Carter Jonas

MARKET OVERVIEW

The main economic 'downside risk' over the coming months is likely to be the consumer and consumption figures. With wage growth over the previous 18 months so muted and inflation over the same period climbing, real spending power has been stifled. The result has been consumer spending that has slowly declined since mid-2016 – this includes high street spending, car sales and of course, housing transactions. Consumption accounts for two-thirds of the UK economy so this is a major contributor to how well, or not well, an economy grows. Consensus forecasts expect that 2018 will continue to see muted consumer spending at just 1.2% annually (compare this to rates of 2%-4% between 2013 and 2016).

On a more positive note, most analysts expect that wage growth will increase this year as the race to retain talent intensifies, and with the exchange rate differential now filtering out of inflation data, this should dissipate too. The question going forward then is if real incomes rise, will the consumer decide to spend or save? This could be one of the biggest factors in whether the UK economy surges or stutters through 2018. On the other hand, manufacturing data has been better than expected through the latter half of 2017 and early signs for 2018 look encouraging too. The manufacturers' organisation EEF has upgraded its manufacturing growth outlook to 2% this year, while the CBI recently announced that business growth reached a two year high in February. Could it be then, that 2018's economic stimulus is provided by the corporates, rather than the consumer, or both?

In Brexit news, the EU issued its suggested post-Brexit EU-UK trade relationship guide, a deal which many are calling 'Canada style', referencing the recently (2016) agreed EU-Canada trade deal which it emulates. The guidelines explicitly stated that the deal would 'have negative economic consequences'. In any case, during the latest UK EU talks held recently, a 'large part' of the transition period has finally (hoorah!) been agreed, leading to an 'orderly withdrawal' of the UK. The transition period is expected to last 29 March 2019-December 2020. The agreement includes what rights EU and UK citizens will have and includes an emergency 'backstop' option to avoid a hard border with Northern Ireland (although needless to say the Northern Ireland border 'issue' is yet to be entirely and formally resolved).

UK ECONOMIC BACKDROP

- The second estimate **GDP figure for Q4 2017 was disappointingly downgraded to 0.4%** from a first estimate of 0.5%. This means that annual growth has also been downwardly revised to 1.7%. Although this may seem a little discouraging, it **is still ahead of what annual estimates were at the start of the year**, and within the breakdown all indications are that investment growth has remained robust, which is positive.
- February's **retail sales figures were encouraging, with an increase of 0.8% in volumes over the previous month**. This follows two consecutive months of declines. Non-store retailing (online shopping and booking facilities, etc.) was the largest contributor to growth in the month while non-food stores (high street shopping) was the only sector to post declines.
- As the above data seems to confirm, high street retailing has been hit hard recently as consumer spending in the sector declines. The result has been **a spate of shop retailers closing doors or going into administration** (Toys R Us, CarpetRight, Claire's, Maplin, and Warren Evans, among others). Although the **closures have not yet reflected an increase in job losses within the employment data (detailed below)**, it could be that over the next few months – particularly if there are further CVA's in the retail sector – the 'fallout' may begin to show. This is of course unless online retailers are able to offset losses with equivalent job growth.
- The latest **Consumer Confidence index (February data, GfK) indicates a slight dip during the month to -10**, declining by one point over January's figure. Of the five sub-sectors included in the index, Personal Financial Expectations over the next 12 months were the most positive at '+5' while the feelings regarding the General Economic Situation were rather pessimistic indicating a figure of '-26'. As has been the case over the last several readings, **consumers are clearly more upbeat about their own finances than they are about the wider economy**. What is interesting about this however is that, as discussed above, consumers hold a lot of weight in steering the economic situation. If they are feeling positive, that can be encouraging for the wider market.

- Latest readings from the **Markit / CIPS Manufacturing PMI show a nearly 'no change' over January's figure, with a February reading of 55.2**, down negligibly from 55.3 last month and above market expectations of 55.0. Of the sub-sectors included in the index: production increased at the slowest rate for 11 months while conversely **both new orders and employment growth increased**.
- More optimistically, the UK **Construction PMI (Markit / CIPS) for February jumped to 51.4** from 50.2 last month. This was **well above market expectations** of 50.7 as total business activity rose marginally, almost exclusively led by the commercial construction sector. New work orders however declined as client confidence wanes with Brexit-related uncertainty continuing to act as a strong headwind to further growth. Input cost inflation also remained strong with the price of raw materials higher.
- The last of the Markit / CIPS **PMI survey indicators show the Services sector regaining momentum with the survey posting 54.5 in February**, up from 53 in January and well above consensus expectations. This was the strongest rate of expansion in this sector since October with **employment expanding rapidly** and input cost inflation in these sectors diminishing. Prices charged by the services sector show the weakest level of increase for six months.
- Latest ONS data on industrial, construction and trade output (January) was disappointing. Although **industrial production rose 1.3% on a monthly basis, manufacturing output rose just 0.1% and construction output fell sharply, declining 3.4%** on a monthly basis. Construction output falls were mainly driven by the continued decline in private housing work, which declined by 8.3% during the month.
- **Inflation in February reached 2.7%**, down considerably from 3.0% recorded in each of the last two months and perhaps finally indicating a turning point for inflation, which many had predicted. This level is now at its lowest since July 2017 with **downward contributions coming from lower fuel prices**, as well as the pounds post-referendum slide finally falling out of the data.
- The latest **MPC meeting in late March indicated a 'no change' in interest rates**, with many still believing the next rate hike will come following the May meeting. Even with inflation now decreasing, and with many anticipating even further declines, it is still expected that this will not sway the MPC into holding steady with interest rates yet again.
- Latest data from the Labour Force Survey shows that the **employment rate regained some momentum this month, moving up slightly to 75.3% from 75.2% last month. The unemployment rate** mirrored this change by again decreasing slightly from **4.4% last month to 4.3% currently**. This confirms the trend that the labour market continues to be a solid performer with 168,000 more people in work than compared with three months prior.
- As many were forecasting, **average weekly earnings also grew this month by 2.6%**, up from 2.5% last month (excluding bonuses, nominal rate).This is now the **fourth month in a row where wages have increased**, a positive sign that consumers may feel more confident making large purchases, particularly if the wage data continues to trend upwards while inflation diminishes.
- Against the Dollar, Sterling is still showing some strong signals, averaging $1.39 over the month and sitting at $1.40 by 19 March. Against the Euro, Sterling has remained steady, averaging €1.13 through the month and ending at €1.14 by 19 March.

(A new table outlining the latest market indicators can be found on page 4)

RESIDENTIAL PROPERTY MARKET

Sale Prices and Rents

- Again the first to release latest house price figures, February data from **Nationwide shows a dip in house price inflation to 2.2% year on year, down from 3.2% last month**. On a monthly basis the data also shows a monthly fall of 0.3% in over January prices, bringing February's data to a six month low and UK house prices now averaging £210,402 down from £211,756 last month.
- The **Halifax house price index also slowed in February, indicating a slower 1.8% annual growth rate**, down from 2.2% in January. On a monthly basis however prices were up over January's average, by 0.4%, largely reversing the 0.6% declines that were recorded during January.
- Quite unlike the two other house price indices, **the UK House Price Index from HM Land Registry has recorded much stronger annual growth of 4.9%** (to January), although a small monthly decline of 0.3% was also recorded. Nevertheless, this is a small decline from last month's recorded growth of 5.0% (revised down from 5.2%). **The average UK house price is therefore recorded as £225,620.**
- On a regional level, it was again a story of the Midlands, where **East Midlands posted an annual increase of 7.3% and the West Midlands of 6.8%. The South West was also strong at 6.9%** while once again it was London (2.1%) and the North East (0.7%) which posted the slowest annual growth this month.
- In the localised areas where Carter Jonas has a presence this month saw **Northampton (7.9%), Leeds (6.8%) and Long Melford (6.4%) indicating the strongest levels of annual growth**. House price growth in Cambridge meanwhile - the outperformer in both of the previous two months - has finally tempered, this month showing annual growth of 6.3%. Conversely **Oxford has seen a 4.7% decline on an annual basis, and a rather hefty 4.5% monthly decline as well**.

- In London, the outer London growth outperforming inner London trend continues, albeit with both just stuttering along. **Outer London prices grew by 2.3% bringing the average house price in these boroughs to £429,014 while inner London inflation of 1.1% brings the average there to £586,043** this month. On a whole, London house price inflation was 2.1% annually in January this year, with the highest growth coming from Redbridge where it reached just 5.9% annually. Compare this to January 2014 when the lowest growth was 5.9% annually in London (Enfield) and the strongest reached 21% (Tower Hamlets).
- **Slightly contradicting this official house price index data but more in line with Halifax and Nationwide data says, the latest (February) RICS Residential Market Survey indicates little change in house prices** with a Price Balance measure of just zero this month. Respondents also indicated little change over the short-term (3 months) but a slightly more positive suggestion that prices could edge upwards over the longer-term (12 months+).
- In Rightmove's latest report (March), they find that asking prices have risen by around 1.5% this month, with strong demand from buyers, while the supply of new homes on the market dwindles. According to **Rightmove, this 1.5% increase this month is the largest single monthly increase in asking prices, at this time of year, since 2007**.
- Latest data from ARLA's report into the private rented sector (January) has found **that the rate of tenants experiencing rate increases has risen by 19%**. This figure however is less than the same month in each of the last two years when 23% (2017) and 30% (2016) of tenants reported rate increases.
- According to HomeLet's latest rental index report (February) **average rents across the UK rose by 1.2% annually, moving the average UK rent to £906 pcm or £758 excluding London**. Of the UK regions, Scotland posted the strongest annual increase of 5.5% followed by the East Midlands at 3.9% and West Midlands at 2.5%. London saw growth of 1.1% while the North East and Wales both saw average annual rental declines.
- Of the areas in London where Carter Jonas has a main presence, Wandsworth has posted annual decline of 2.7% (£1,589 pcm), while Kensington & Chelsea and Hammersmith & Fulham have indicated 1.8% increase (£1,853 pcm) and **Westminster has once again suggested a very punchy increase of 7.8%** to an average of £2,135 pcm.
- **Your Move's latest Buy to Let index (February 2018) has found that overall rents in England & Wales increased 2.5%** in the last year with just two regions: London and the North East, indicating a fall this month with all others indicating rises of between 1.4% (South East) and 3.1% (North West). The average figure of £853 pcm hides the regional variations from £1,276 pcm in London to £534 pcm in the North East (see table below for full breakdown).

(Click to see detailed house price and rent tables)

ACTIVITY

- **HMRC's** UK property transaction figures for January 2018 show **an encouraging start to the year with 102,610 transactions registered in the month** (seasonally adjusted), on par with the same month last year and up 1.3% over December's figure. On a quarterly basis, Q4 2017 data shows over 305,500 residential transactions took place, an increase of 4.2% over Q4 2016.
- Latest mortgage data from UK Finance (January 2018, seasonally adjusted) shows a rather **large 'bounce' back in mortgages for home purchases to 40,117, up 11% over December's** 36-month low of 36,085. Remortgage figures for January were also up slightly over December, albeit by just a few hundred, to 28,924. In total however, with just shy of 78,000 loans approved in January, this is **still 9% below the same time last year**, indicating that a 'mortgage rebound' is unlikely.
- Bank of England's monthly mortgage data for January also indicates **a strong uptick in lending during the month, up 9% over December's figures to 67,478**. Despite this, it is down 2.4% on an annual basis and with interest rates likely to rise through this year it is unlikely that this month's data is any indication of further increases through the year. What is more likely is that **mortgage lending will remain at the levels it has done over the last 24-26 months unless wage levels start to increase well above house price growth** and wider inflation resulting in improving affordability conditions.
- February's **RICS market survey shows that rather depressingly, the New Buyer Enquiries series fell for the eleventh straight month, with a net balance of -16%**. Similarly the Newly Agreed Sales data read with -17%, both indicating (as RICS points out) that the changes to stamp duty for first time buyers appears to have done little to kick-start the waning transaction and enquiry levels. Furthermore - and what has also been reported in several media outlets - it seems that **part of the transaction problem is the lack of available properties for sale**. Responding agents to the survey indicate an average inventory for 'properties on the books' of just 42, a record low for the survey.
- According to Rightmove's latest report (March), demand from home movers has been high, while conversely the **supply of new homes listed on the market has dipped, down 5% compared to the same month one year ago**.

- The rental market in January, according to ARLA (latest data) shows that the average **supply of rental stock per branch fell by 8% in January as the number of properties letting agents manage falling to 184 from 200 the month before**. Supply was the highest in East Midlands who report circa 275 properties managed while London reports the lowest at an average of just 99 properties managed, per branch. **Demand meanwhile increased through the month, rising 19%** as letting agents reported an average of 70 new prospective tenants registered per branch, up from 59 in December.

Figure 1 Five-year Economic Forecast Tables, Experian, March 2018

Source; Experian, UK: core macroeconomic forecasts (annual)

Metric	2018	2019	2020	2021	2022
CPI	2.46%	1.98%	2.00%	2.00%	2.00%
RPI	3.33%	2.85%	3.00%	3.27%	3.35%
Interest Rates (Bank Rate)	0.61%	0.92%	1.21%	1.71%	2.32%
House Price Growth	2.04%	2.73%	3.51%	3.37%	3.98%
GDP Growth	1.5%	1.5%	1.5%	1.7%	1.7%

Figure 2 Key Market Indicators, latest data versus previous data

Sources: ONS (unless otherwise indicated)

Market Indicators	Current	Previous	Direction of change
GfK Consumer Confidence Index	-10	-9	↓
Retail sales volumes (monthly % change)	0.8%	-0.2%	↑
IHS Markit / CIPS Manufacturing PMI	55.2	55.3	↔
IHS Markit / CIPS Construction PMI	51.4	50.2	↑
IHS Markit / CIPS Services PMI	54.5	53.0	↑
Inflation rate	2.7%	3.0%	↓
Interest rate	0.5%	0.5%	↔
Employment rate	75.3%	75.2%	↑
Unemployment rate	4.3%	4.4%	↓
Weekly earnings growth (not incl bonuses)	2.6%	2.5%	↑
£ Sterling: $ USD	$1.40	$1.40	↔
£ Sterling: € Euro	€1.14	€1.13	↑
Nationwide annual house price inflation	2.2%	3.2%	↓
Halifax annual house price inflation	1.8%	2.2%	↓
Official House Price annual inflation (Land Registry)	4.9%	5.0%	↓

Figure 3 Official House Price data, HM Land Registry, January 2018

Source: HM Land Registry (January 2018, latest data)

London	Average Price	Monthly Change (%)	Annual Change (%)
Prime Central London	£1,202,936	5.9%	-1.2%
South West London	£661,945	-1.2%	-1.4%
London	£485,830	1.0%	2.1%

CJ Regional Locations	Average Price	Monthly Change (%)	Annual Change (%)
Northampton	£208,342	-0.5%	7.9%
Leeds	£179,742	1.1%	6.8%
Long Melford	£284,359	2.6%	6.4%
Cambridge	£447,879	0.6%	6.3%
Cambridgeshire	£295,040	0.2%	6.2%
Wiltshire	£275,522	0.1%	6.1%
Bath and North East Somerset	£338,517	1.7%	5.8%
Winchester	£430,101	4.5%	5.8%
Harrogate	£283,108	-1.6%	4.0%
Basingstoke and Deane	£308,639	-0.5%	3.5%
West Berkshire (for Newbury)	£349,843	-1.3%	2.7%
Oxfordshire	£351,715	-1.3%	1.1%
York	£240,278	-1.3%	-0.1%
Oxford	£392,792	-4.8%	-4.7%

UK Regions	Average Price	Monthly change (%)	Annual change (%)
East Midlands	£185,568	-0.1%	7.3%
South West	£255,307	1.4%	6.9%
West Midlands	£175,677	0.0%	6.8%
East of England	£289,729	-0.7%	5.3%
Yorkshire and The Humber	£156,484	-0.7%	5.1%
United Kingdom	£225,621	-0.3%	4.9%
England	£242,286	-0.5%	4.6%
Wales	£153,034	-0.5%	4.5%
North West	£155,788	-1.5%	4.3%
South East	£323,435	0.2%	3.4%
London	£485,830	1.0%	2.1%
North East	£122,870	-5.5%	0.7%

Figure 3 Official House Price data, HM Land Registry, January 2018

Source: HM Land Registry (January 2018, latest data)
Note: Boroughs in green indicate an Inner London borough.

London boroughs	Average Price	Monthly Change (%)	Annual Change (%)
Redbridge	£432,415	2.1%	5.9%
Merton	£510,576	-2.8%	5.6%
Lewisham	£422,367	1.1%	5.3%
Greenwich	£393,887	1.6%	4.6%
Bexley	£344,415	0.7%	4.3%
Barking and Dagenham	£293,034	-0.4%	3.8%
Havering	£365,093	-0.3%	3.7%
Brent	£488,970	0.2%	3.5%
Sutton	£377,902	-0.7%	3.4%
Lambeth	£526,788	2.0%	3.4%
Newham	£366,953	2.5%	3.3%
Waltham Forest	£449,654	2.3%	3.2%
Islington	£657,474	1.2%	2.8%
Tower Hamlets	£469,550	-2.1%	2.5%
Croydon	£372,024	0.3%	2.4%
Harrow	£467,839	-1.7%	2.2%
Hounslow	£407,680	0.3%	2.1%
Enfield	£400,010	0.8%	2.1%
Bromley	£445,387	-0.7%	2.0%
Southwark	£513,991	3.2%	1.9%
Hackney	£567,005	1.9%	1.0%
Barnet	£532,719	-1.2%	0.0%
Haringey	£548,513	-0.7%	-0.5%
Kingston upon Thames	£484,965	-1.1%	-0.5%
Hillingdon	£408,346	-2.0%	-0.5%
Wandsworth	£597,857	-0.5%	-0.9%
Kensington And Chelsea	£1,380,000	9.2%	-1.0%
City of Westminster	£1,025,871	1.8%	-1.4%
Hammersmith and Fulham	£744,263	-1.0%	-1.5%
Ealing	£481,834	-0.2%	-1.5%
Richmond upon Thames	£643,714	-2.1%	-1.7%
Camden	£821,464	0.3%	-4.0%
City of London	£755,178	1.0%	-7.9%
Inner London	£586,043	1.1%	1.1%
Outer London	£429,014	-0.3%	2.3%

Figure 4 Your Move Buy-to-Let Index, February 2018
(£ per calendar month)
Source: Your Move Buy to Let Index, February 2018 (January data)

Region	Rent (latest data)	Annual Change (%)
North West	£636	3.1%
East Midlands	£652	2.8%
East of England	£894	2.8%
England & Wales	£853	2.5%
South West	£676	2.3%
Yorkshire and the Humber	£575	1.8%
West Midlands	£616	1.7%
Wales	£595	1.5%
South East	£889	1.4%
London	£1,276	-0.8%
North East	£534	-2.0%

AN EXPLANATORY NOTE ON HM LAND REGISTRY DATA:

Land Registry data referenced, is monthly data. Prices and activity are subject to future and past revision as there is a lag on the registration of property sales. Further, transaction data lags average price data by two months, while average price data itself is 6-8 weeks behind publication date. Monthly data reflects only sales which occurred that month and price changes referenced are average prices for that month versus the same month one year prior.

For further information on how land registry compiles figures and what statistical methods are used, please go to http://landregistry.data.gov.uk/app/ukhpi

ABOUT CARTER JONAS

Carter Jonas LLP is a leading UK property consultancy working across commercial property, residential sales and lettings, rural, planning, development and national infrastructure. Supported by a national network of 38 offices and 700 property professionals, our commercial team is renowned for their quality of service, expertise and the **simply better advice** they offer their clients.

Residential Research

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