

David Smith



THE SUNDAY TIMES

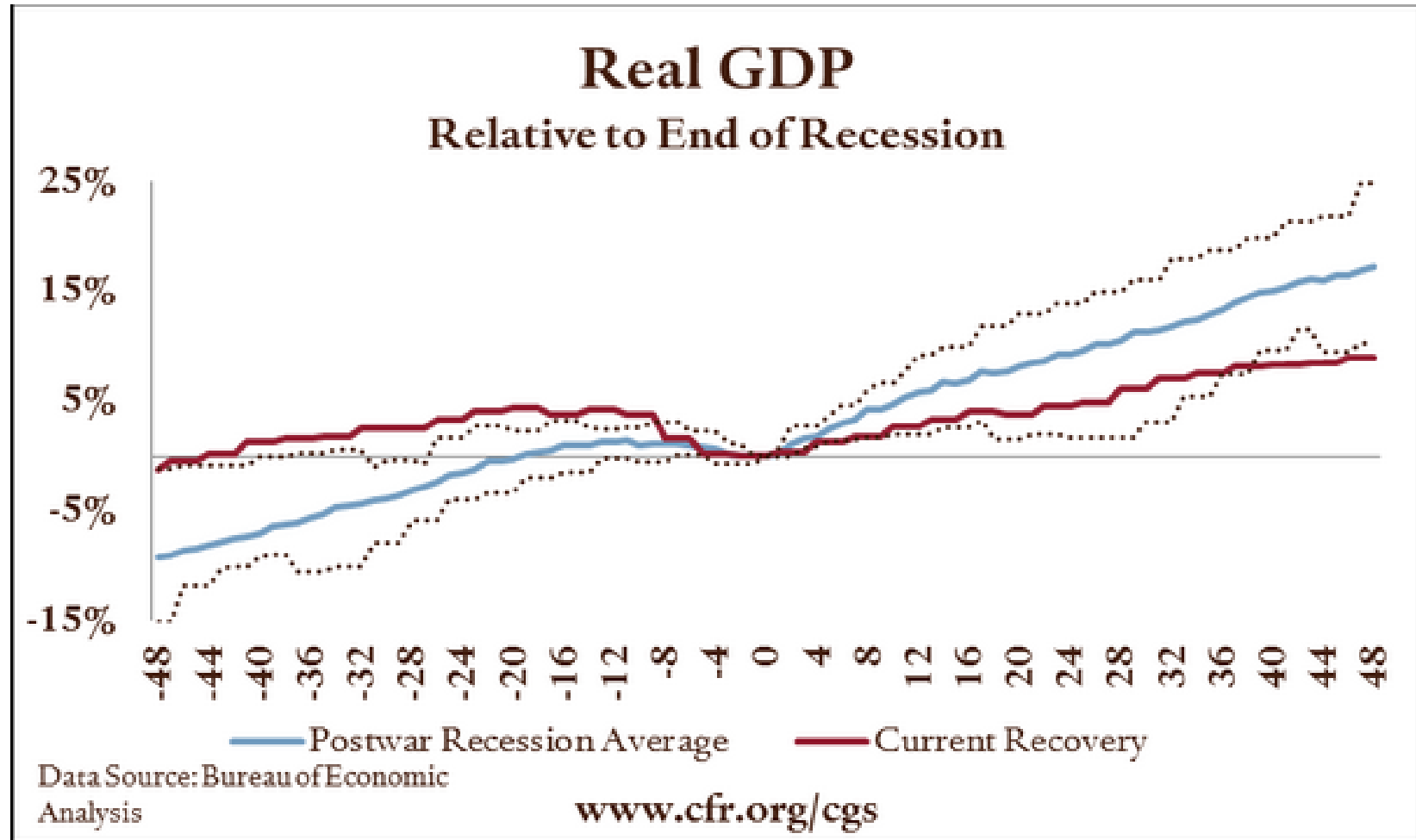
No longer an age of instability?

**What's the outlook for the
economy and housing?**

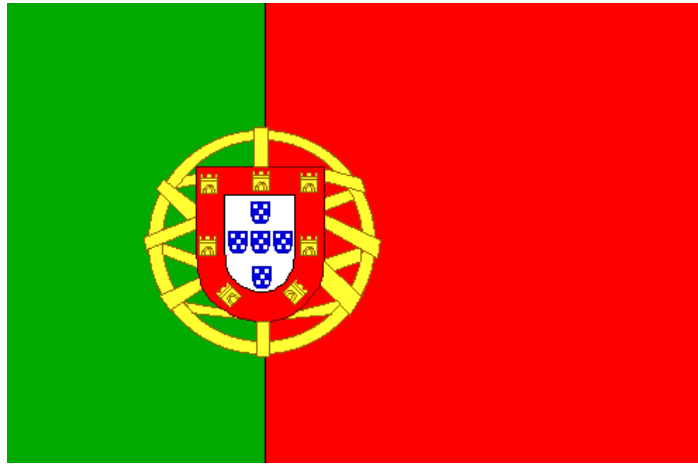
Advanced economies were in a post-crisis hangover



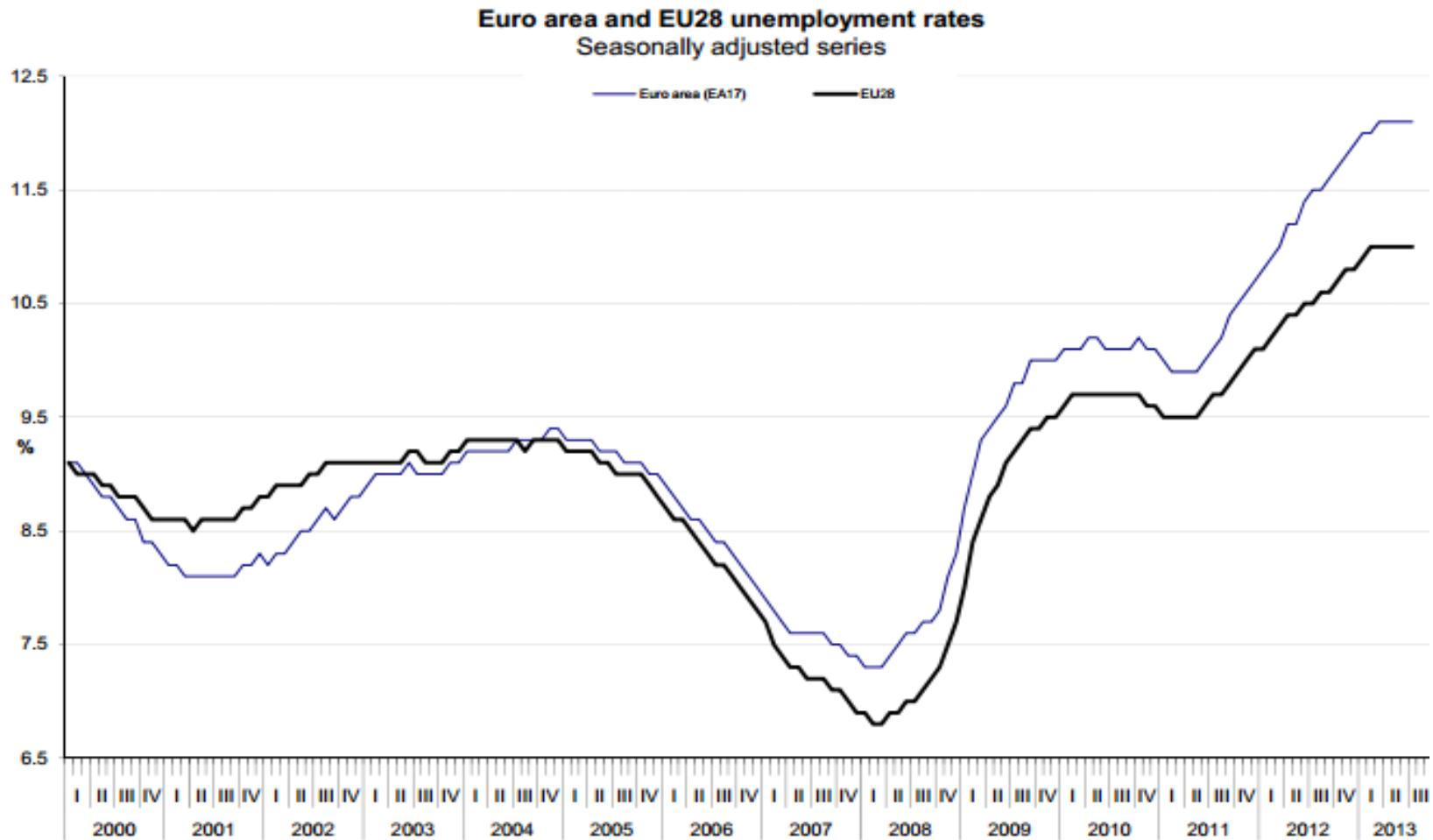
In America ...



And even more so in the eurozone



With its very high unemployment

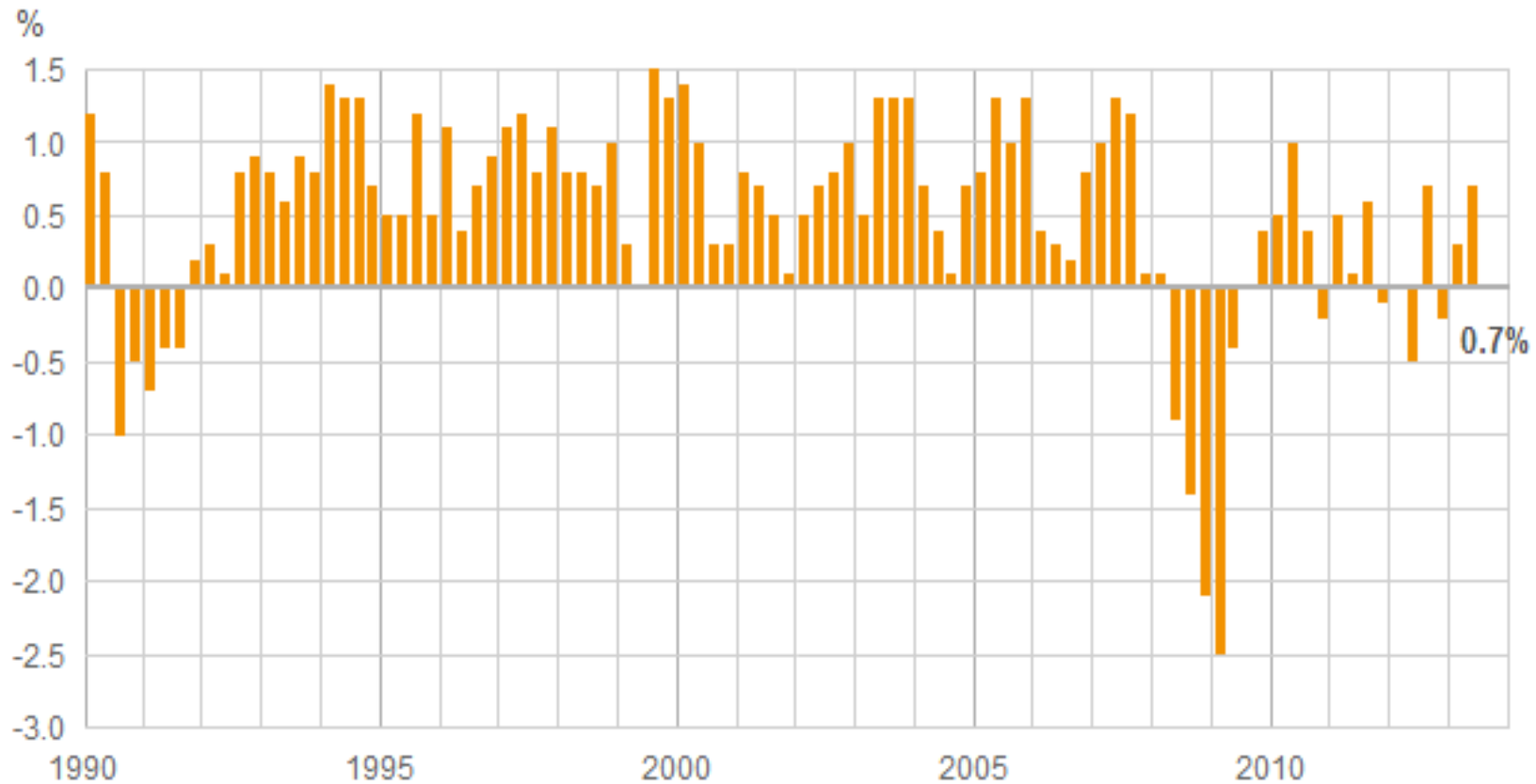


What about Britain?



It's been a stop-start recovery

UK GDP growth, quarter on previous quarter

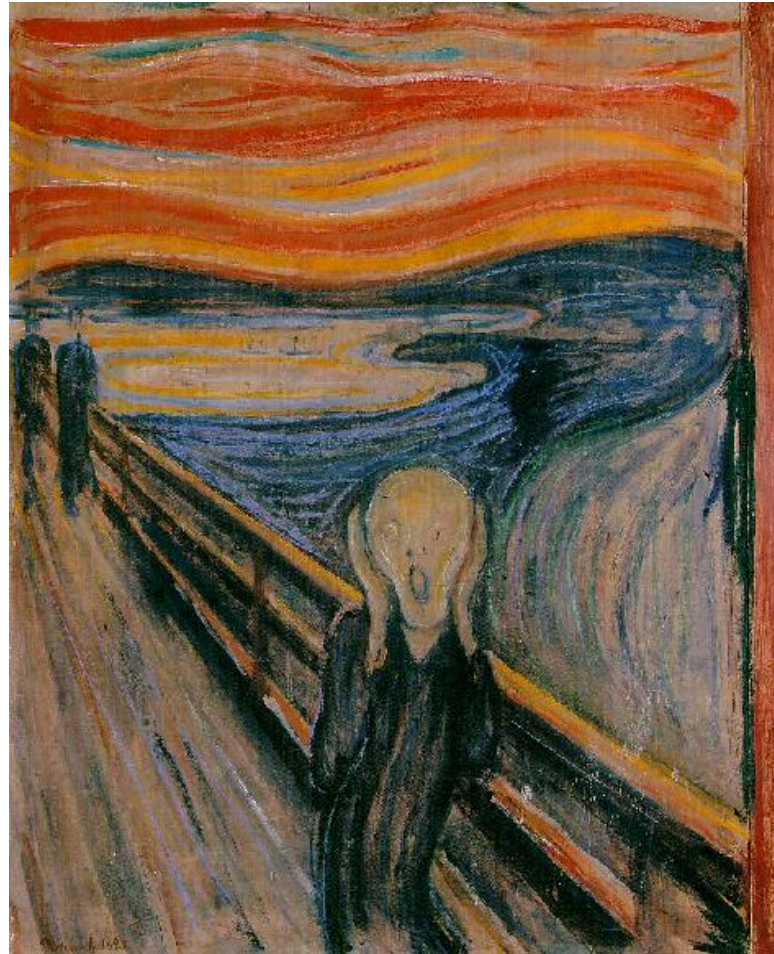


Source: ONS

For a variety of reasons

- Fiscal consolidation
- Weak credit growth
- A high-inflation squeeze on real incomes
- Weakness in main export markets
- Household/corporate sector deleveraging
- The regulatory backlash?

So should we still be worried?



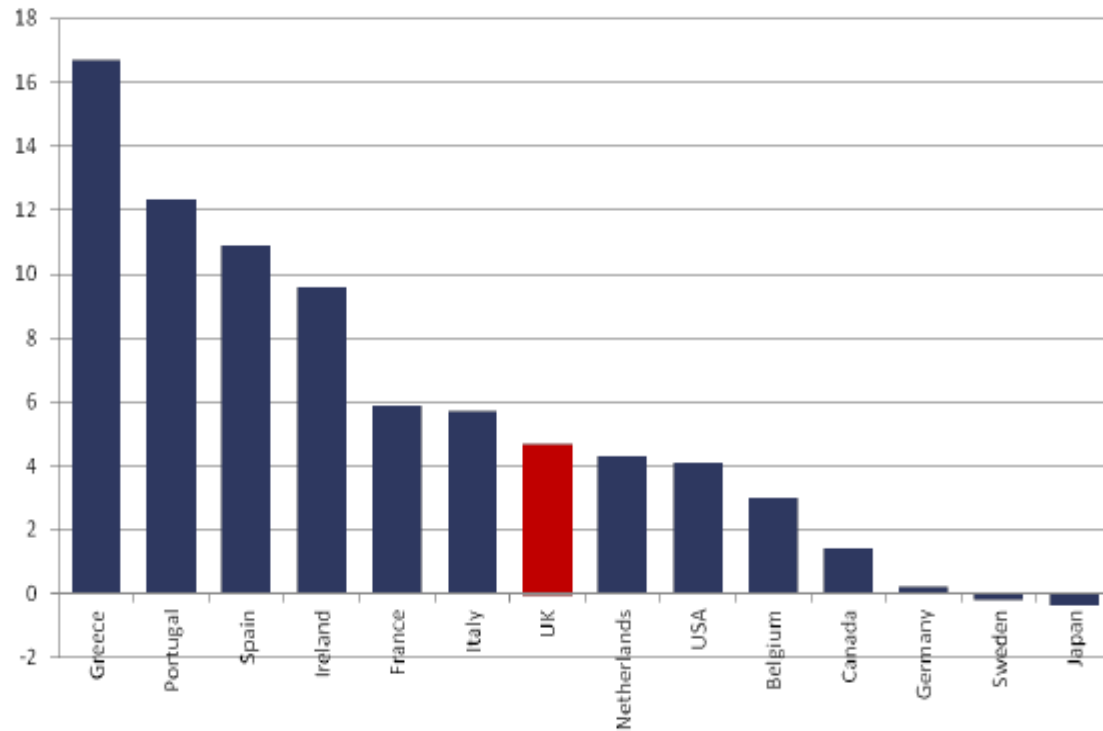
Or look for a light at the end of the tunnel?



Don't exaggerate the austerity

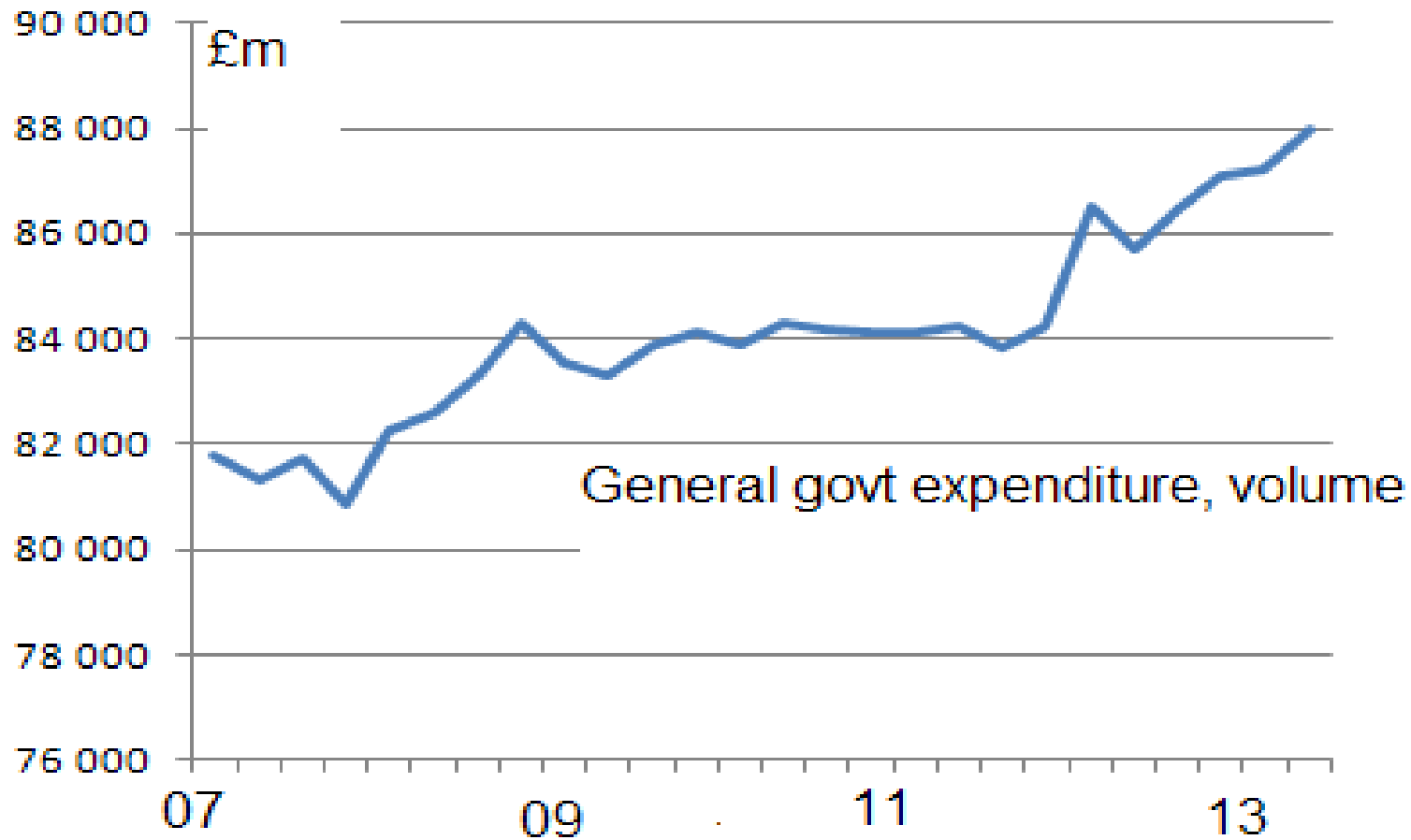
Fiscal consolidation plans

Cumulative contribution to consolidation from measures. 2009-2013 for selected economies.

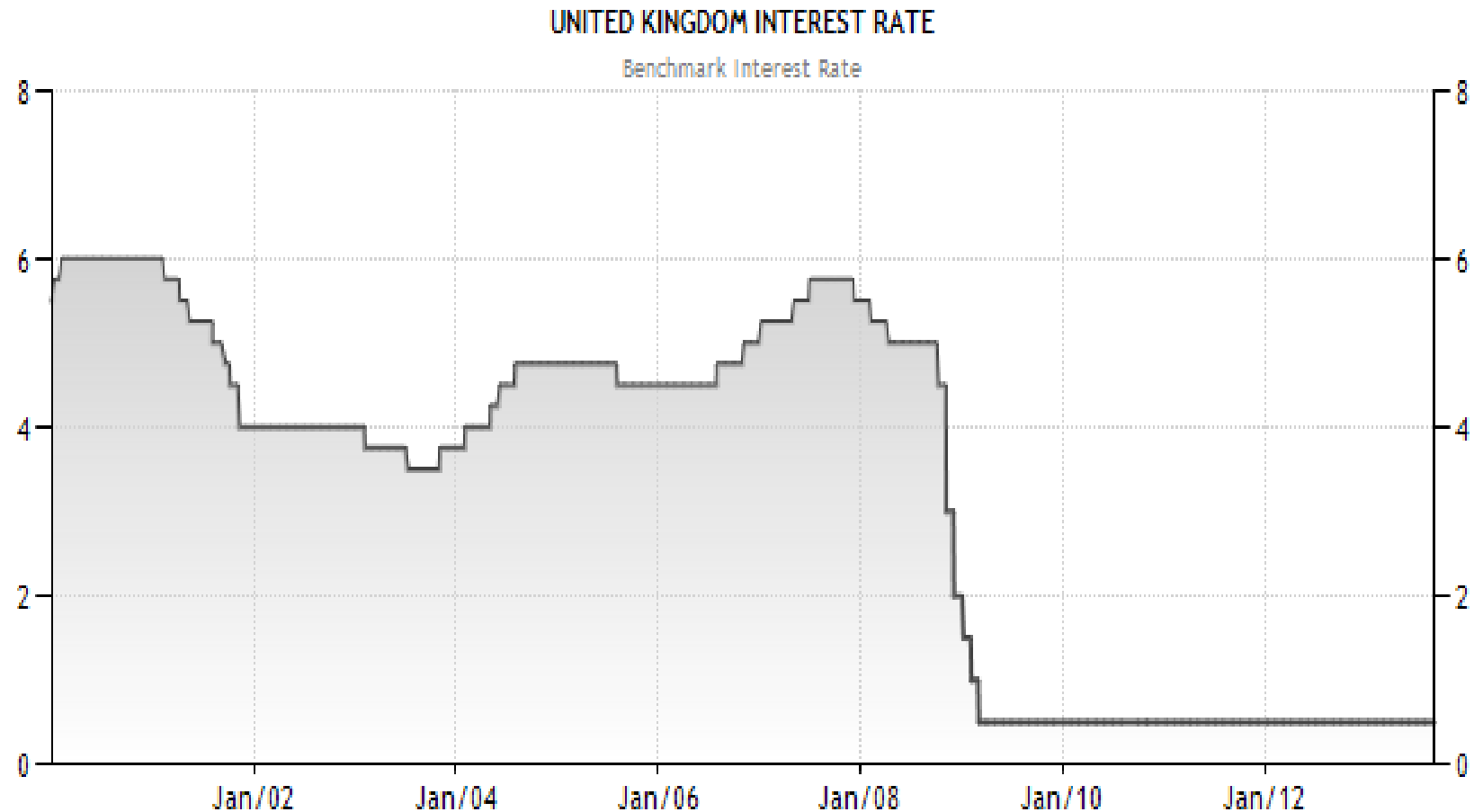


Source: OECD UK Economic Survey, February 2013

Hard to see too many spending cuts



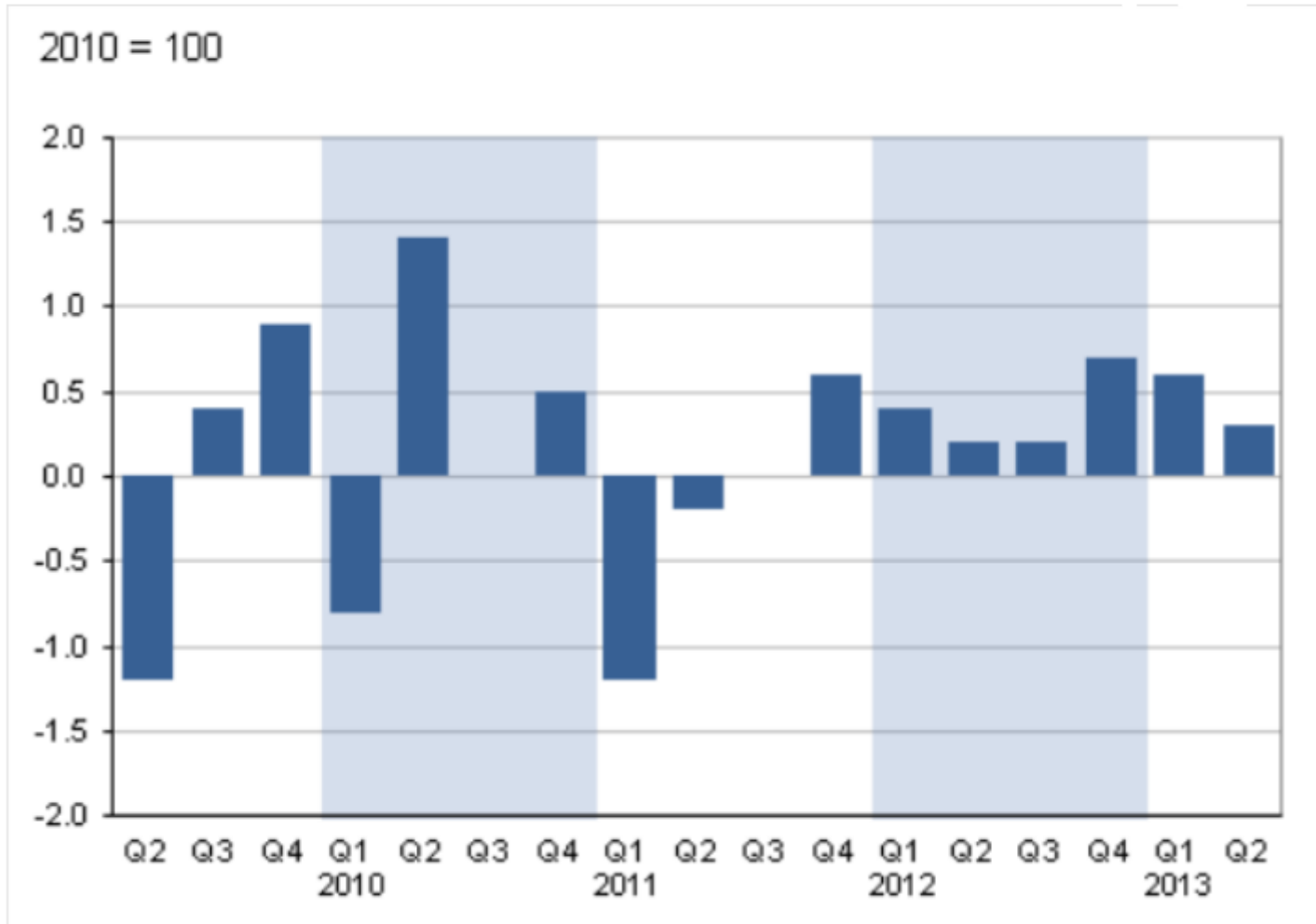
Forward guidance means rates staying low



SOURCE: WWW.TRADINGECONOMICS.COM | BANK OF ENGLAND

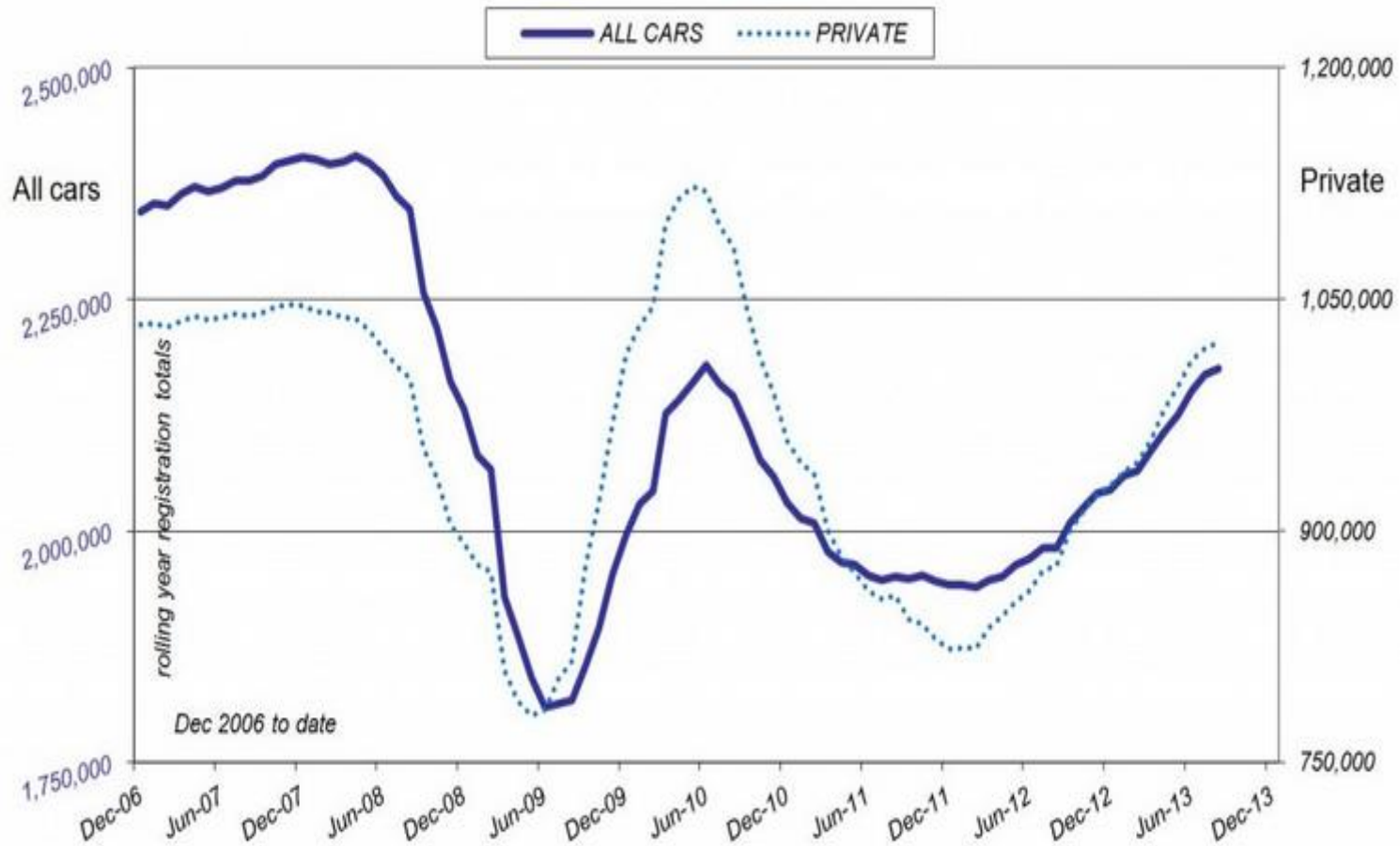
Consumers have been spending again

Household final consumption expenditure growth, quarter



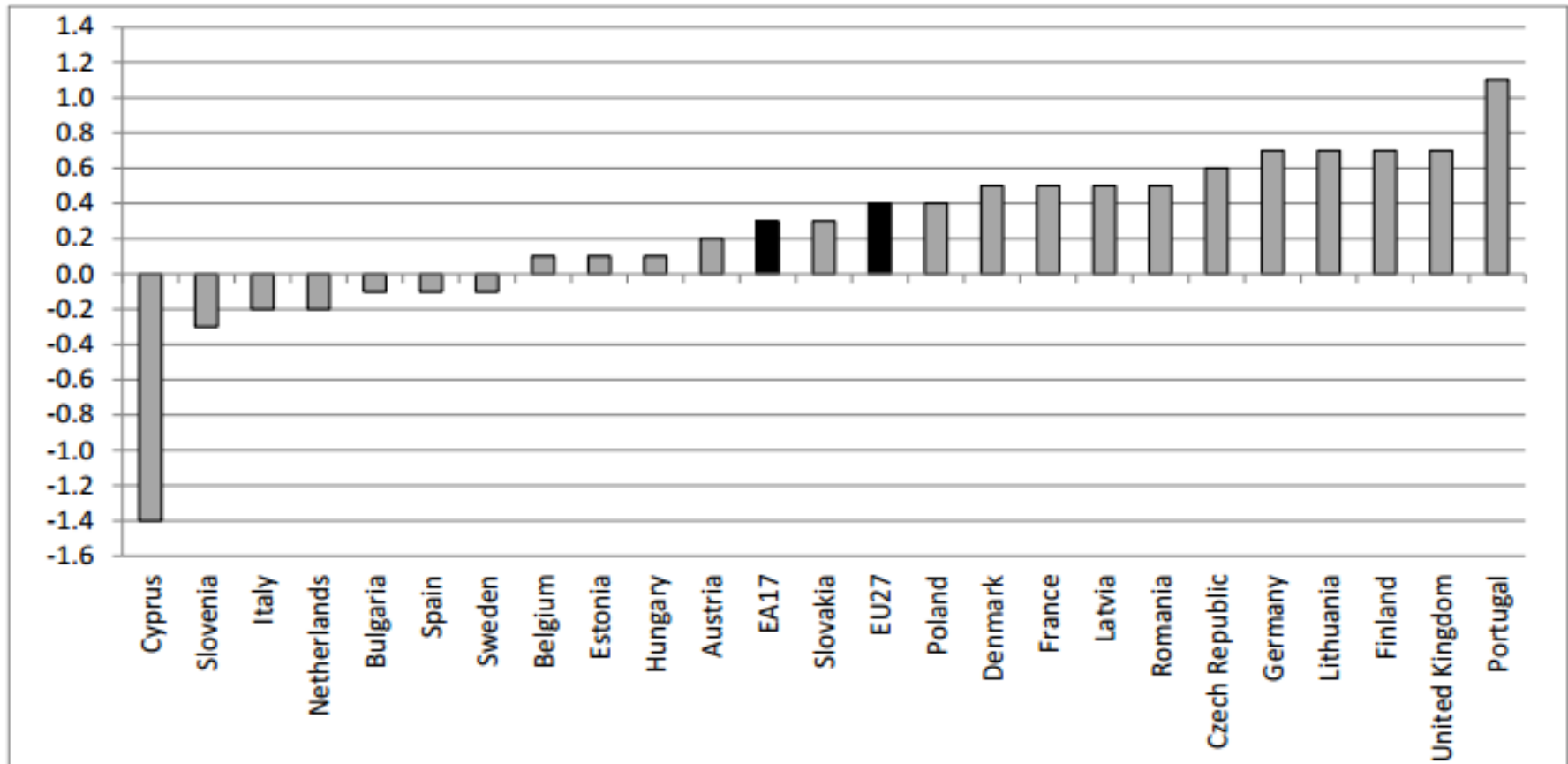
... particularly on cars

UK new car registrations – annual rolling totals since December 2006, all cars and private



Most of Europe is growing again

EU27, euro area and Member States GDP growth rates in the second quarter of 2013
% change over the previous quarter



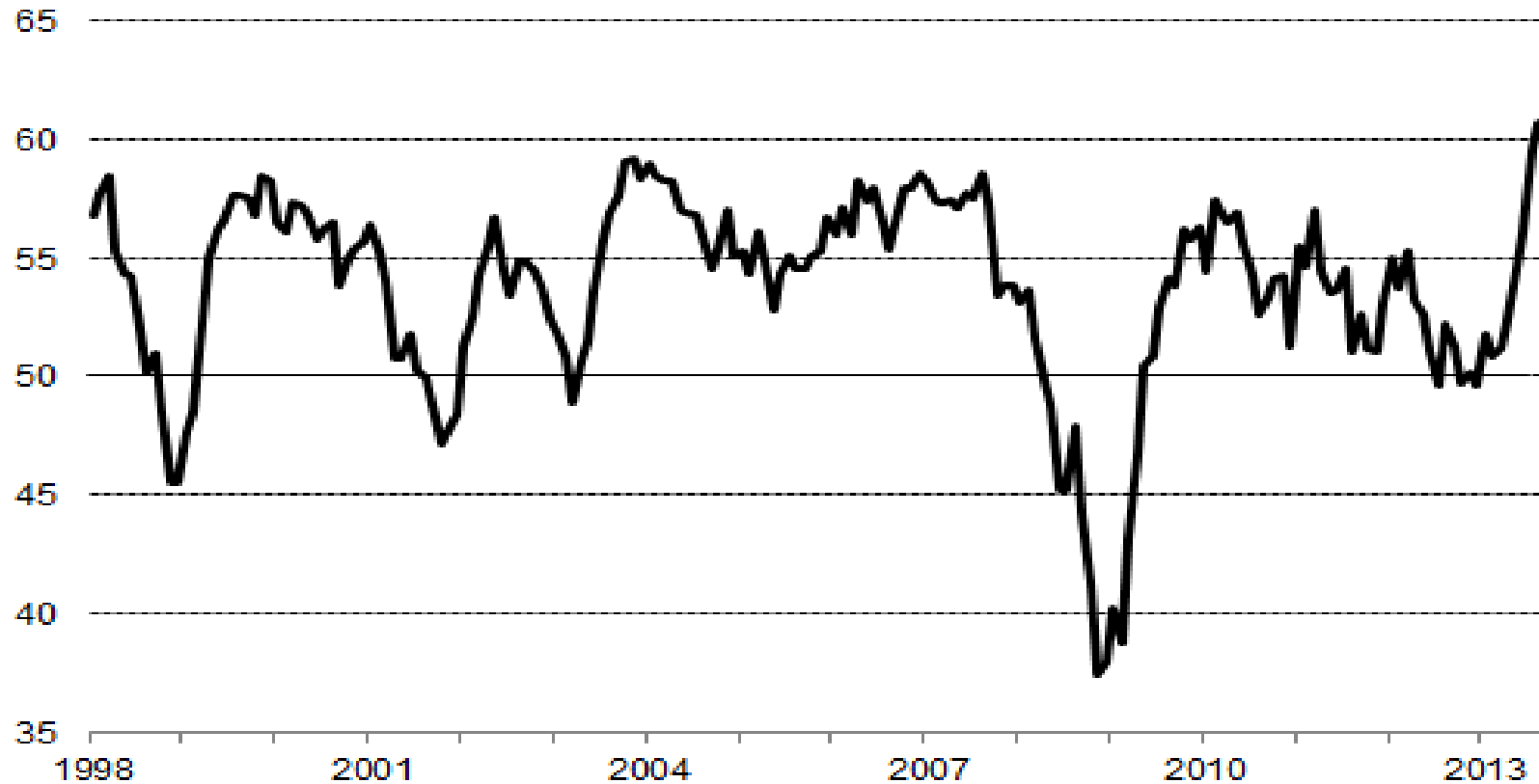
Ireland, Greece, Luxembourg and Malta: data not available for the second quarter of 2013.

So the UK outlook is sunnier



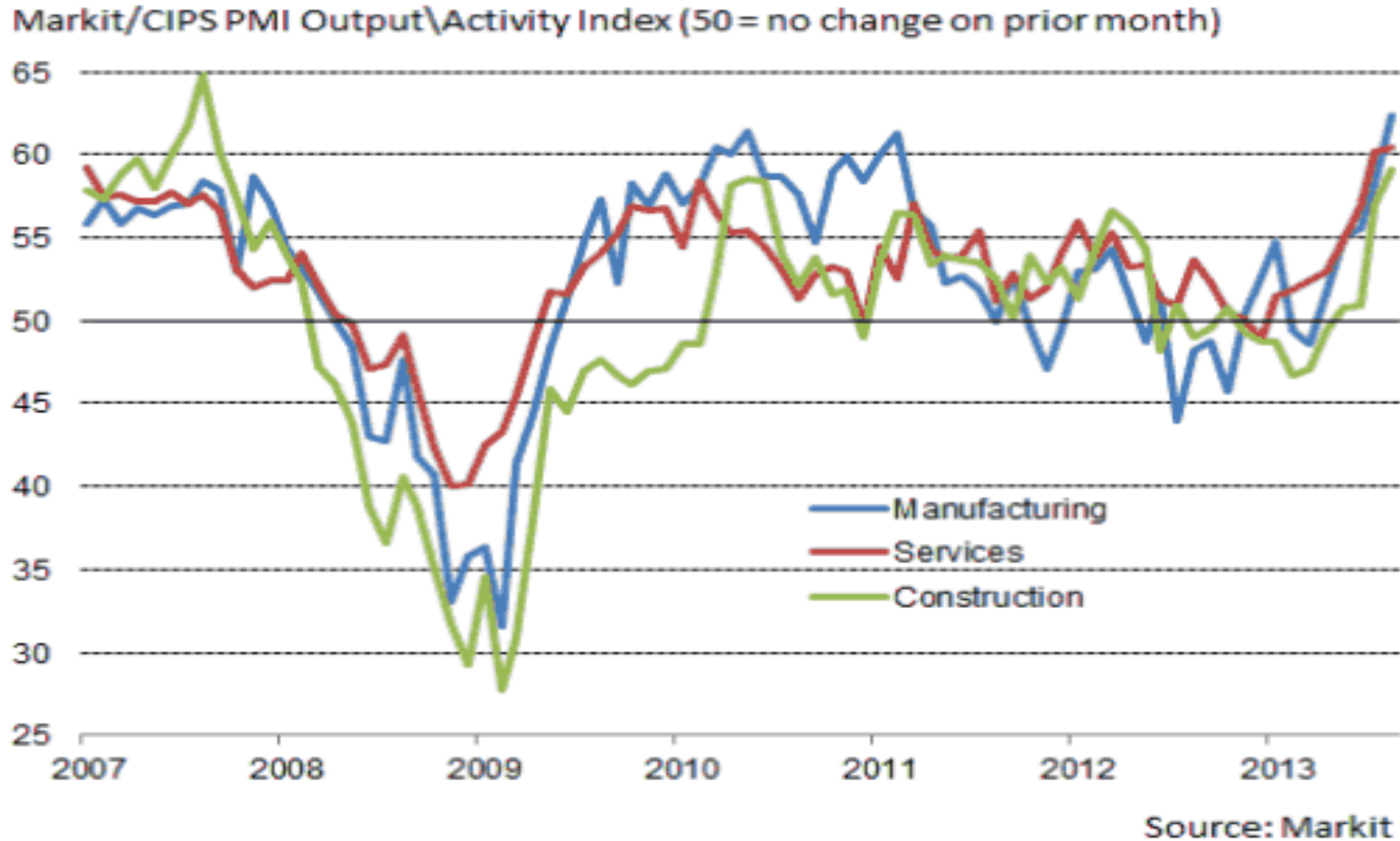
Growth has accelerated

Markit/CIPS All-Sector PMI



Source: Markit

UK starting to fire on all cylinders



And the growth is pretty well spread

Heat map, July 2013



Darker colours show faster growth in business activity.

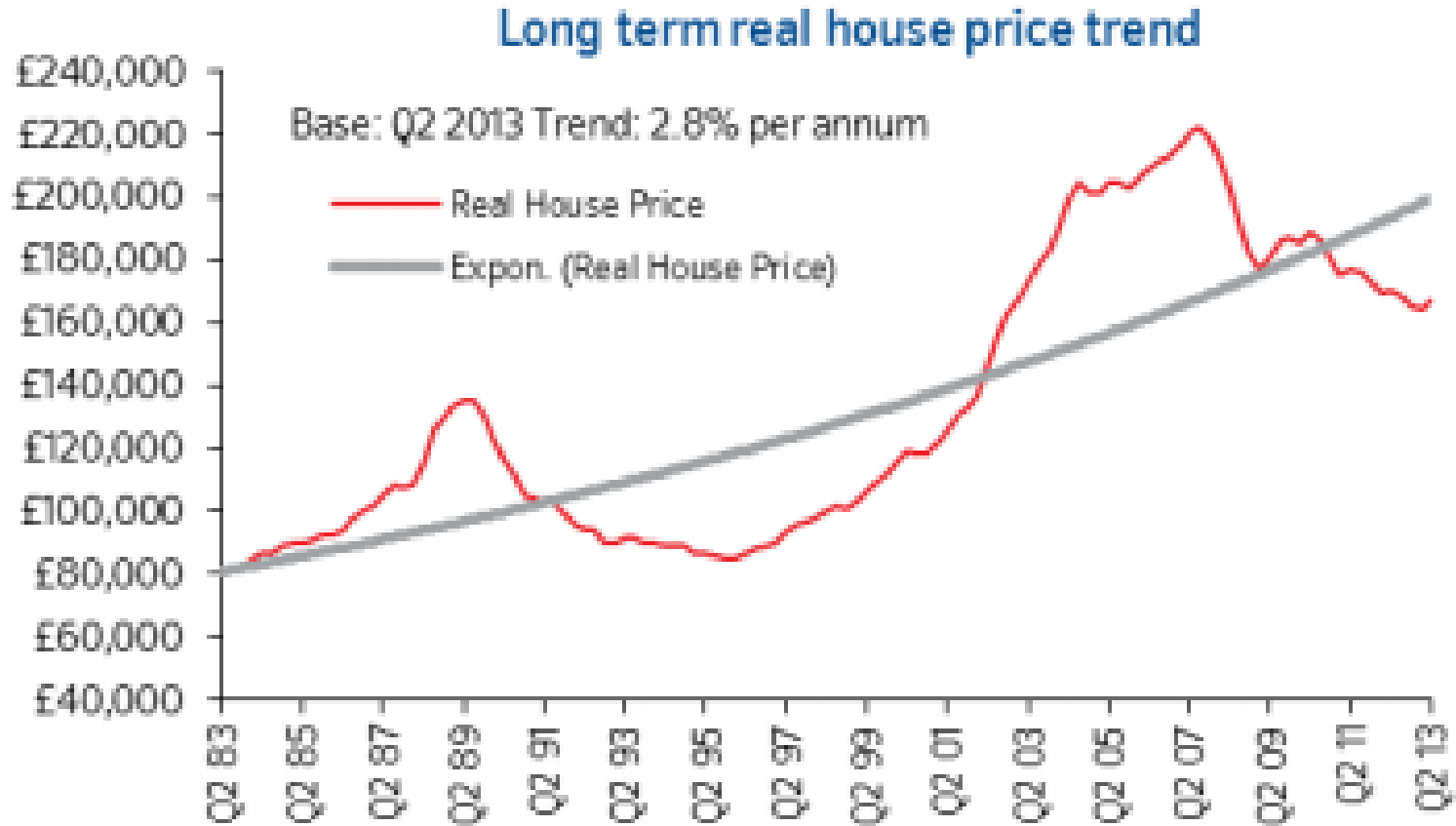
Not yet out of the woods

- Economy still below pre-crisis peak
- But Britain, with other advanced economies, finally breaking out of post-crisis slow growth; recent news much better. Growth may now be getting established.
- Fiscal consolidation uncomfortable, not yet complete – but not as painful as many claim.
- Other factors, including weak funding availability, eurozone crisis and high inflation starting to ease.
- Interest rates staying very low – the Bank means it on forward guidance.
- The hangovers have eased, if not gone away

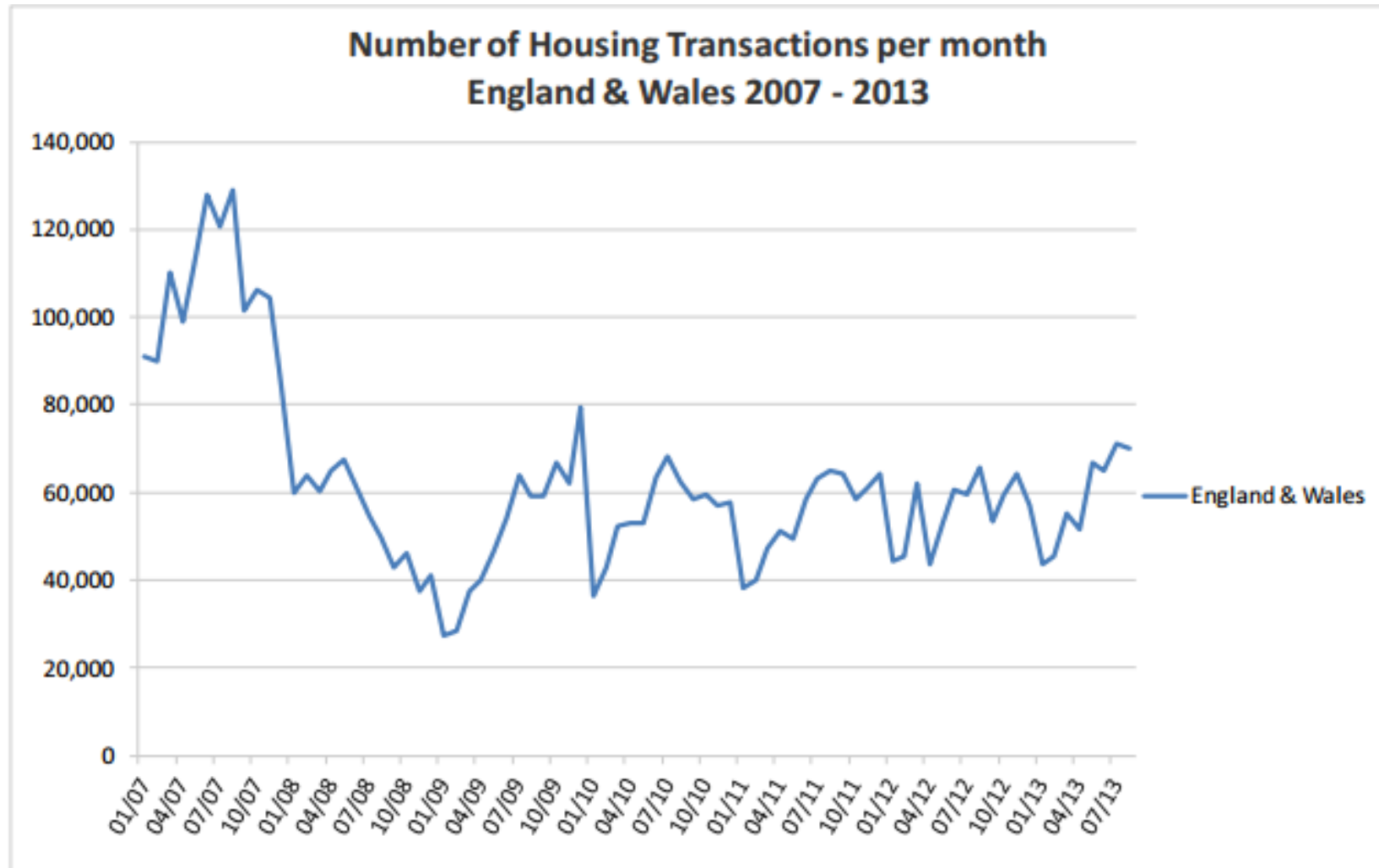
What about housing?



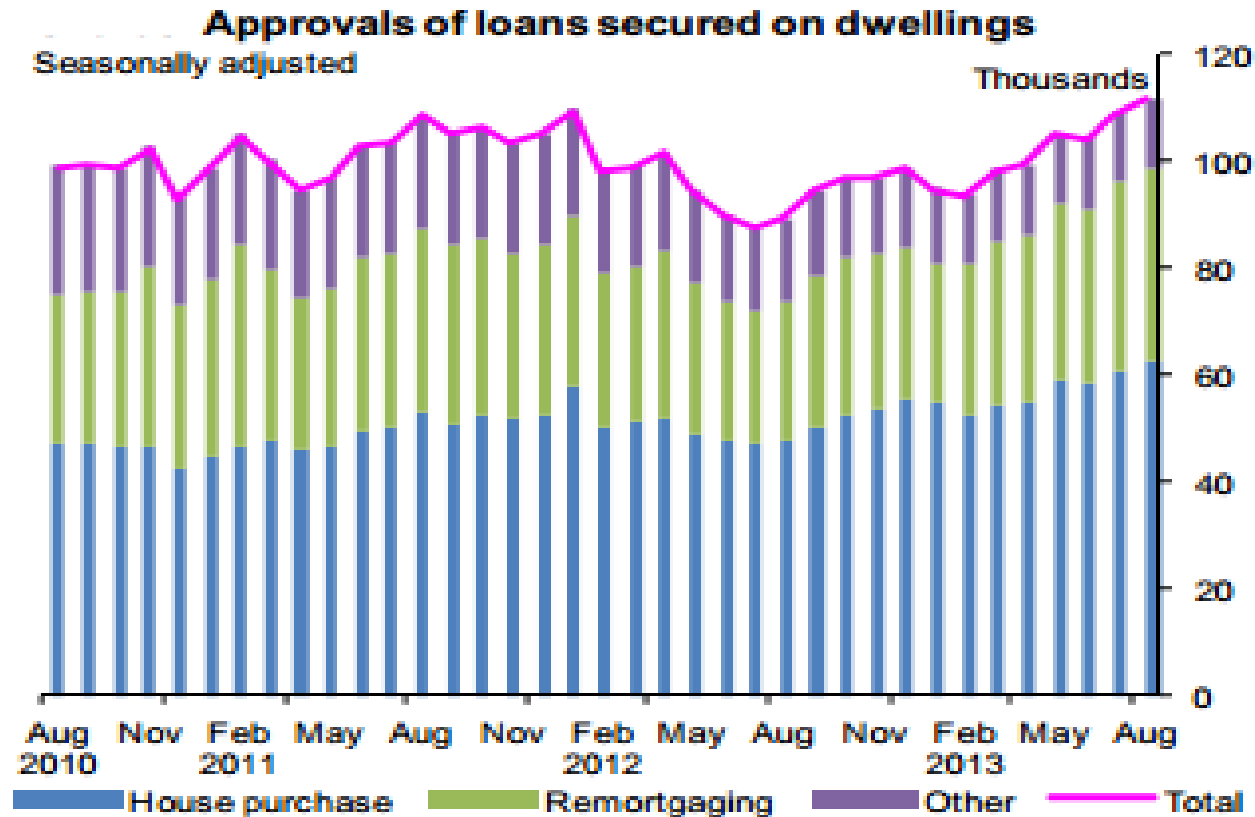
House prices have adjusted a lot



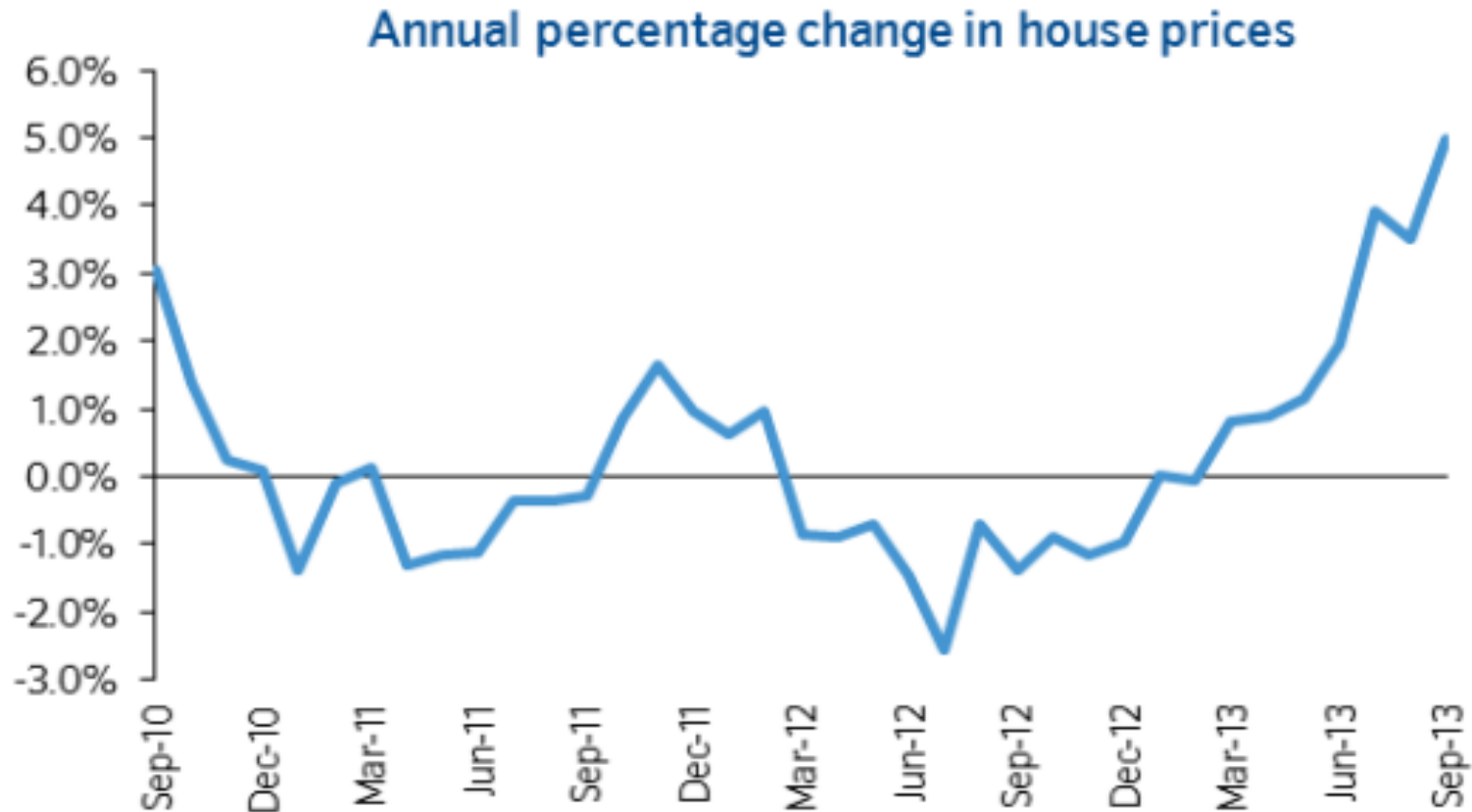
Transactions recovering from a low base



As are mortgage approvals

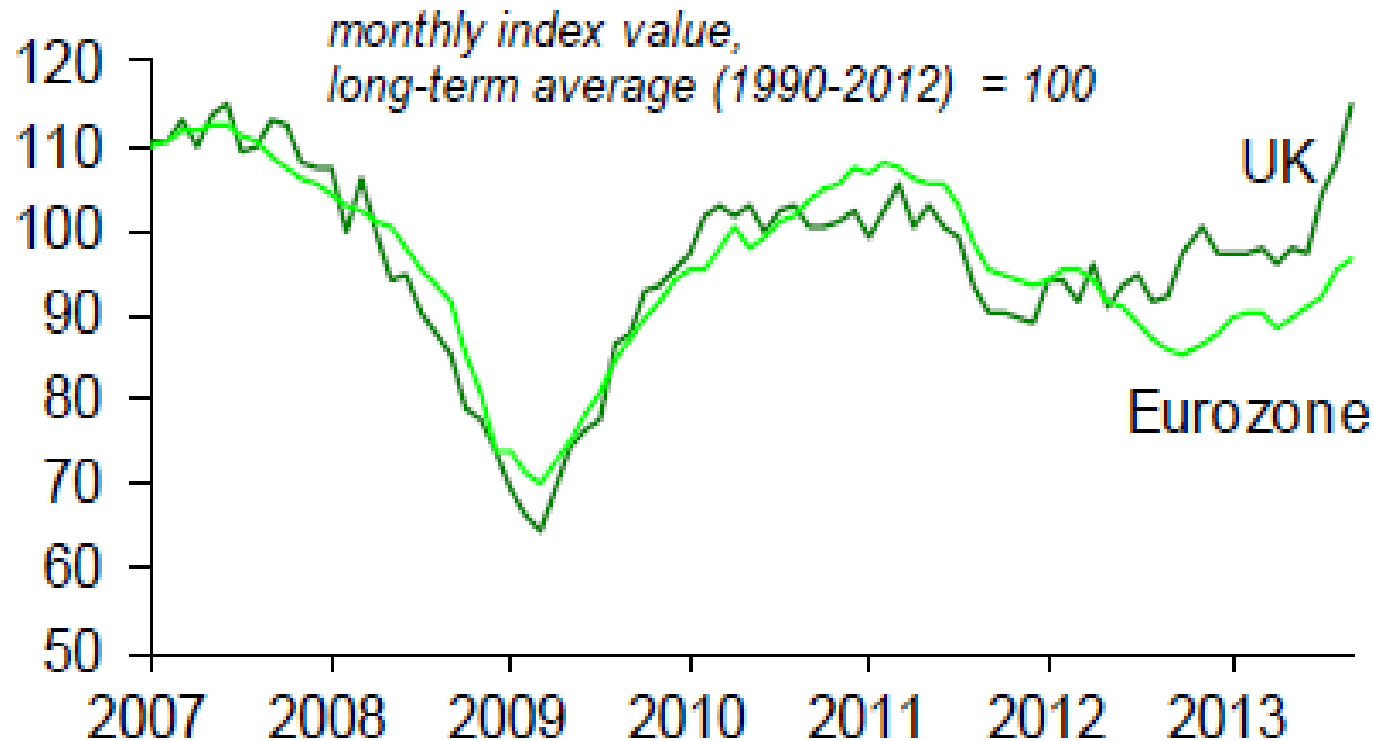


Prices picking up quite strongly



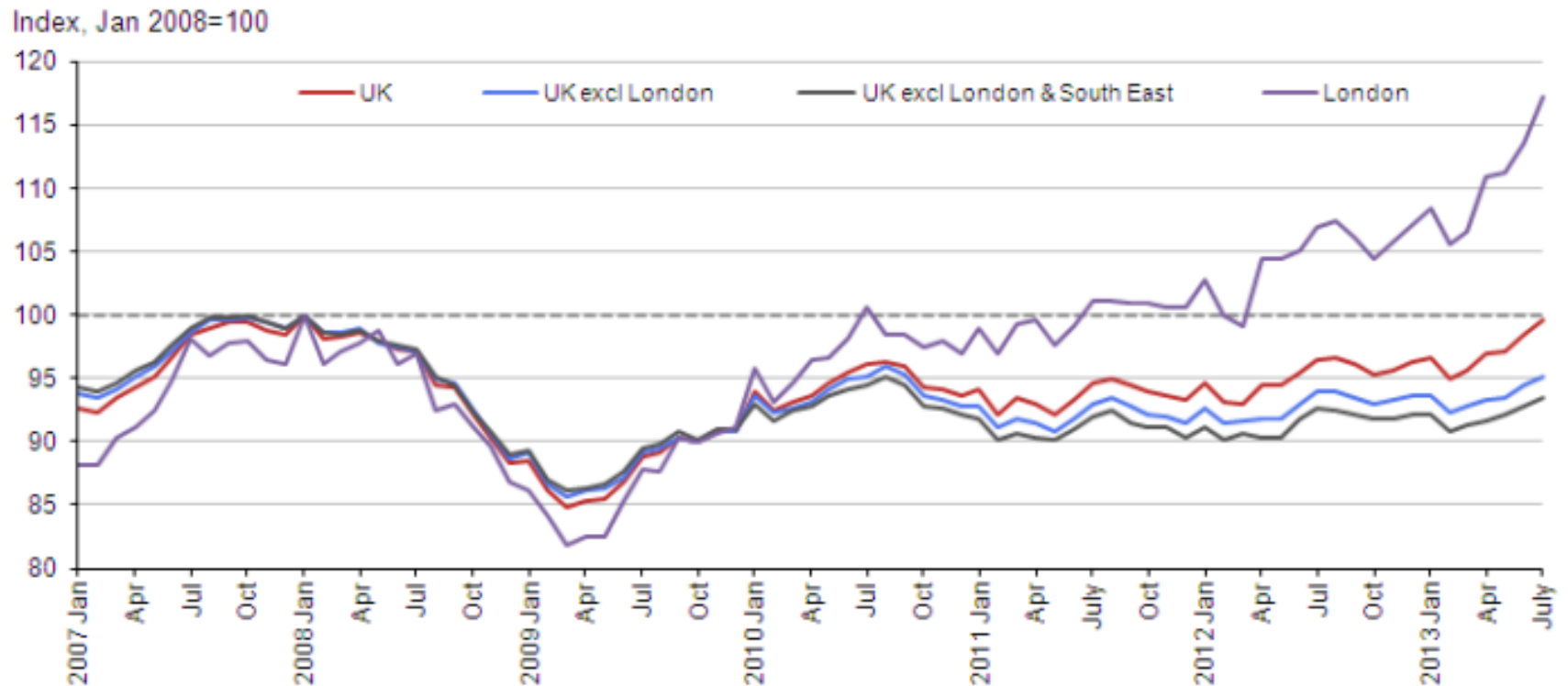
As confidence improves

European Commission Economic Sentiment Indicator



But beware the London distortion

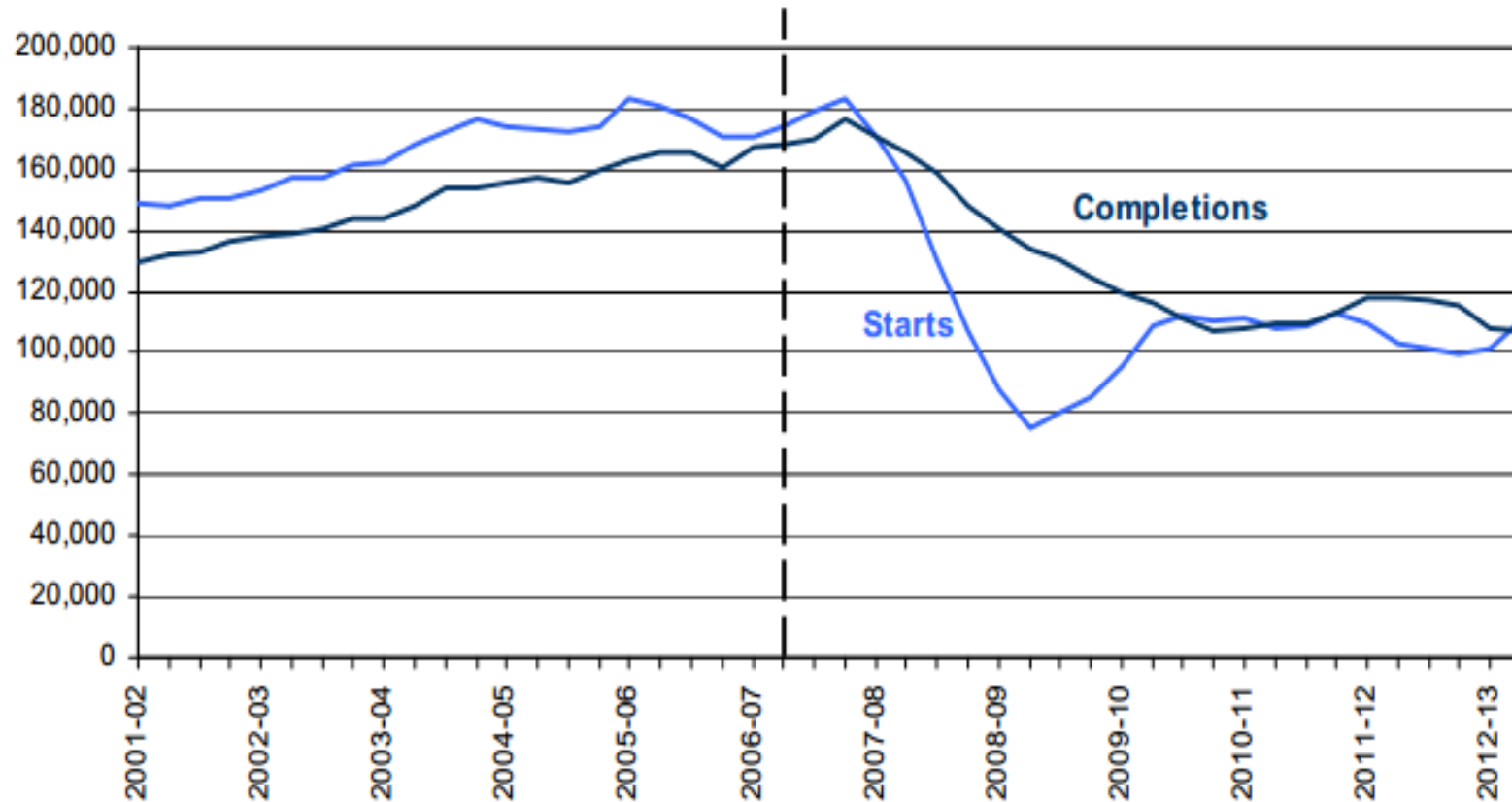
Mix-adjusted average house prices in selected regions, non-seasonally adjusted, index January 2008=100



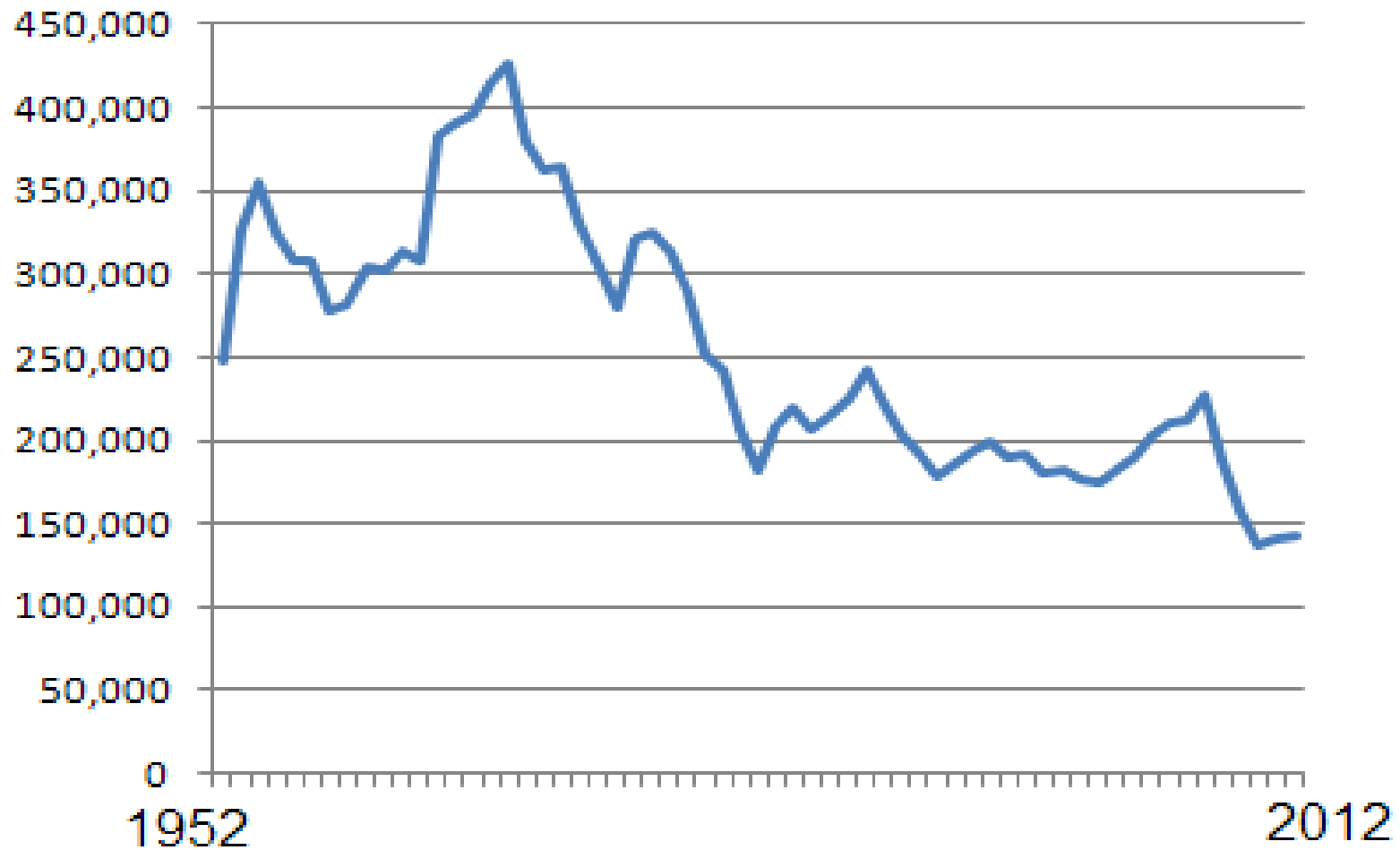
Source: Office for National Statistics

Not enough housebuilding

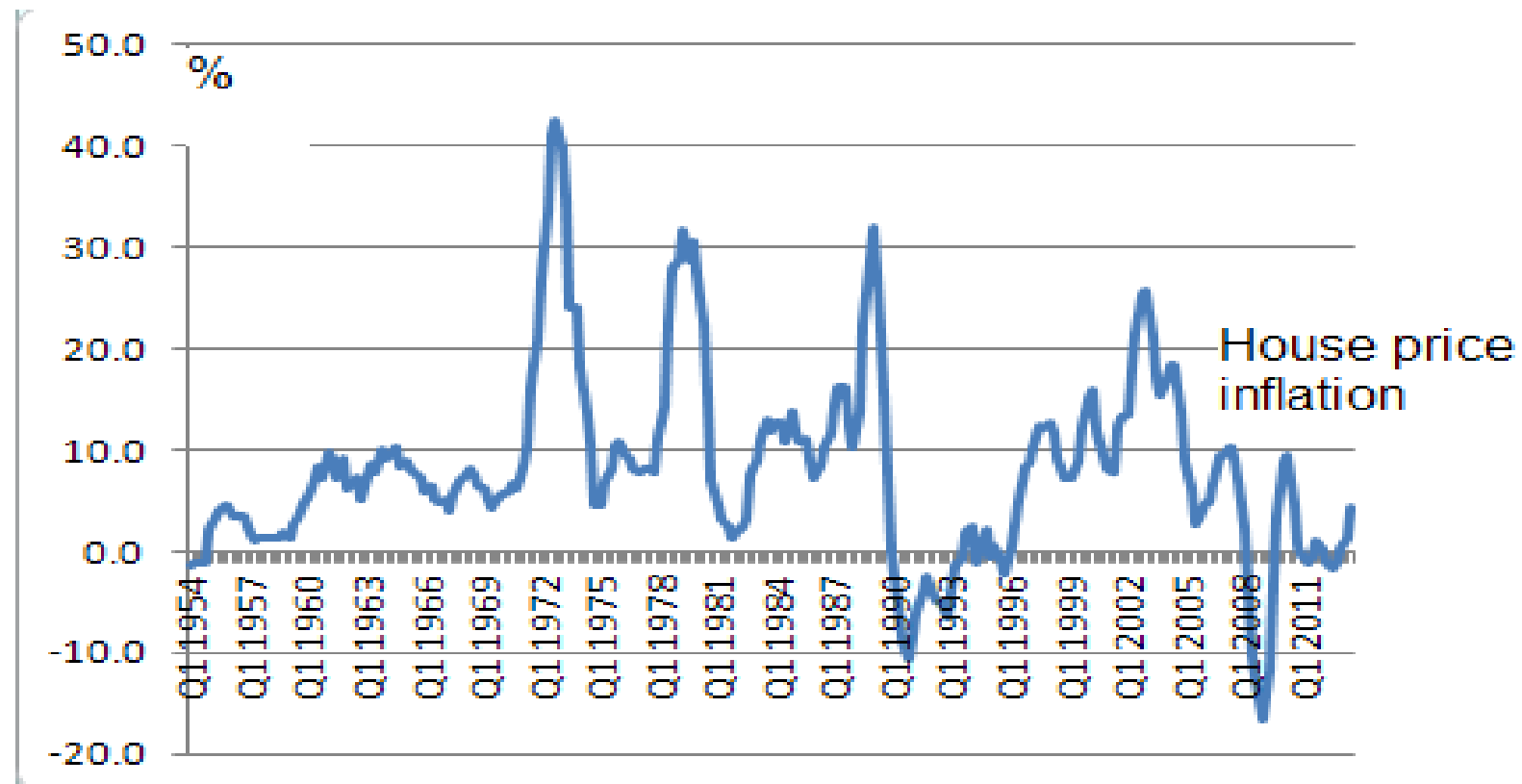
Trends in starts and completions, England, 12 month rolling totals



But housebuilding's no panacea



Many reasons why prices change



Source: Nationwide

Summing up

- Housing market slowly getting back on its feet.
- Bubble fears misplaced – a big London distortion – but official caution may mean Help to Buy is relatively short-lived.
- House-building recovering on the back of funding availability – necessary but no panacea.
- Interest rates staying very low – the Bank means it on forward guidance.