# Market Briefing: September 2024

*Key developments in the economy, housing and mortgage markets*

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## Executive summary

- UK economic growth was robust in the first half of the year, rising 0.7% in Q1 and 0.6% in Q2, although growth stalled in June and July. The services sector has been responsible for almost all the growth in GDP so far this year.

- The Bank of England cut Bank Rate by 0.25% in August. It was the first cut since March 2020. The ECB cut rates by 0.25% in June, followed in September by a 0.5% rate cut from the US Federal Reserve and another 0.25% reduction from the ECB.

- CPI inflation was unchanged in August at 2.2%. Core inflation rose from 3.3% to 3.6% while services inflation was also higher at 5.6% and goods prices fell 0.9%.

- The labour market remained robust over the spring and early summer with employment rising by 265,000 between March and June and unemployment falling by 73,000 over the same period, taking the unemployment rate back down to 4.1%. Despite this, regular pay inflation eased back to 5.1% in June.

- Housing turnover continued to rise heading into the summer. July's figure of 97,000 was the highest total since December 2022. The RICS Residential Market Survey for August suggests that this upward trend is set to continue in the coming months.

- The rise in house prices also picked up momentum over the summer. In July, the Land Registry reported that house prices reached a new peak of £289,700, surpassing the previous record of September 2022. The Nationwide and Halifax indices were up 2.4% and 4.5% respectively in August.

- Mortgage lending and approvals reflect this more buoyant housing market. Lending for house purchase was up 29% in the three months to July while approvals were 10% ahead. But remortgage activity was more subdued, with lending up only 3% over the same period, partly due to the ongoing shift toward product transfers.

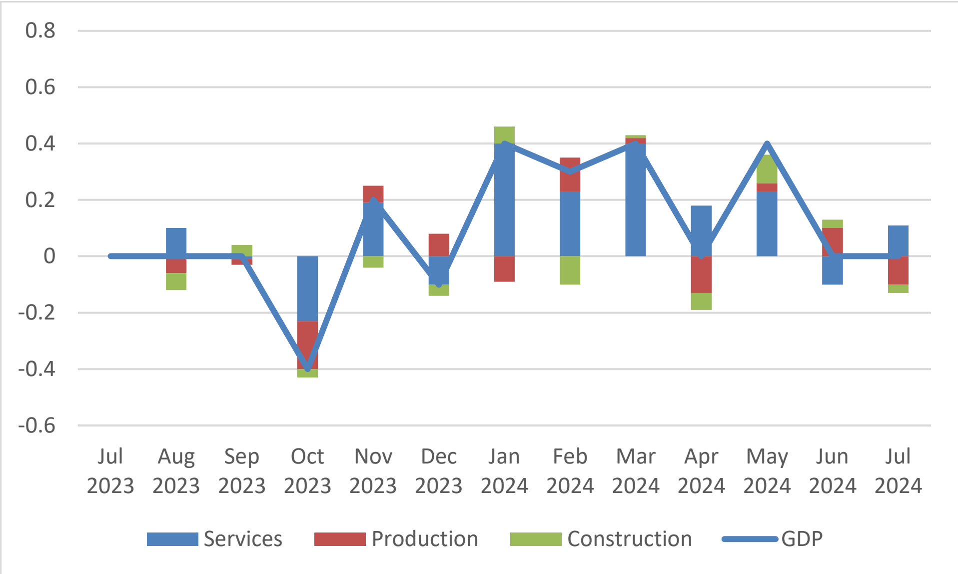
- Arrears have stabilised in both the owner-occupied and buy-to-let markets despite the drift of mortgage borrowers to higher rates. Arrears over 2.5% of the loan balance were unchanged in Q2 at 1.03% of all mortgages.

## The economy

### Output

The economy has surprised commentators with its strength during the first half of 2024, growing by 0.7% in Q1 and 0.6% in Q2. However, momentum appears to have slowed in June and July, with both months showing no growth (see Chart 1). This left GDP up 0.5% in the three months to July, with services up 0.6%. While production output decreased over this period, construction saw a revival, growing by 1.2%, the first three-monthly increase since September 2023. This was led by new work, bucking the recent trend which saw maintenance output outperform new work, which had been falling since the end of 2022.

**Chart 1 – Sources of monthly GDP growth %**




Source: Office for National Statistics

### Labour market

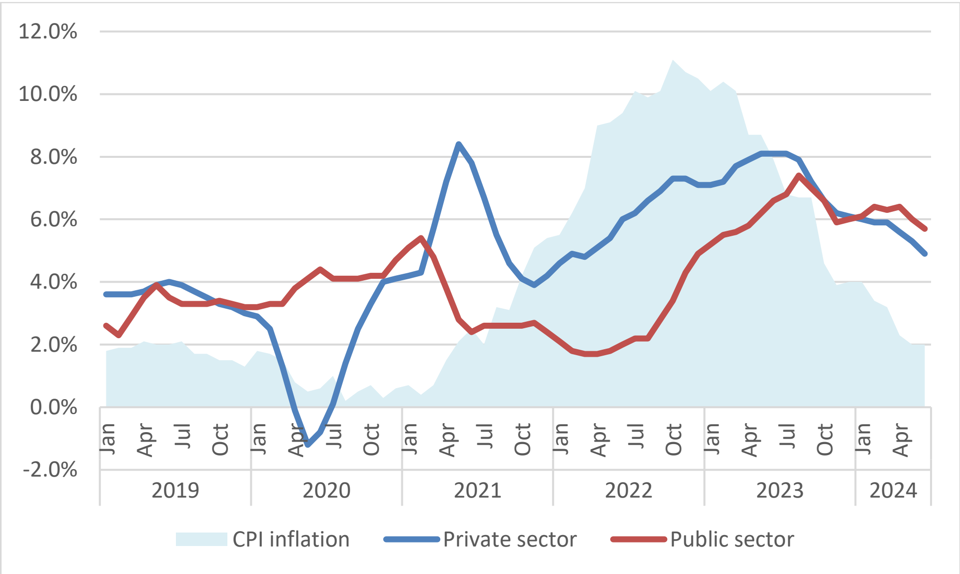
The recovery in output appears to have fed through to the labour market, although the number of job vacancies continues to decline (see Chart 2). The number of vacancies fell 143,000 in the year to June-August and 42,000 over the latest three months. But over the same period, the number of unemployed fell by 59,000 and 73,000 respectively and the unemployment rate fell from 4.4% in April to 4.1% in June. The employment rate has also risen since March from 74.3 to 74.8 in June, with the employed workforce rising by 265,000.

**Chart 2 – Job vacancies and unemployment**


Source: Office for National Statistics

With lower headline inflation, earnings growth is slowing for both the public and private sectors (see Chart 3). Overall, regular pay rose 5.1% in the year to May-July, down from 5.4% the previous month. Total pay growth has slowed faster, dropping to 4.0%, although this is affected by one-off NHS and civil service payments made last year. Regular public sector pay is now running well ahead of the private sector, at 5.7% versus 4.9% and recent substantial pay settlements for teachers and NHS workers are likely to keep public sector pay growth ahead of the private sector.

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




Source: Office for National Statistics

### Inflation and interest rates

Global commodity prices have fallen back in recent months, as can be seen in the S&P GSCI Global Commodities Price Index, which fell 11.9% in the three months to 24

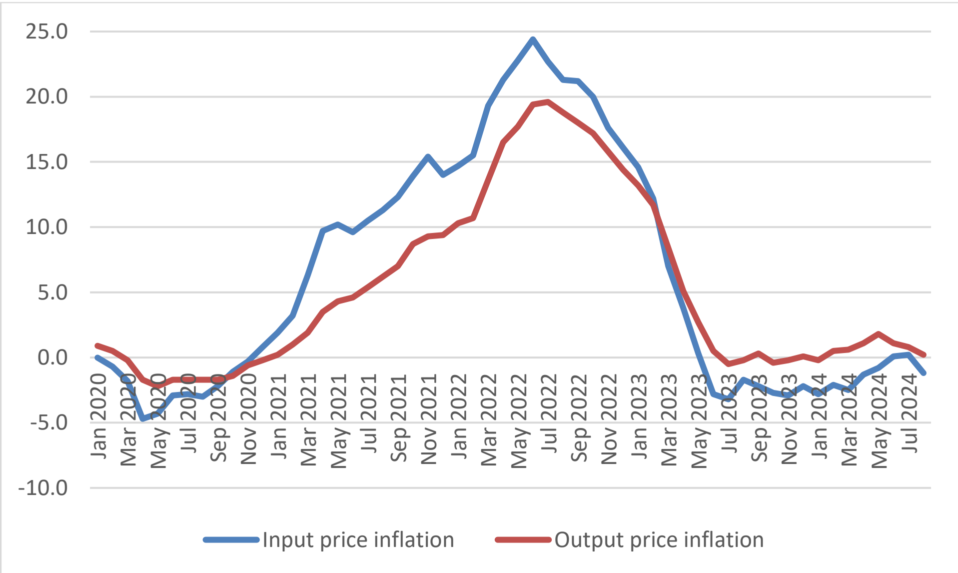
September (see Chart 4). Oil prices fell sharply in early September, dropping below $65 a barrel, but have since recovered some of these losses.

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


Source: S&P

Producer prices have responded to weaker commodity prices and stronger sterling. Producer input prices fell 1.2% in the year to August while output prices were up only 0.2% (see Chart 5). On a three-month on three-month annualised basis, input and output prices are even more subdued, down by 3.4% and 2.5% respectively.

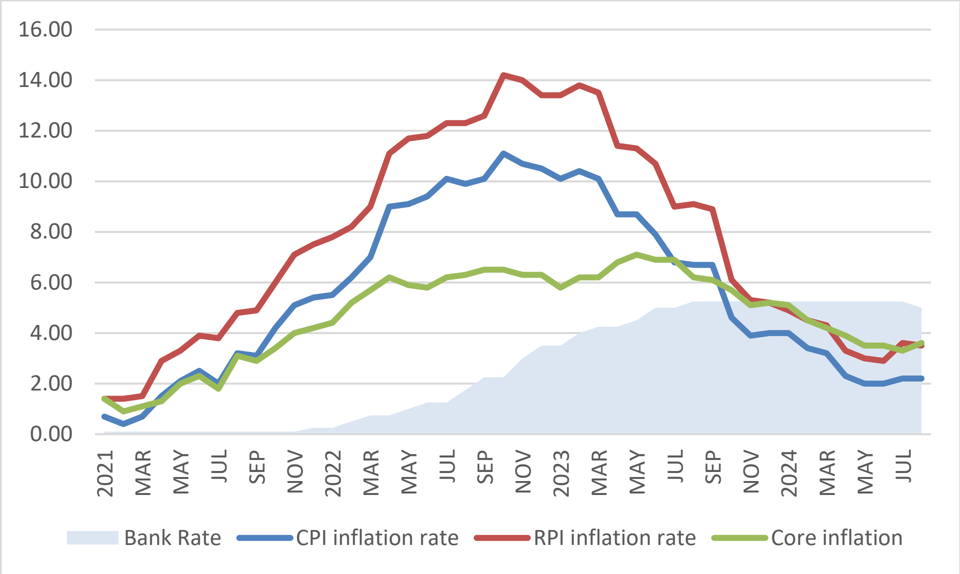
**Chart 5 – Producer prices (% annual increase)**




Source: Office for National Statistics

As Chart 6 shows, consumer price inflation is also showing a more settled picture. The headline CPI inflation rate was unchanged in August at 2.2% while the RPI was 3.5% higher than a year earlier, a slight fall from July. However, a reminder that underlying inflationary pressures have not entirely abated could be seen in core inflation, which rose from 3.3% to 3.6% and inflation in services, which was up from 5.2% to 5.6%. In contrast, the price of goods fell 0.9% in the year to August.

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




Source: Office for National Statistics

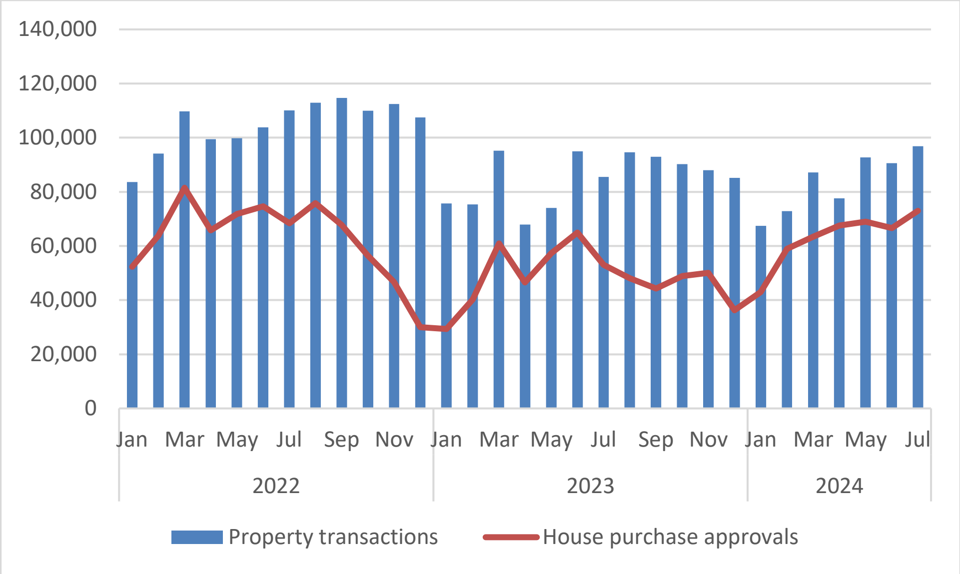
The Bank of England's September decision to hold rates at 5.0% was widely expected, given the August cut from 5.25%, although external MPC member Swati Dhingra voted for a further 0.25% reduction. But the first Federal Reserve cut in this cycle was a larger 0.5% while the ECB cut by 0.25% for a second time in September, reinforcing the sense that the main central banks are satisfied that inflation is under control and on a path back to target.

## Housing and mortgage markets

### Activity

Housing turnover has recovered robustly from its January low, reaching 97,000 in July (see Chart 7). There were 280,000 housing transactions in the three months to July, 18% above the previous three months and the highest total since January 2023. The August RICS Residential Market Survey points to a further improvement in activity over the next three months, coupled with rising prices, underpinned both by a recent rise in new buyer enquiries and vendor instructions.

**Chart 7 – Monthly housing transactions**

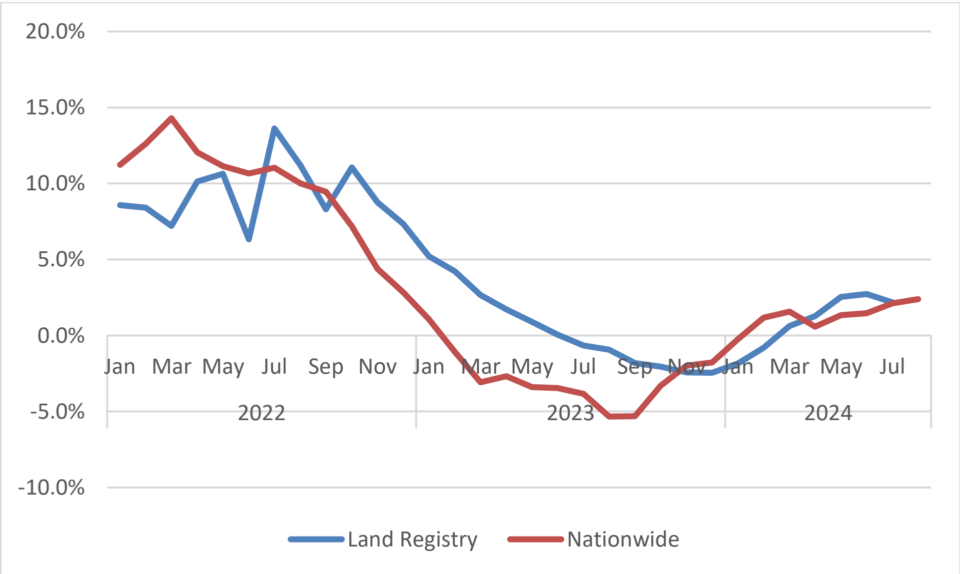



Source: HMRC

### House prices and rents

House prices have also reflected improving confidence in the housing market, with the Land Registry reporting that in July average prices surpassed their previous peak, recorded in September 2022, to reach £289,700. Other indices have also been buoyant, with the Nationwide index up 2.4% in the year to August and the Halifax index up 4.5%, the fastest rate of increases seen so far this year.

**Chart 8 – House prices (annual growth rate)**

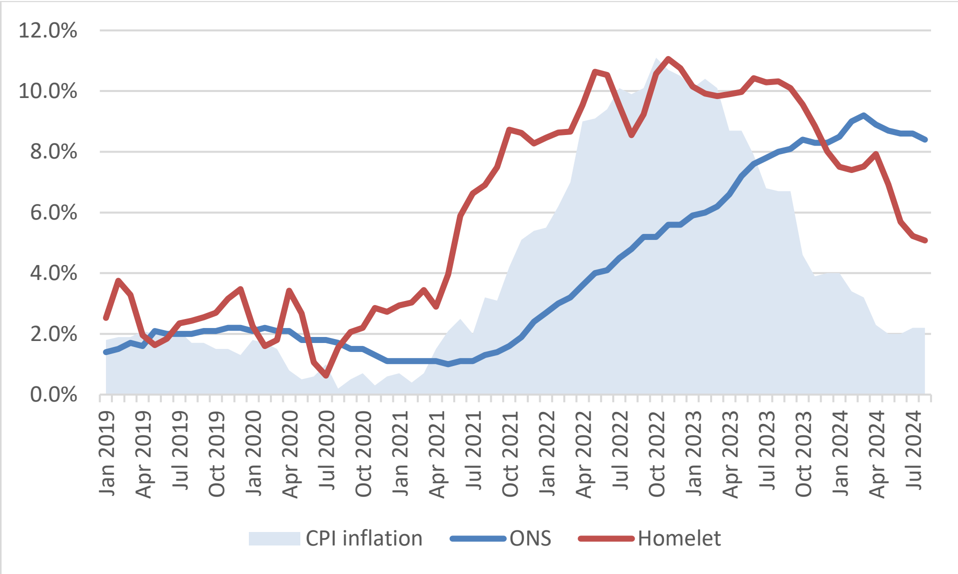



Source: HM Land Registry, Nationwide Building Society

It is too early for the August Bank Rate cut of 0.25% to have had any real impact on these figures, suggesting that the market recovery should have further to go. Although the government has signalled that the upcoming budget will have to be tough, there has been no indication that they are planning tax increases specifically aimed at the property market and, given their goal of expanding housebuilding, such a move seems unlikely.

Rental price inflation for new contracts continues to cool according to the Homelet Index. In August, Homelet reported that new rents were 5.1% above the level of a year earlier (see Chart 9), which is the slowest rate of increase since May 2021. Nonetheless, the index shows that rents rose 35% in the four years to August 2024, against a 24% rise in consumer prices measured by the CPI, highlighting the pressures facing the sector as demand outstrips supply and landlords face rising finance and other costs. The ONS private rental series tends to lag Homelet, as it includes existing as well as new contracts and, unsurprisingly, this lagging effect is now leaving this series rising faster, the annual gain in August being 8.4%, although even this series is now showing a slowdown in the rate of increase.

**Chart 9 – Private rents (annual % growth)**



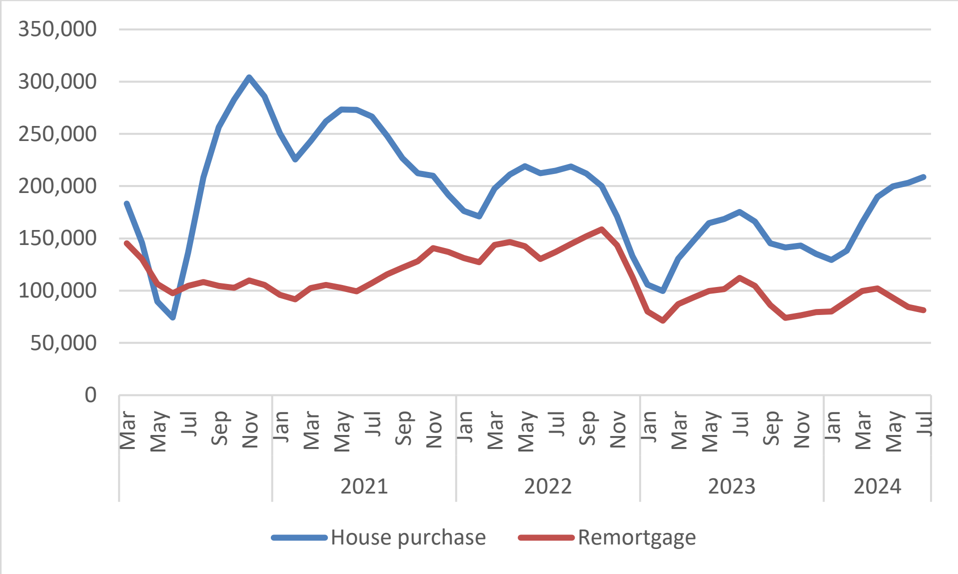

Source: Office for National Statistics, Homelet

## Mortgage lending

As the housing market has gathered pace, so have mortgage approvals and lending for house purchase. The number of house purchase mortgage approvals has risen sharply this year, more than doubling from the December low and reaching 73,000 in July, the highest total since August 2022. However, comparing the latest three months with the previous three, as Chart 10 does, the rate of increase slowed to 10% in July, having been as high as 47% in April.

Approvals for remortgages have been much less buoyant, averaging only 2% above last year's weak number so far this year and falling 20% in the three months to July compared to the previous three months. One reason for this is that more customers are taking product transfers. During the first seven months of 2024, the value of remortgages equalled 34% of product transfers, down from 36% for the whole of 2023.

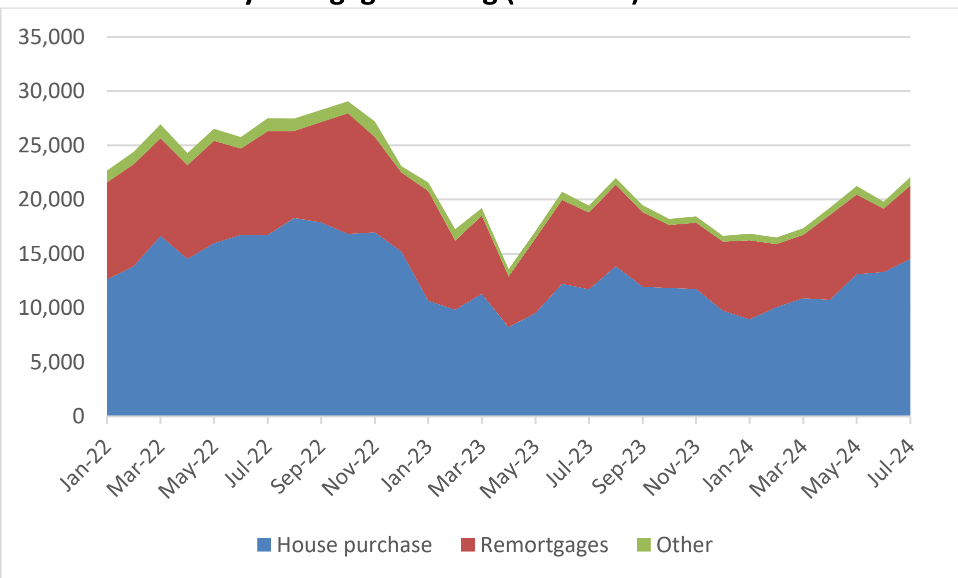
**Chart 10 – Number of mortgage approvals (3-month rolling average)**




Source: Bank of England

The rise of house purchase approvals has been mirrored, with a short lag, by lending for house purchase. As Chart 11 shows, house purchase lending by value bottomed out in January and rose by 29% in the three months to July compared to the previous three months. July's figure was particularly strong at £14.5 billion, the highest monthly total since December 2022. Remortgage lending has been more subdued: the £6.7 billion recorded in July was up 15% on June's weak total but still below the £6.9 billion monthly average of the previous year.

**Chart 11 – Monthly mortgage lending (£ million)**

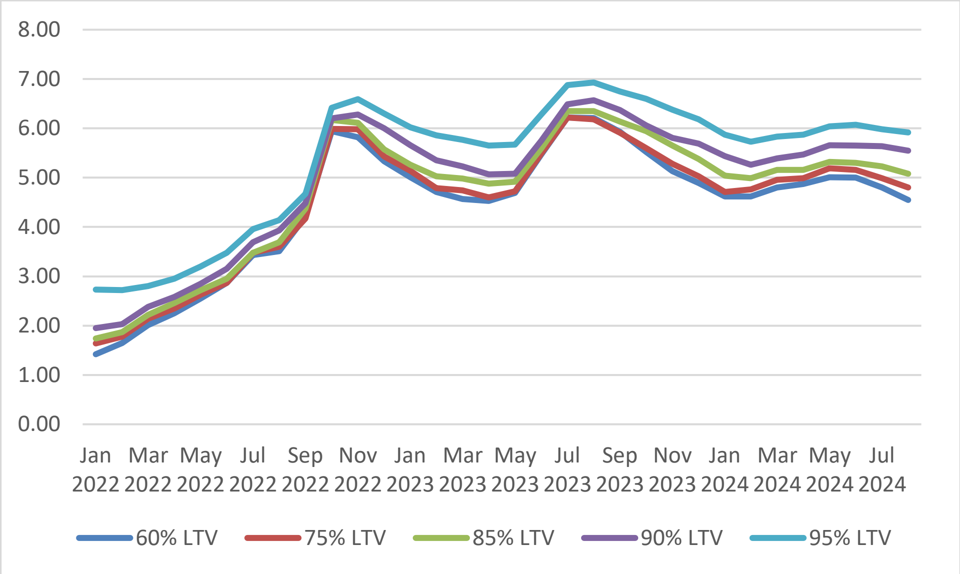



Source: Bank of England

**Mortgage pricing and products**

The first Bank Rate cut since March 2020 drove a reduction in average mortgage rates across the LTV spectrum, as illustrated by Chart 12. However, progressively less was passed on at higher LTVs, from an average of a full 25bp fall at 60% LTV to 6bp at 95% LTV. This followed a period of several years where the LTV pricing differential narrowed.

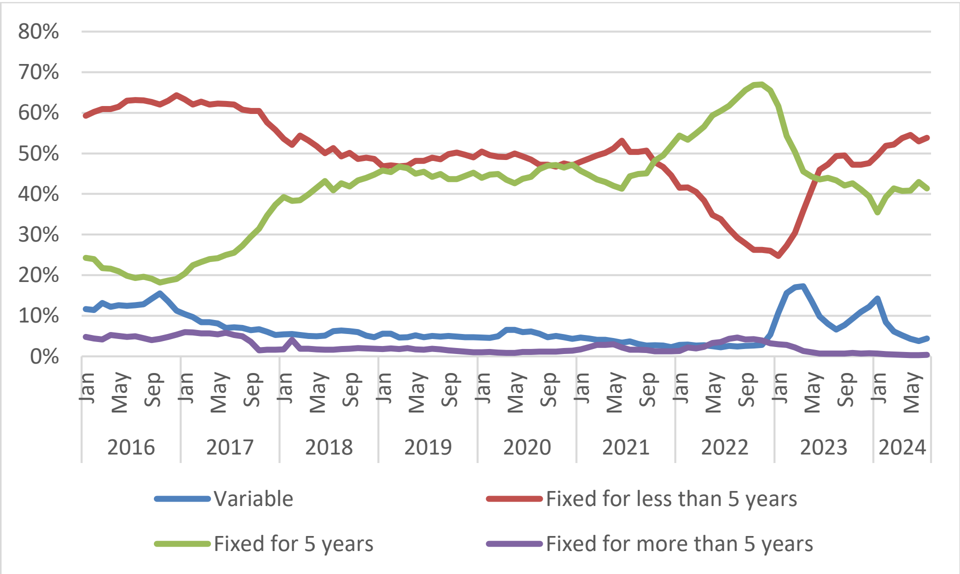
**Chart 12 – Mortgage pricing by LTV**




Source: Bank of England

Mortgage rates also fell across the spectrum of initial fixed-rate periods. The largest decline was in average 2-year fixed-rate products, which fell by 19bp, the same decline as variable rate deals. By contrast, 10-year fixed-rate mortgage pricing was only 2bp lower than in July.

**Chart 13 – Fixed and variable rate share of new lending**

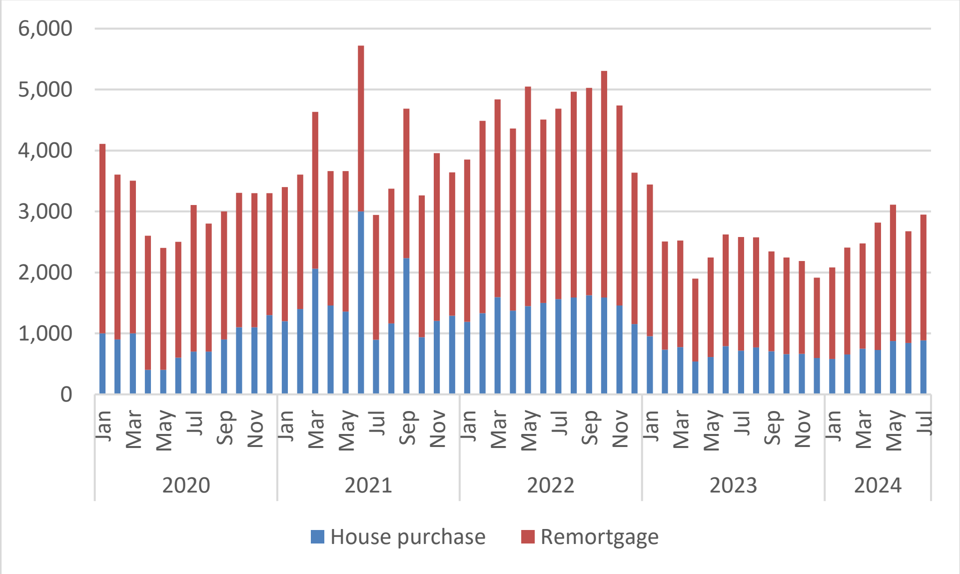



Source: UK Finance

As Chart 13 shows, loans fixed for less than 5 years remained the most popular product in July, followed by 5-year fixes. Variable rates and longer-term fixes both remain niche products at present.

**Buy-to-let market**

**Chart 14 – Buy-to-let lending (monthly £million)**




Source: UK Finance

The recovery in the buy-to-let market that started early in the year has continued to pick up steam (see Chart 14). Buy-to-let lending for house purchase was up 22% in the three months to July, relative to the previous three months, and remortgaging by 10%. The market is benefiting from an easing in rates, which have come down much faster this year than those for owner-occupiers and are now roughly 0.5% lower, reflecting lenders' desire to stimulate activity by overcoming affordability pressures, which have made it difficult for some landlords to remortgage since rates rose in 2022.

**Renters' Rights Bill**

The government has introduced its promised Renters' Rights Bill to Parliament. The key features of the proposed legislation are:

Abolition of fixed-term tenancies. So-called Section 21 evictions will be abolished, meaning landlords can only evict a tenant for one of a number of prescribed reasons (e.g. rent arrears, anti-social behaviour, or a desire to sell or move into the property).

Enabling tenants to appeal excessive above-market rent increases to a rent tribunal.

Introduction of a new Private Rented Sector (PRS) Landlord Ombudsman.

Mandatory registration of landlords on a national database.

Giving tenants the right to keep a pet.

Applying the Decent Homes Standard to the PRS.

Applying 'Awaab's Law' to the PRS, setting clear legal expectations about the timeframes within which landlords in the PRS must take action to make homes safe.

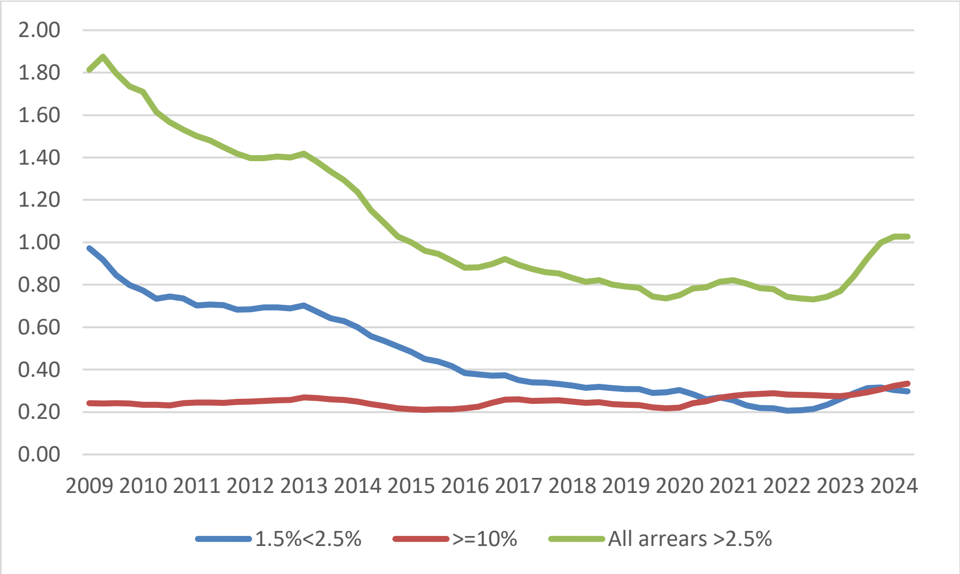
Making it illegal for landlords and agents to discriminate against prospective tenants in receipt of benefits or with children.

Ending rental bidding wars by prohibiting landlords and agents from asking for or accepting offers above the advertised rent.

**Arrears and possessions**

Concerns about a sharp rise in arrears, as a consequence of borrowers moving onto more expensive products given the higher interest rate environment of the last two years, have been calmed by this year's arrears data. In Q2, all arrears over 2.5% of the loan balance were unchanged at 1.03% and short-term arrears (1.5% up to 2.5%) were also unchanged at 0.3%. Longer-term arrears (10% or more of the loan balance), continued to rise slowly to 0.33%, in part reflecting the backlog of possession cases in the court system, although the number of possessions is now rising, reaching 1,620 in Q2, 34% above the figure of a year earlier.

**Chart 15 – % of mortgages in arrears (by percentage of loan balance)**




Source: UK Finance

Buy-to-let mortgage arrears, which were increasing much faster than those of owner-occupiers, have also stabilised this year, with arrears over 2.5% of loan balances unchanged at 0.69% of all loans in Q2. Short-term buy-to-let arrears (1.5% up to 2.5%), actually declined in Q2, falling from 0.27% to 0.25%, a better performance than the owner-occupied market, despite the mortgage affordability pressures facing landlords moving onto more expensive products, perhaps reflecting higher rents.

## Prospects

Improved sentiment, both about the economy as a whole and about the housing and mortgage markets, easily pre-dated the interest cut at the beginning of August. But that cut is likely to bolster confidence further, having a psychological impact beyond that which a modest 0.25% reduction might normally be expected to have, because it marks a turning point that allows people to look forward to an environment where interest rates are coming down, easing pressure on businesses and consumers.

Although the government has repeatedly highlighted the need for a tough budget on 30 October, it is unlikely that this will dent economic prospects to a material extent. And we do not expect significant tax increases aimed specifically at the housing market, as the government has emphasised its desire to see an expansion of private sector housebuilding.

Instead, we see rising real wages and improving consumer confidence as the most significant factors driving the near-term performance of the economy. Regular pay growth of 5.1% is comfortably ahead of inflation and, even with CPI inflation likely to be on an upward trend until the start of next year and earnings growth slowing, there seems little prospect of wage growth turning negative in real terms. Indeed, the labour market continues to confound many economists with its strength, with historically high levels of vacancies and employment rising and unemployment falling again in recent months.

A strong labour market and falling interest rates is positive for the housing and mortgage markets. Indeed, the housing market has recovered more robustly than commentators expected this year, picking up momentum well before Bank Rate was cut at the start of August. With earnings growth still exceeding house price inflation and mortgage rates coming down, affordability, which has been one of the largest barriers to homebuyers, is improving. Although obvious challenges lie ahead this year, not least the prospect of rising headline inflation, the path to a more stable economy and lower interest rates is now visible and this should underpin further improvements in the housing and mortgage market as we head towards 2025.