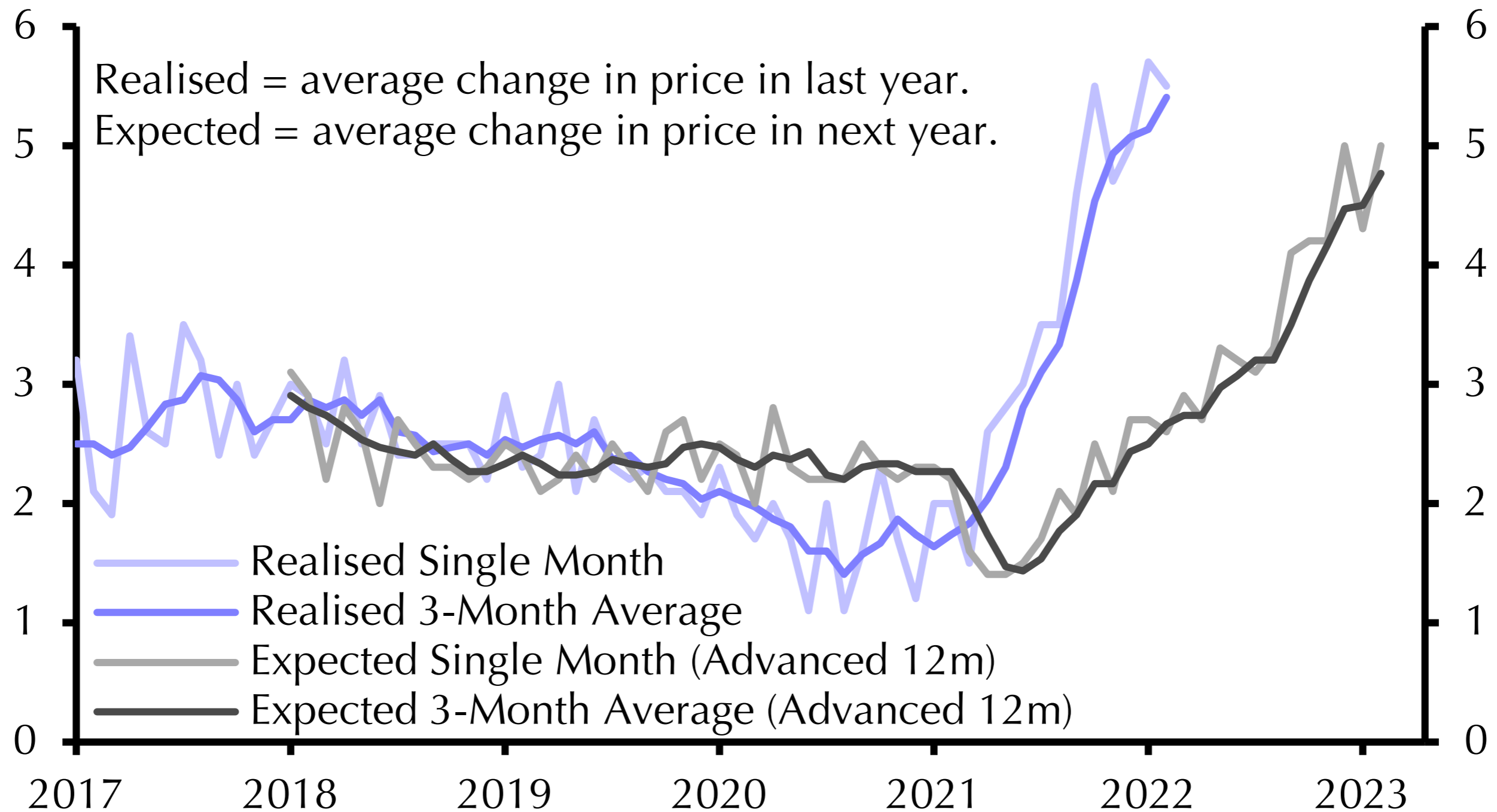
Sources: Refinitiv, Capital Economics

6. Job Vacancies & Pay Growth



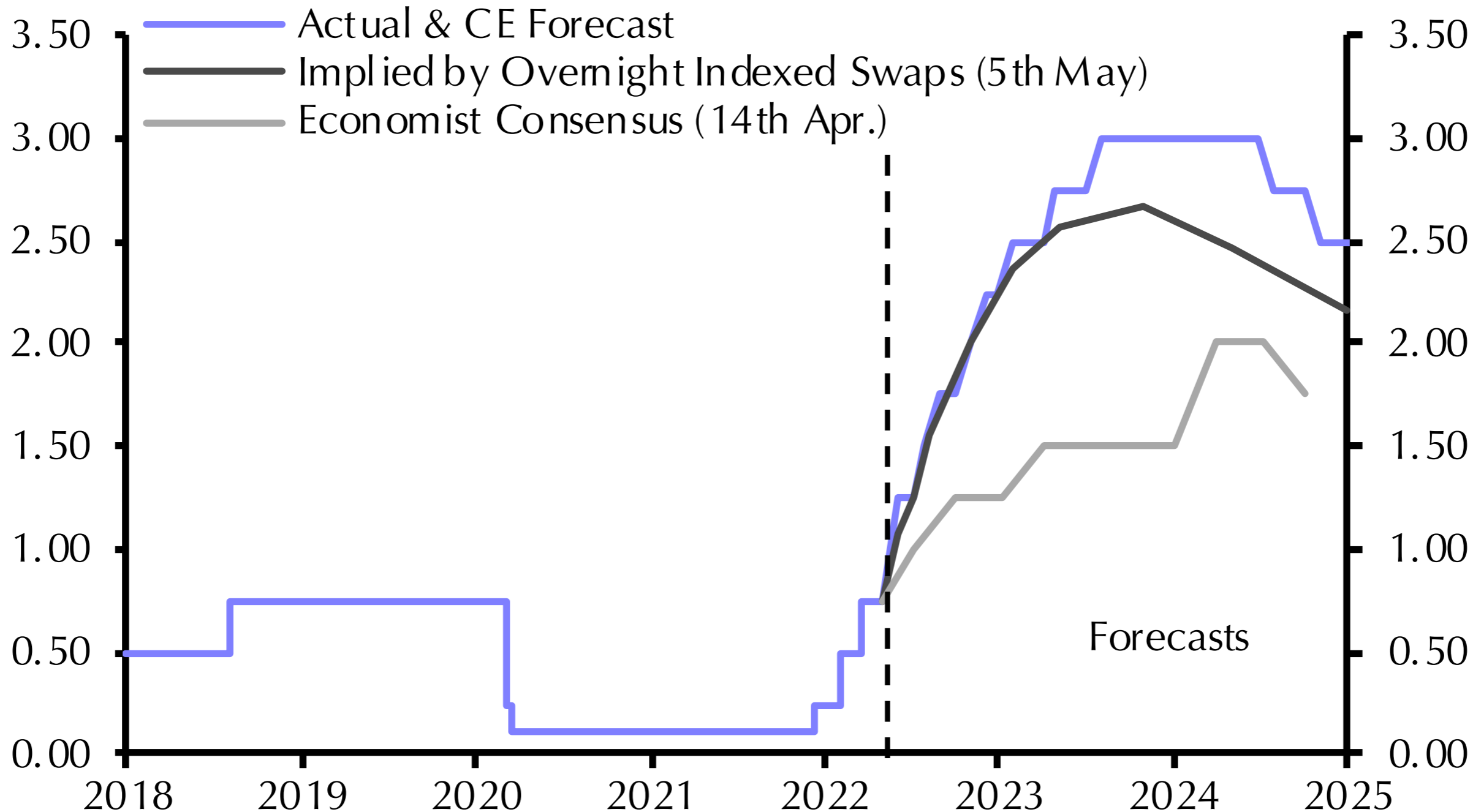
Sources: Refinitiv, BoE, Capital Economics

7. BoE Decision Makers Panel



Sources: Refinitiv, Capital Economics

8. Bank Rate (%)

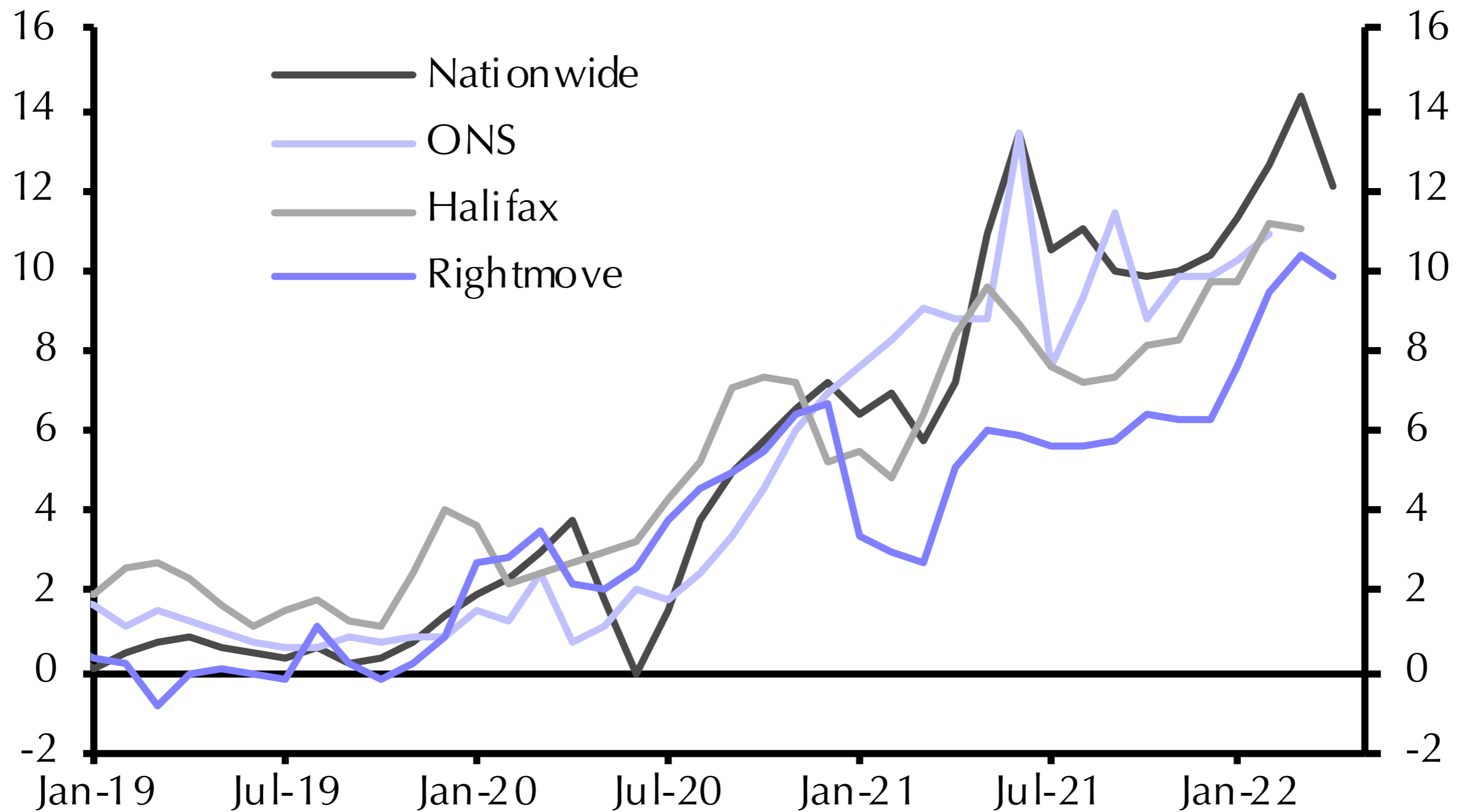


Sources: Refinitiv, Bloomberg, Capital Economics

9. The Housing Market

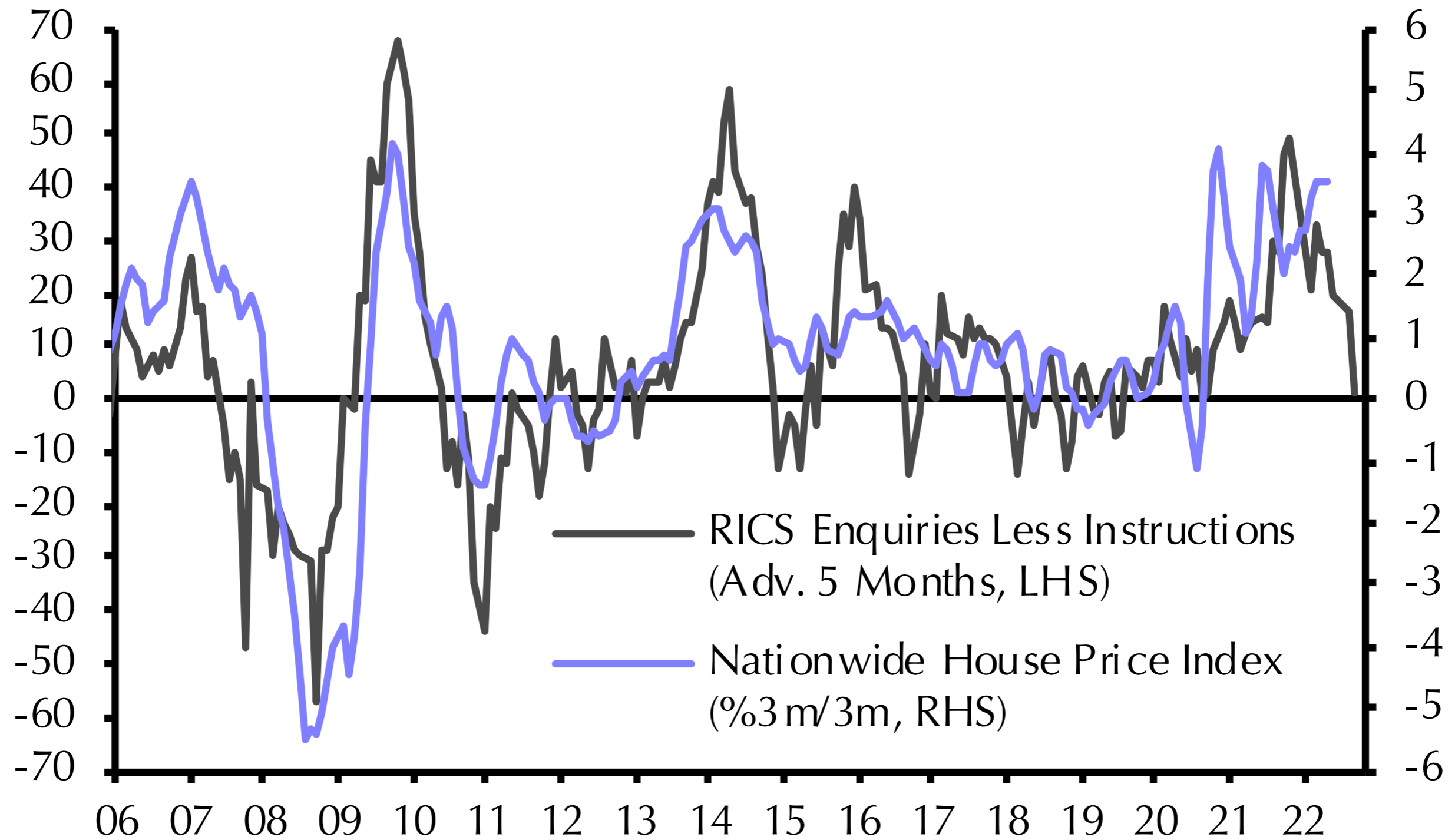
- Has the housing market already lost some momentum?
- What will the impact will rising mortgage rates and the cost-of-living crisis have?
- Why won't we see a repeat of 1990 or 2008?

10. House Price Inflation (%)



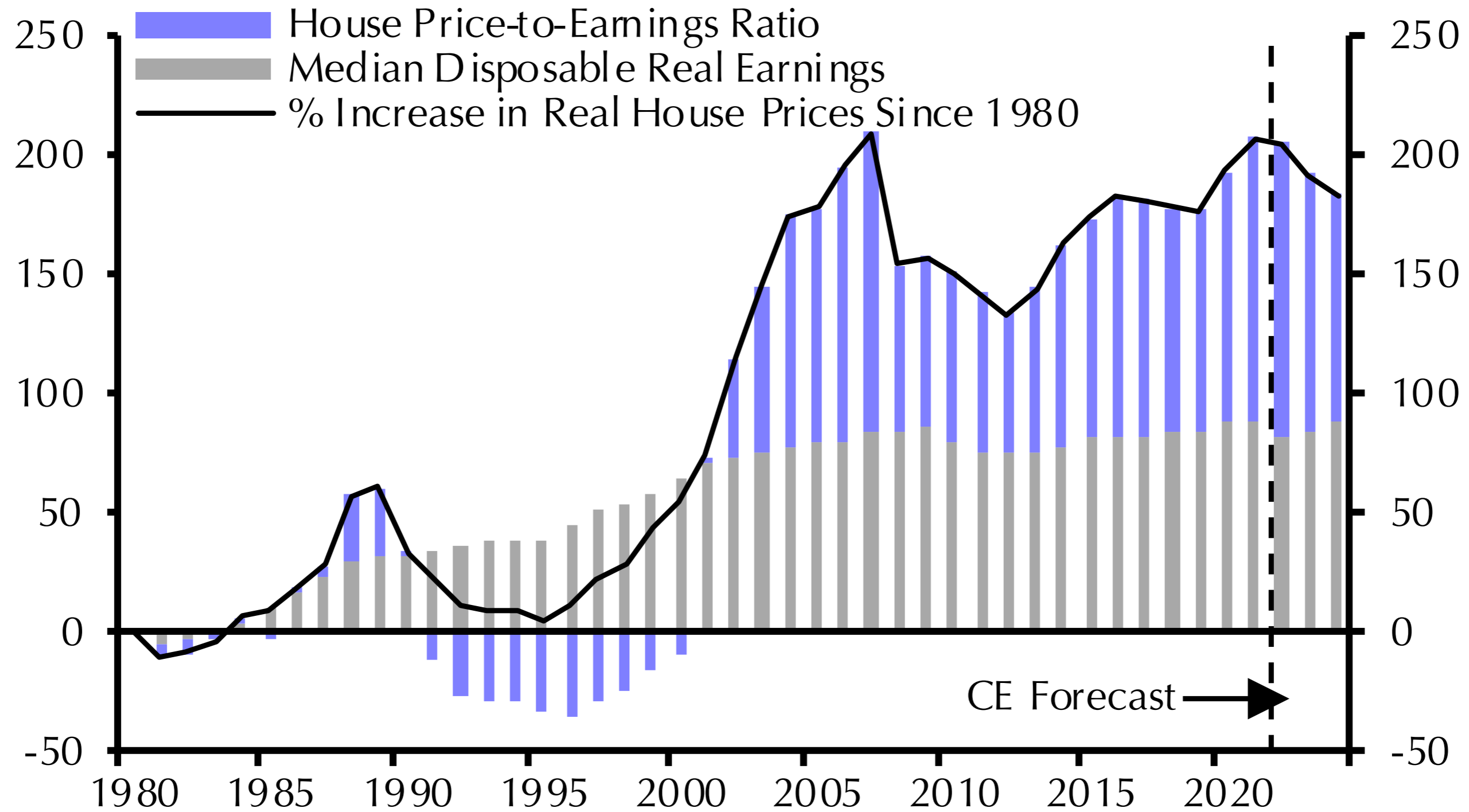
Sources: Refinitiv, Capital Economics

11. RICS Demand-Supply Balance & House Prices



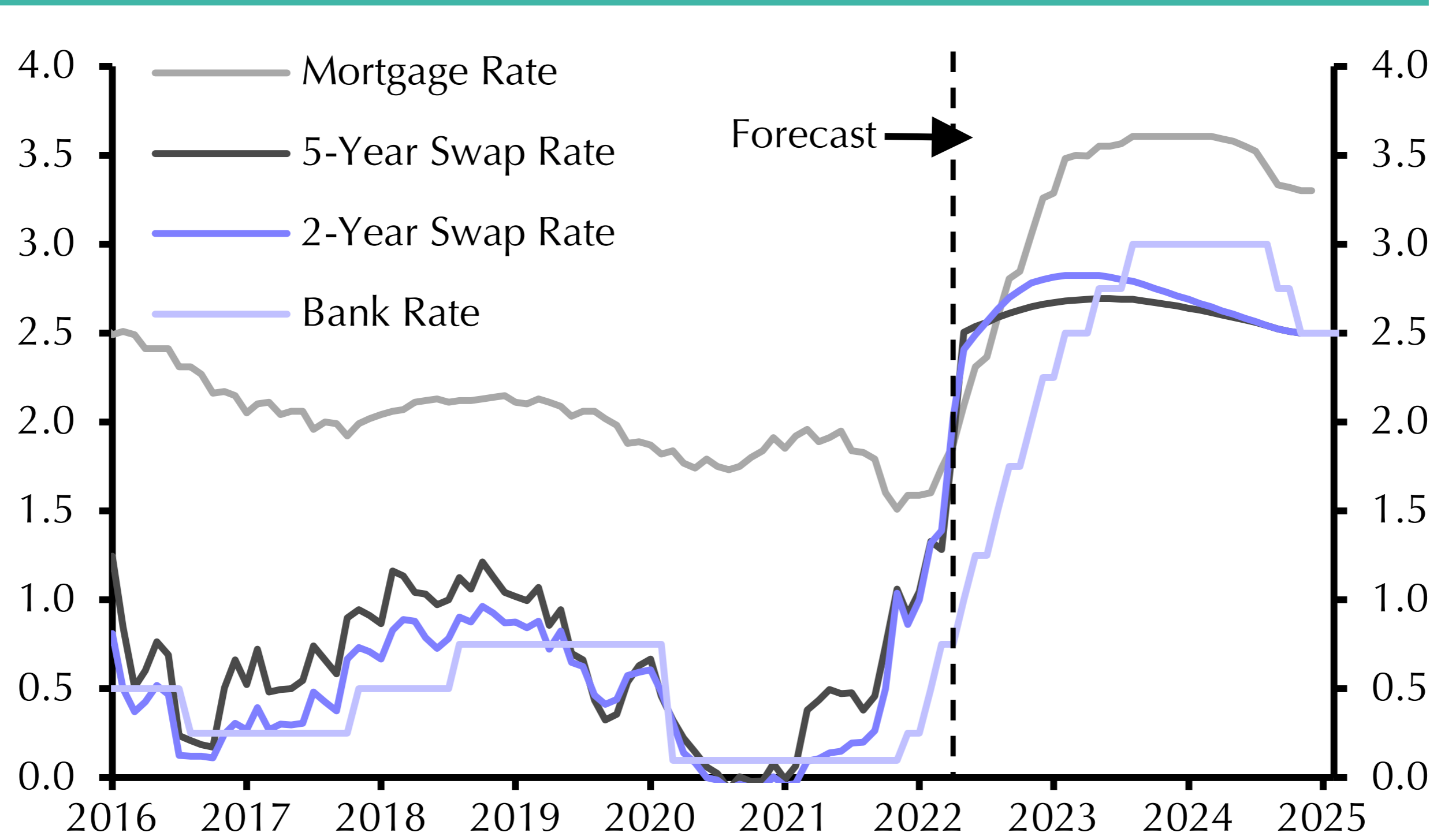
Sources: Refinitiv, RICS, Capital Economics

12. Composition of Real House Price Growth Since 1980



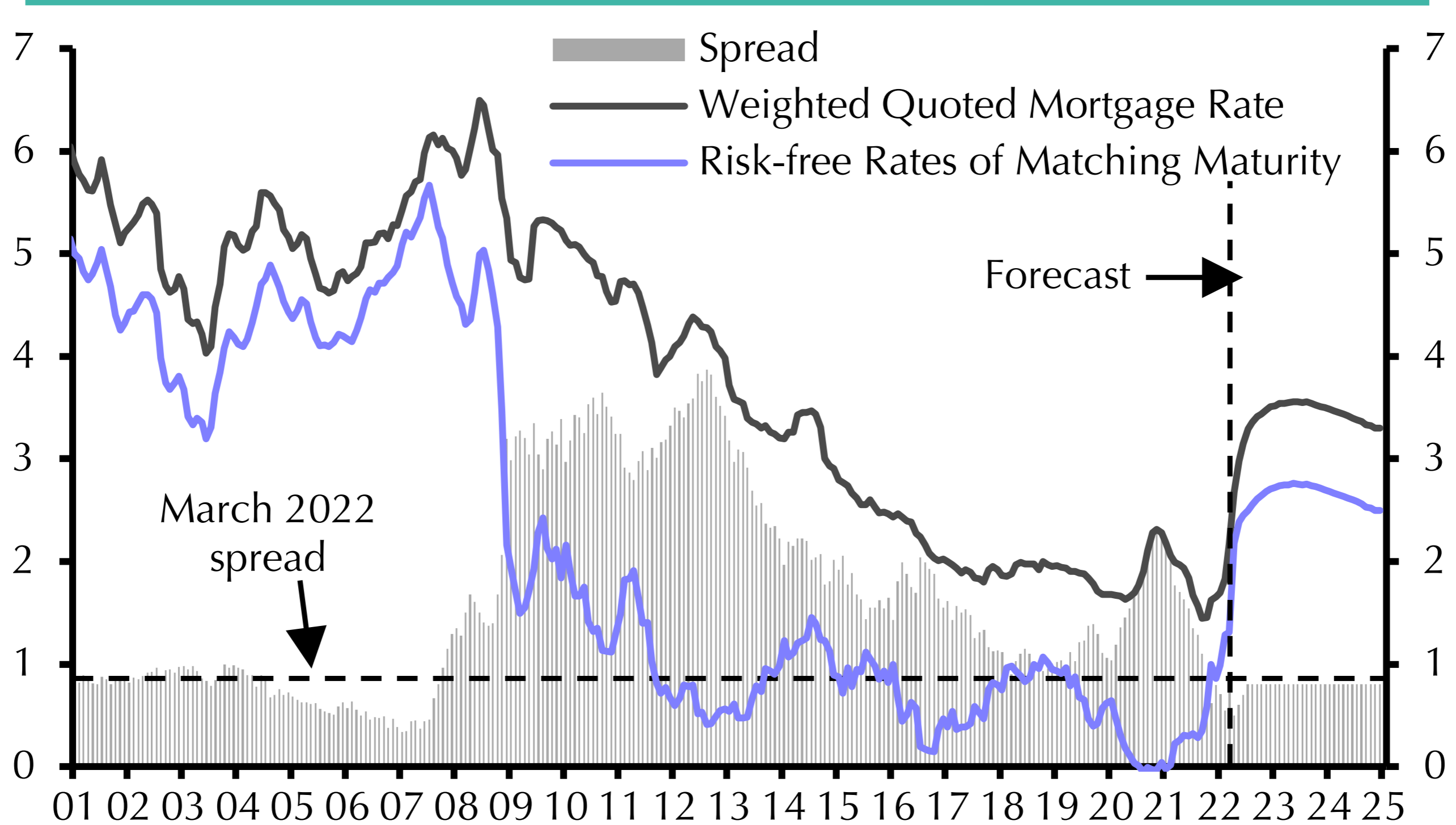
Sources: Refinitiv, ONS, Capital Economics

13. Interest Rates (%)



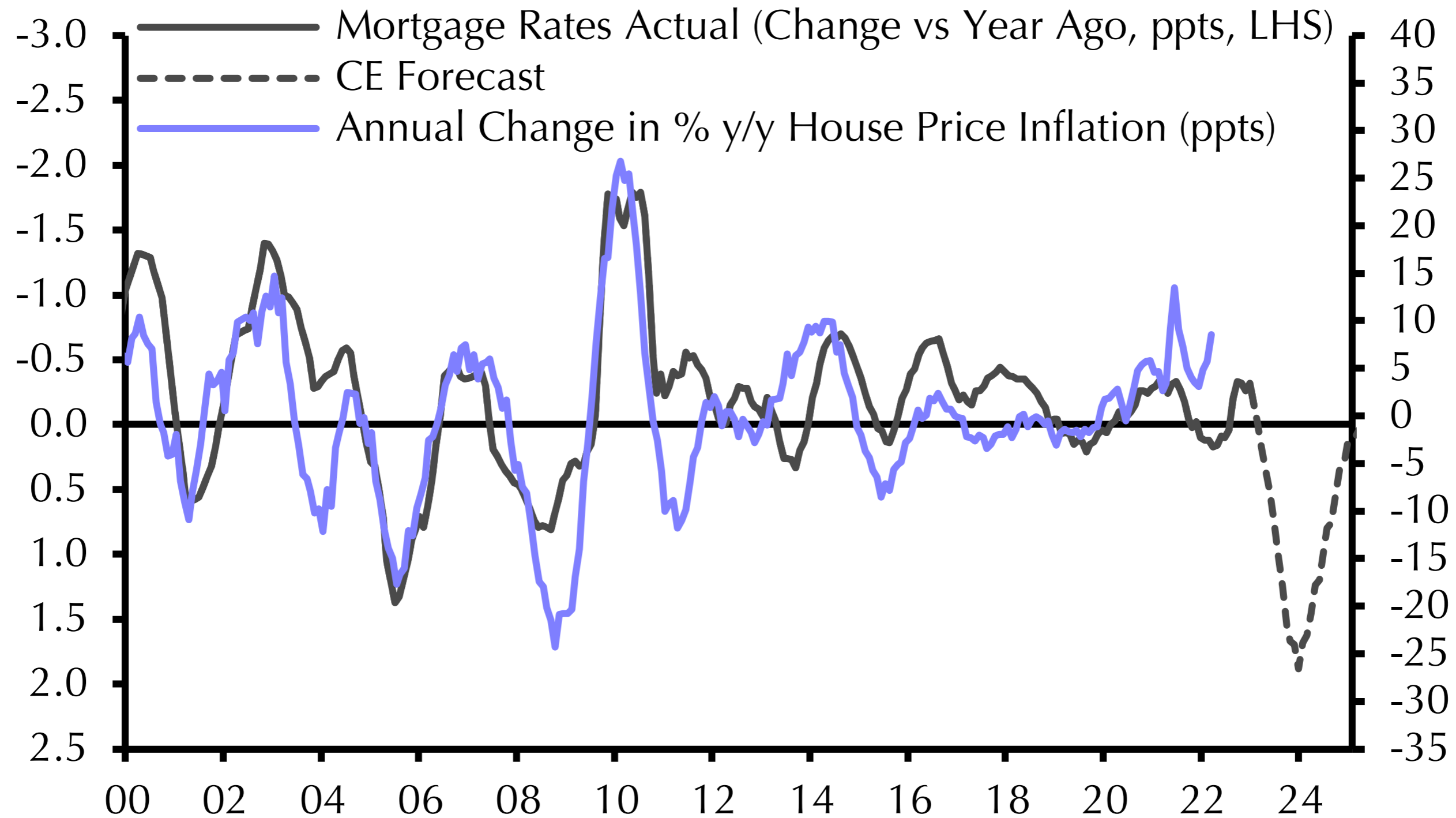
Sources: Refinitiv, Capital Economics

14. Market & Mortgage Interest Rates (%)



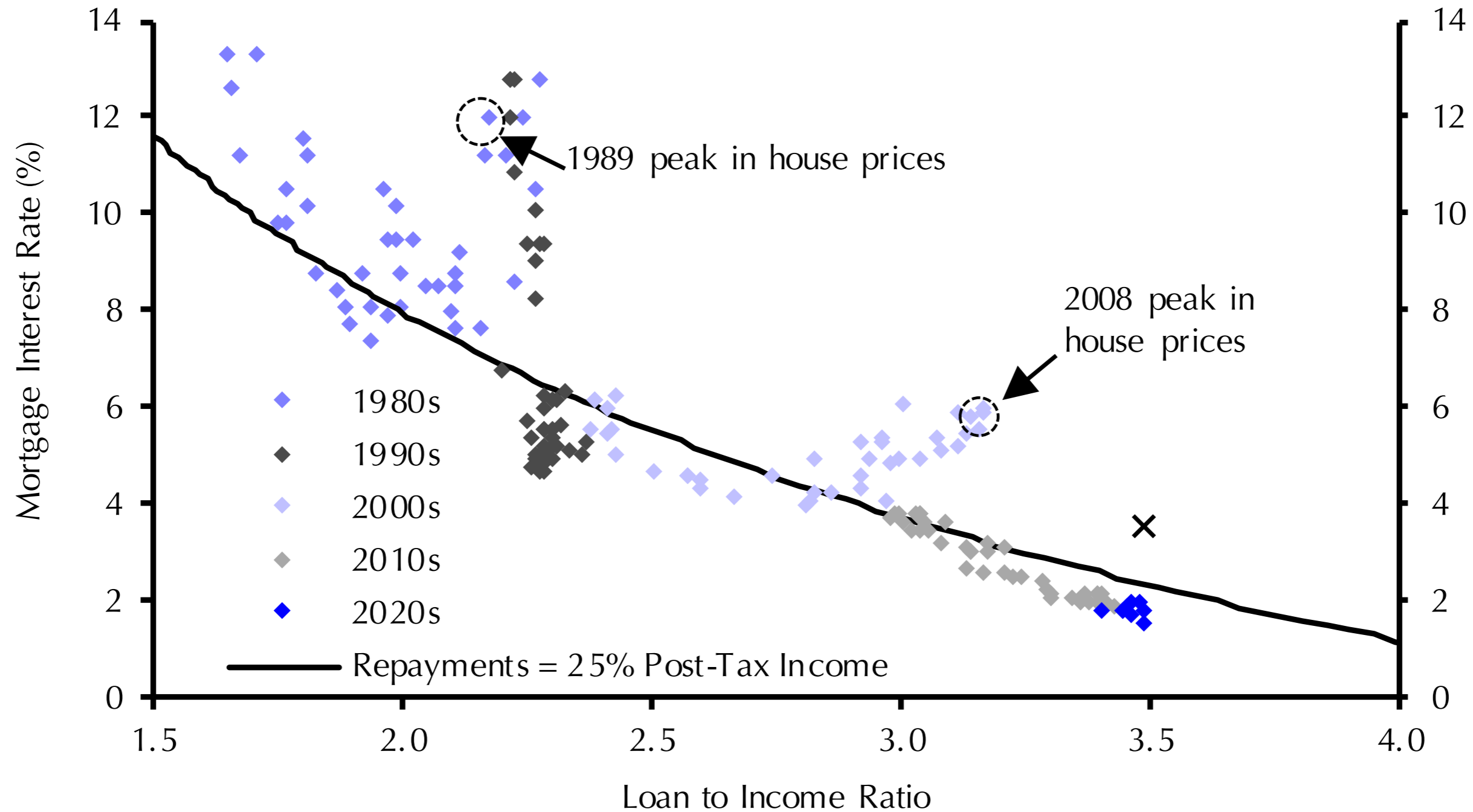
Sources: Refinitiv, BoE, Capital Economics

15. Changes in Mortgage Interest Rates & House Price Inflation



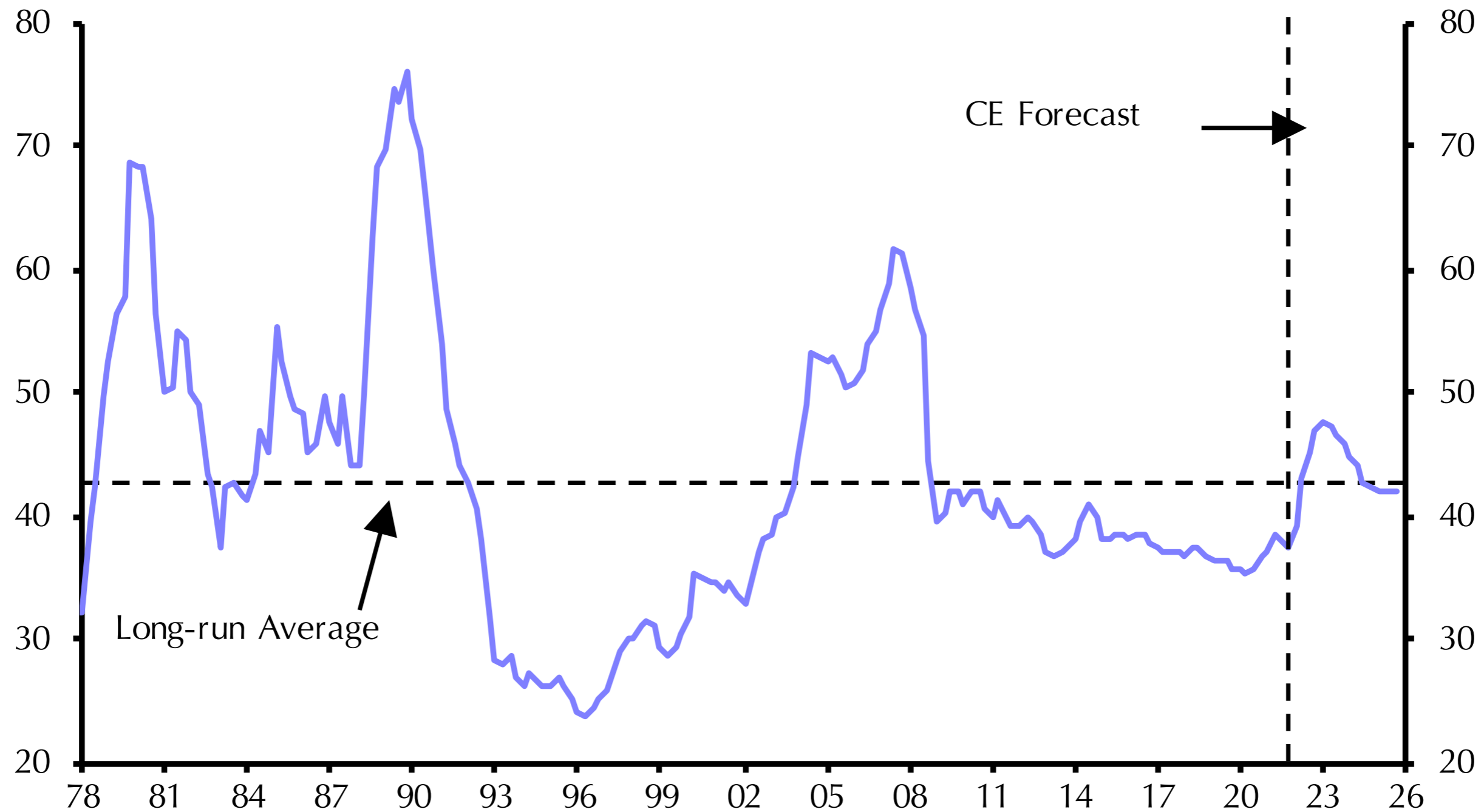
Sources: Refinitiv, Capital Economics

16. Loan-to-Income Ratio & Mortgage Rates



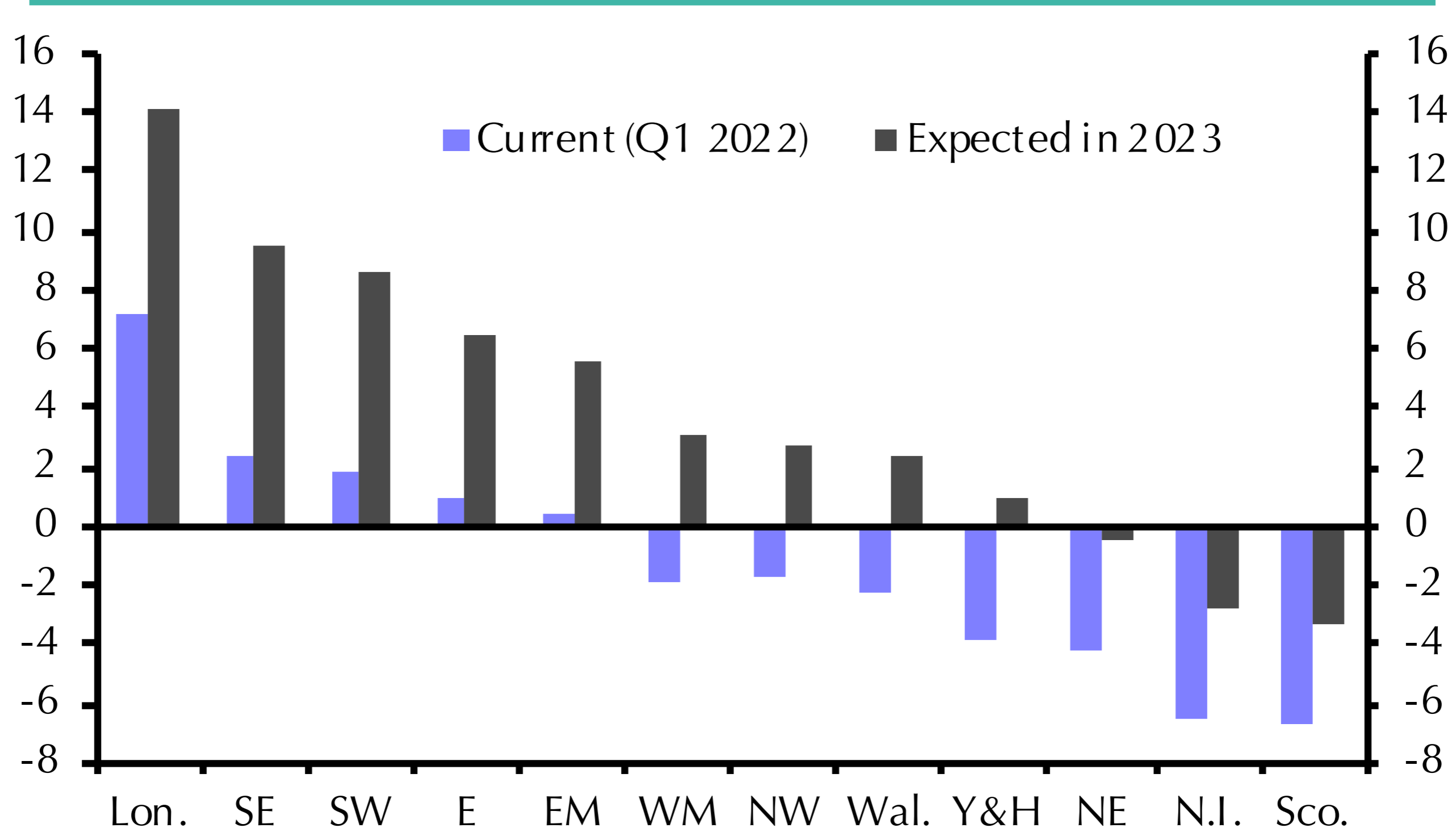
Sources: Refinitiv, Capital Economics

17. Mortgage Repayments (% Median Disposable Income)



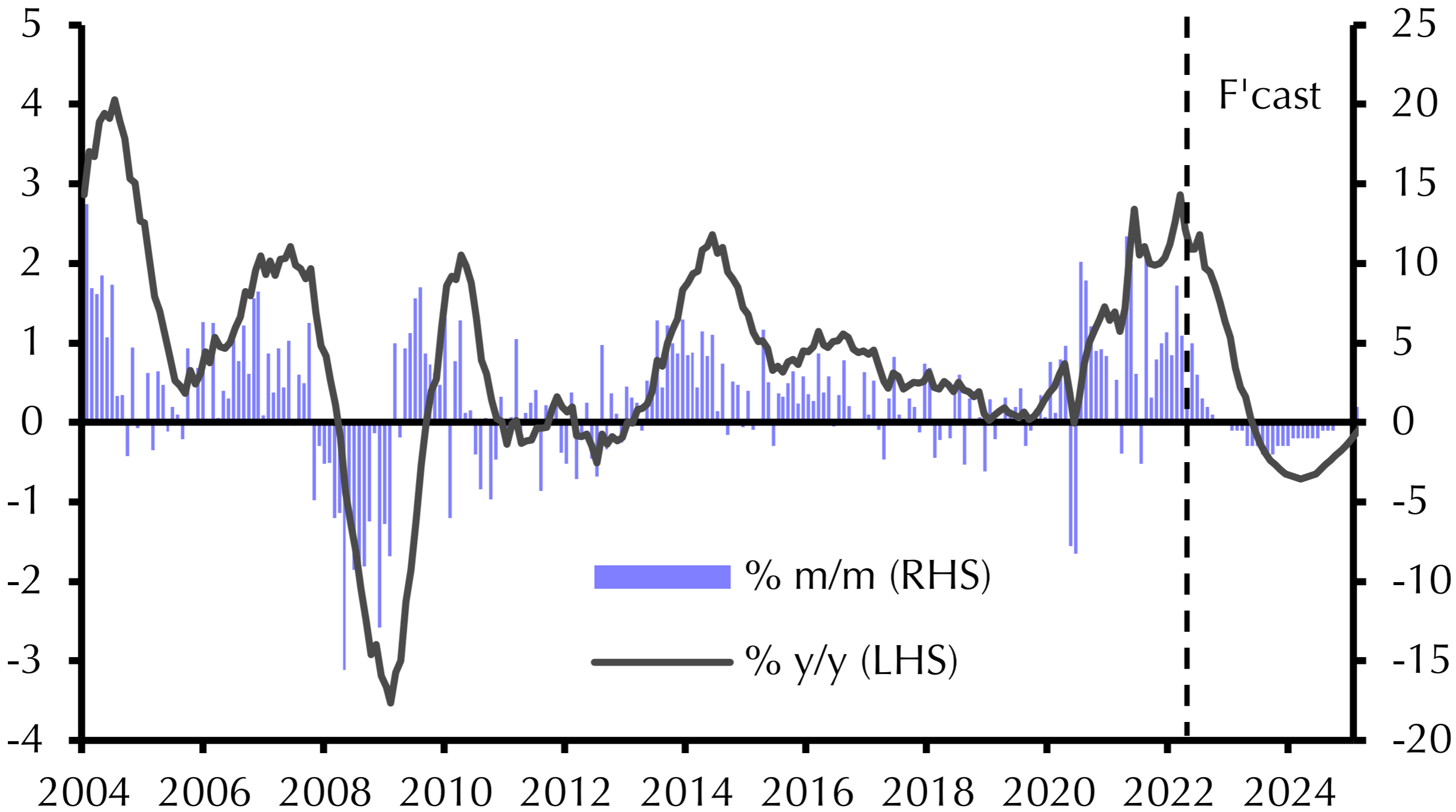
Sources: Refinitiv, ONS, Capital Economics

18. Mortgage Repayments as a Share of Income (Deviation from Long-Run Average, ppts)



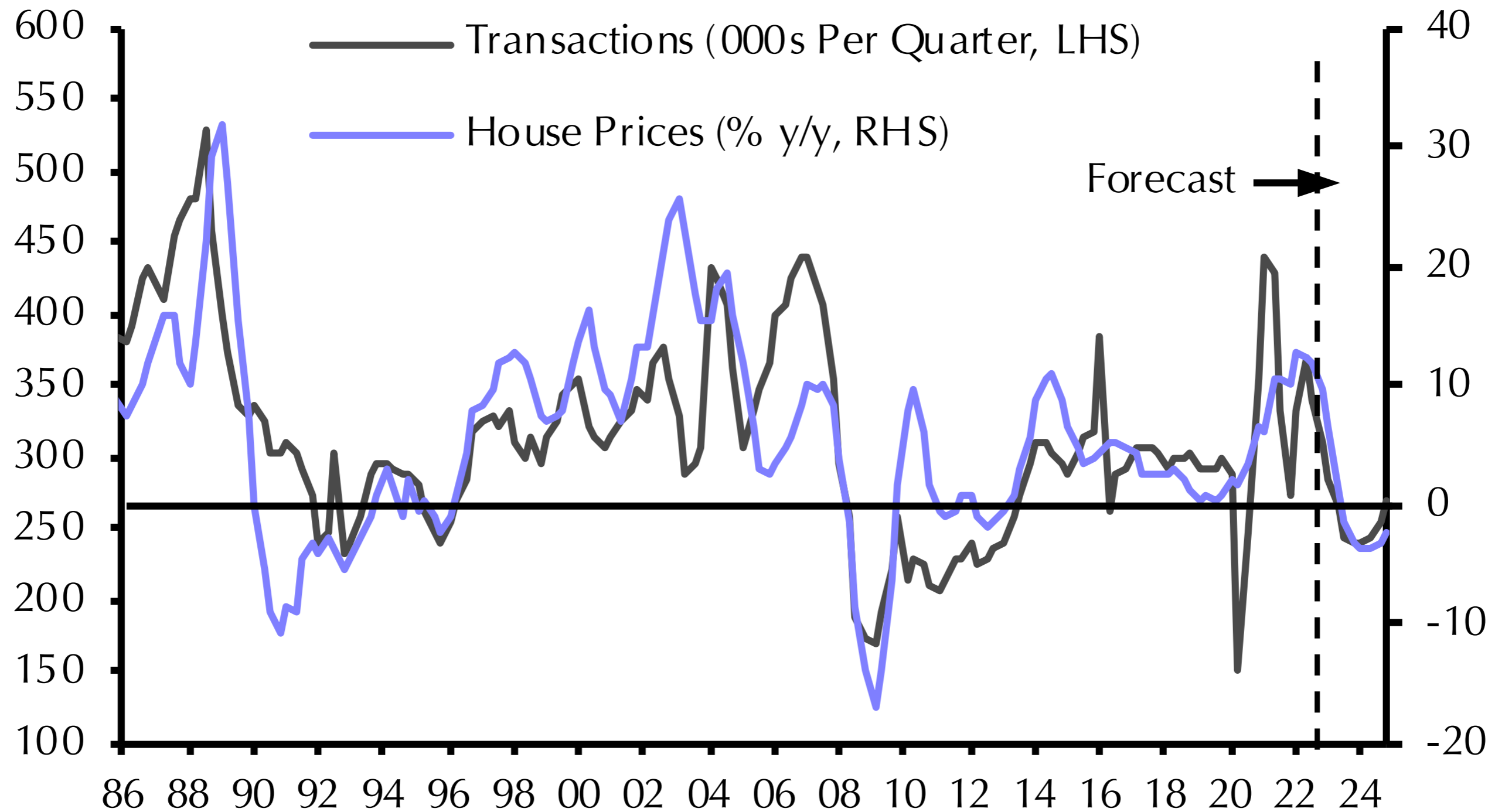
Sources: Refinitiv, ONS, Capital Economics

19. Nationwide House Price Index



Sources: Refinitiv, Capital Economics

20. House Prices & Transactions



Sources: Refinitiv, Capital Economics

21. Forecast Table

%y/y unless stated	2021	2022	2023	2024	2025-2028
GDP	7.4	3.8	1.2	1.5	1.7
CPI Inflation	2.6	8.7	4.4	1.7	2.0
Real disposable incomes	1.1	-3.3	1.1	4.4	2.1
Bank Rate (%)	0.25	2.25	3.00	2.50	2.50
Unemployment Rate (%)	4.5	3.8	4.10	4.5	4.3
Mortgage Interest Rate (Q4, %)	1.6	3.2	3.6	3.3	3.3
UK House Prices	10.1	9.0	-3.0	-1.8	3.2
Housing Transactions (m)	1.48	1.36	1.04	1.01	1.20
Private Rents	1.8	3.9	4.4	3.6	3.4

22. Conclusions

- House prices are on track to surpass even our above consensus forecast this year, but signs that demand will wane are appearing.
- Mortgage rates will continue to rise sharply as lenders take account of increases in the policy rate.
- But so long as there is not a significant deterioration in the labour market, we think that price falls will be limited.

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