

# David Smith



**THE SUNDAY TIMES**

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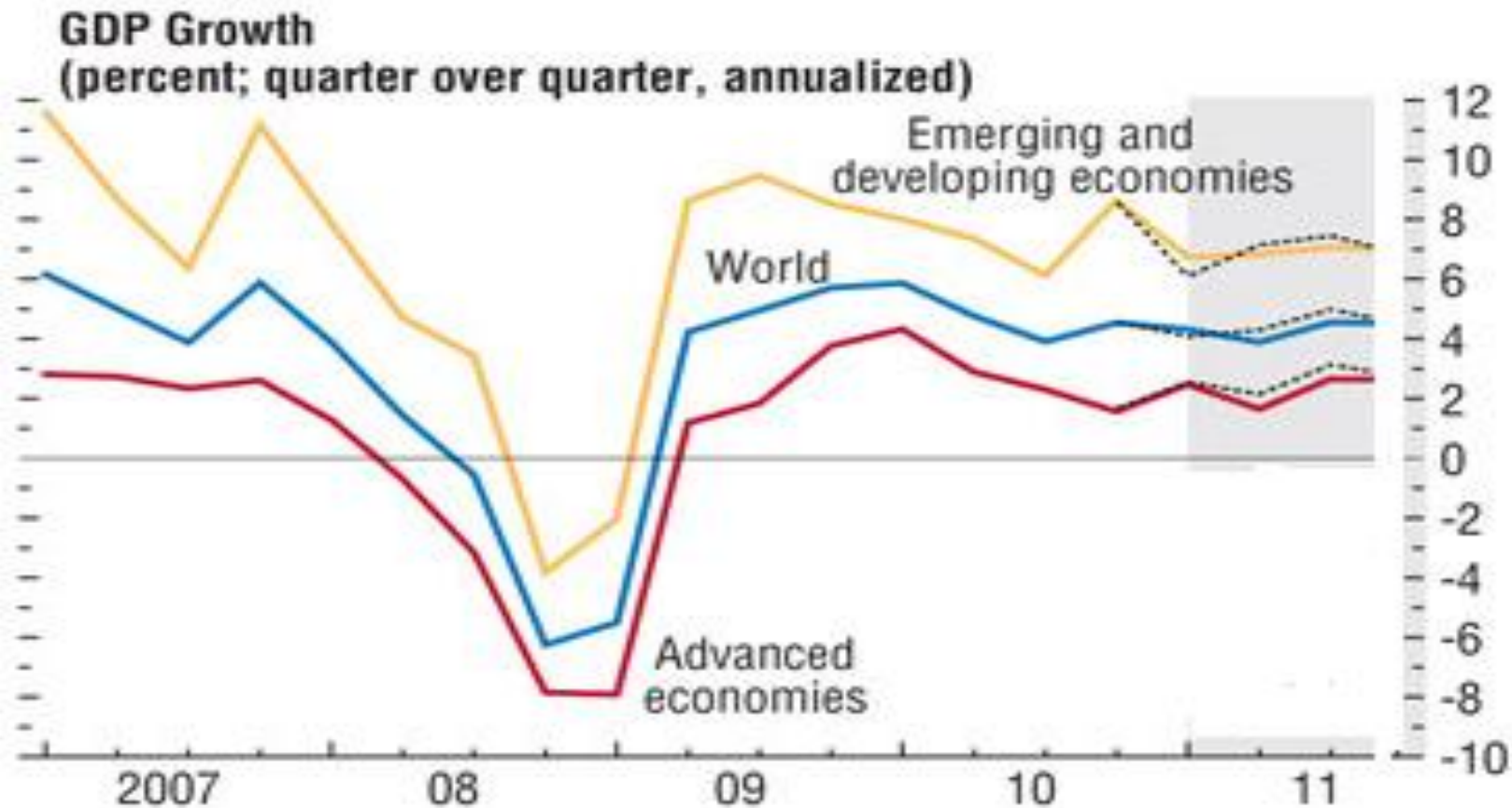
# Housing in an age of instability

**Risks and opportunities in the  
outlook**

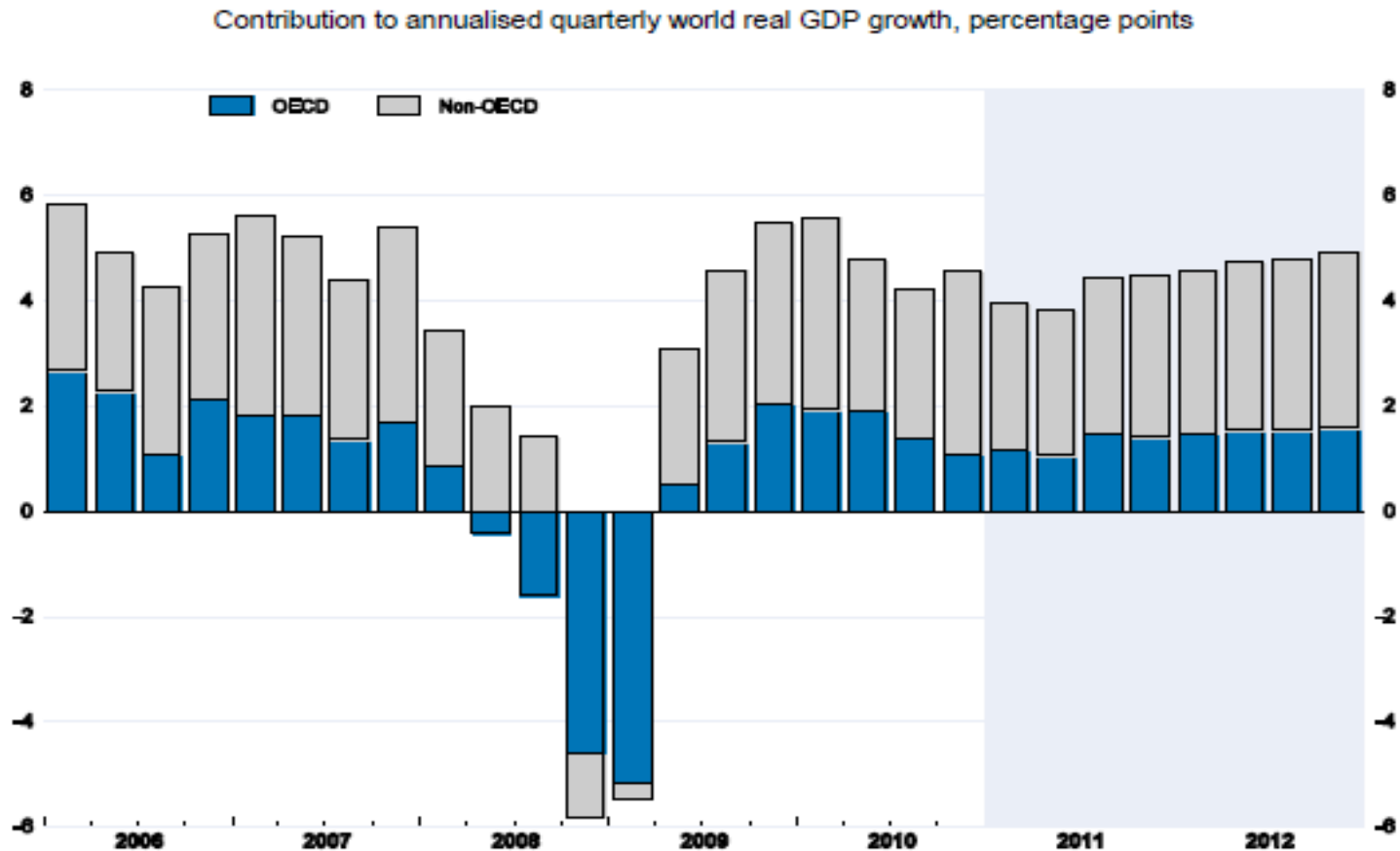
# Three years after the biggest financial storm in a century



# A decent global recovery so far



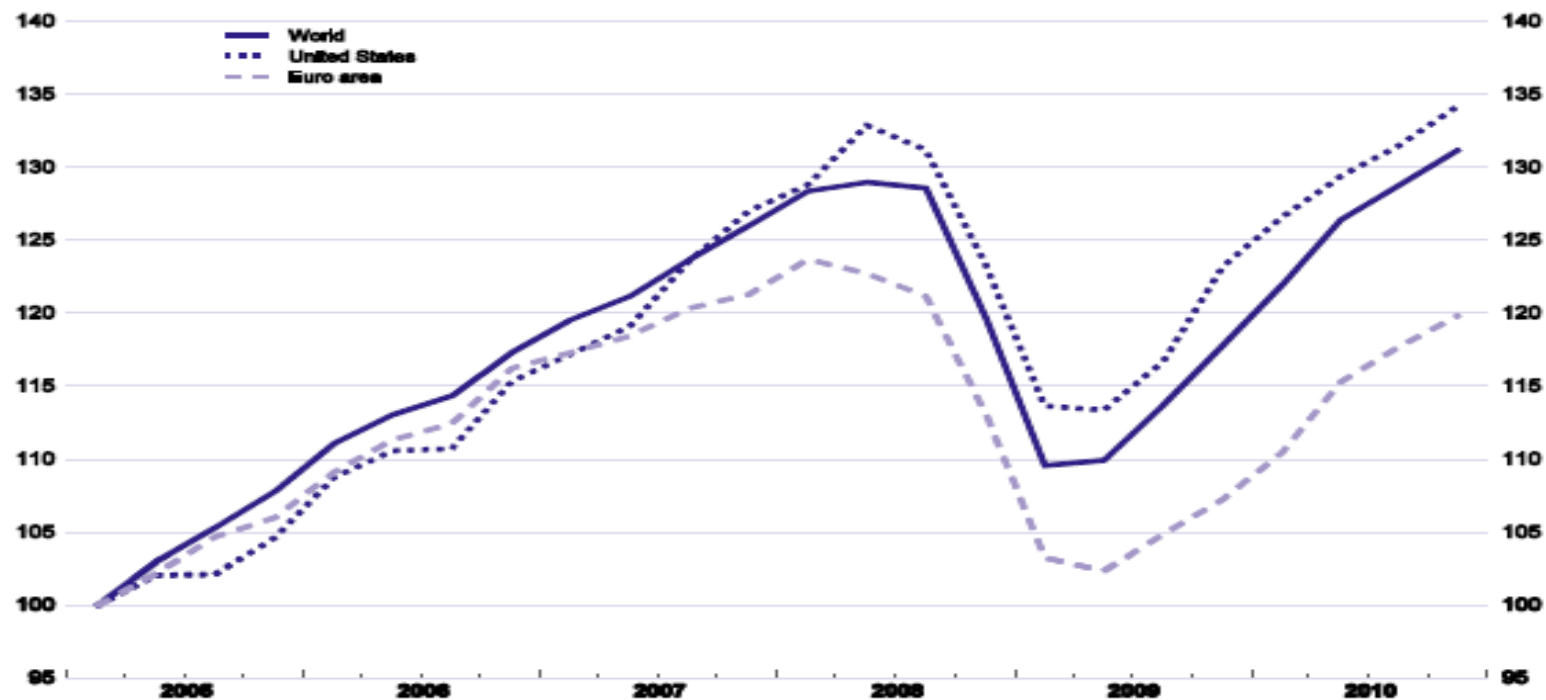
# Driven by emerging economies



# And a world trade rebound

The level of world trade has now exceeded the pre-crisis peak

Export volumes, index Q1 2005 = 100



Source: OECD, Quarterly National Accounts database.

# But stock markets tell the story



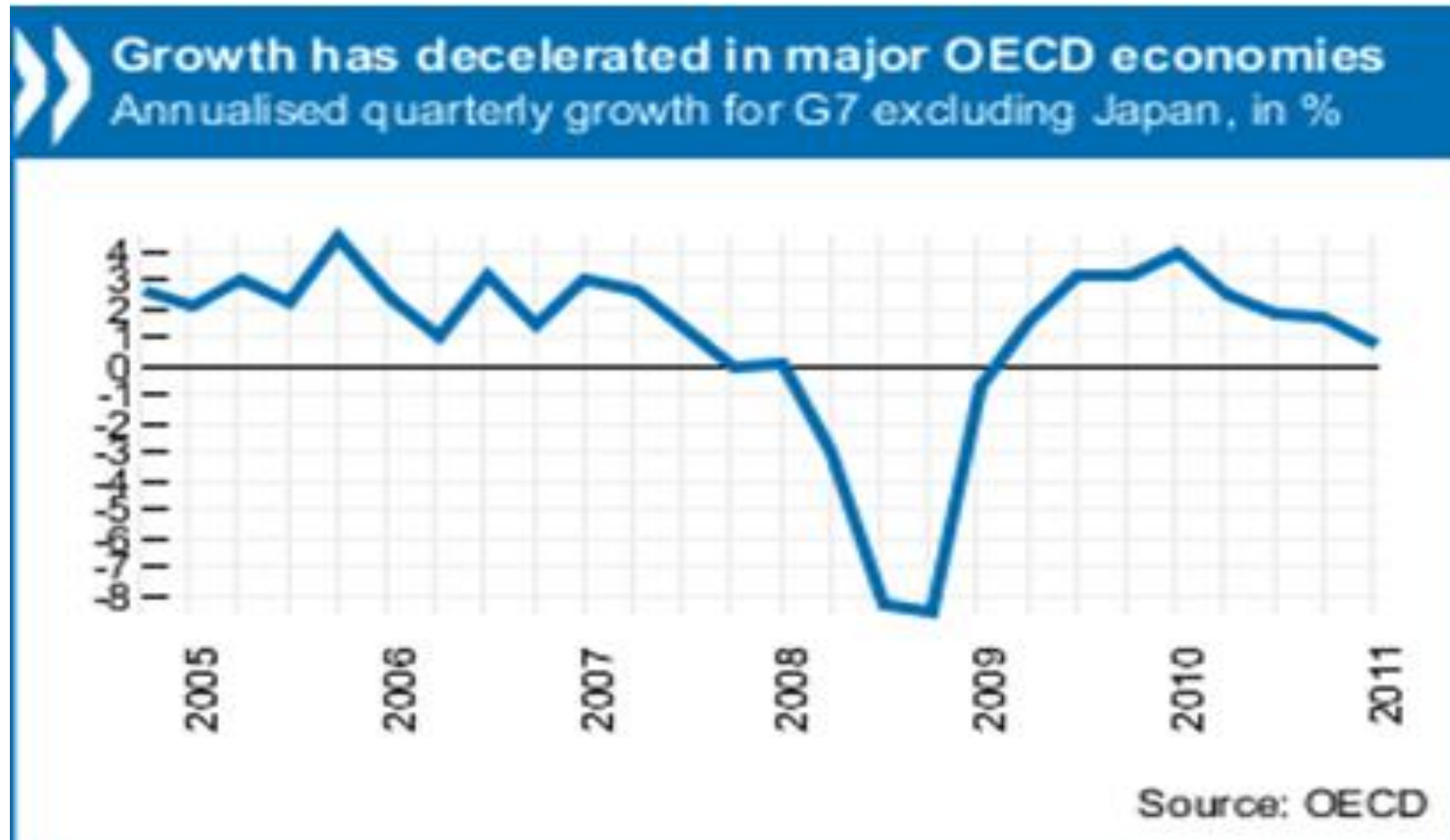
# Of a world that's lost momentum

PMI, Output \ Business Activity indices

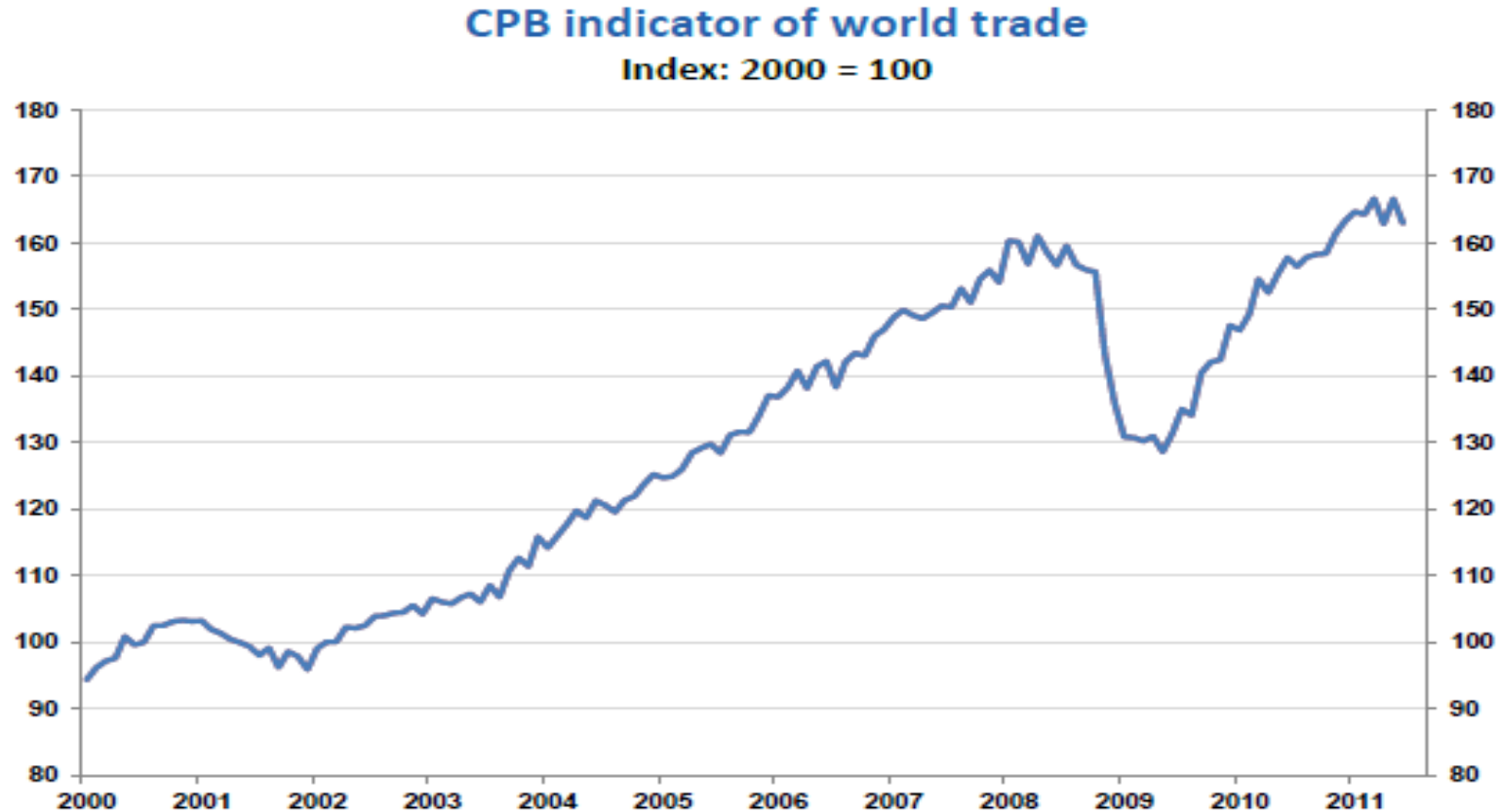




# Particularly in advanced economies



# And the trade rebound has stalled



Source: Dutch Central Planning Bureau.

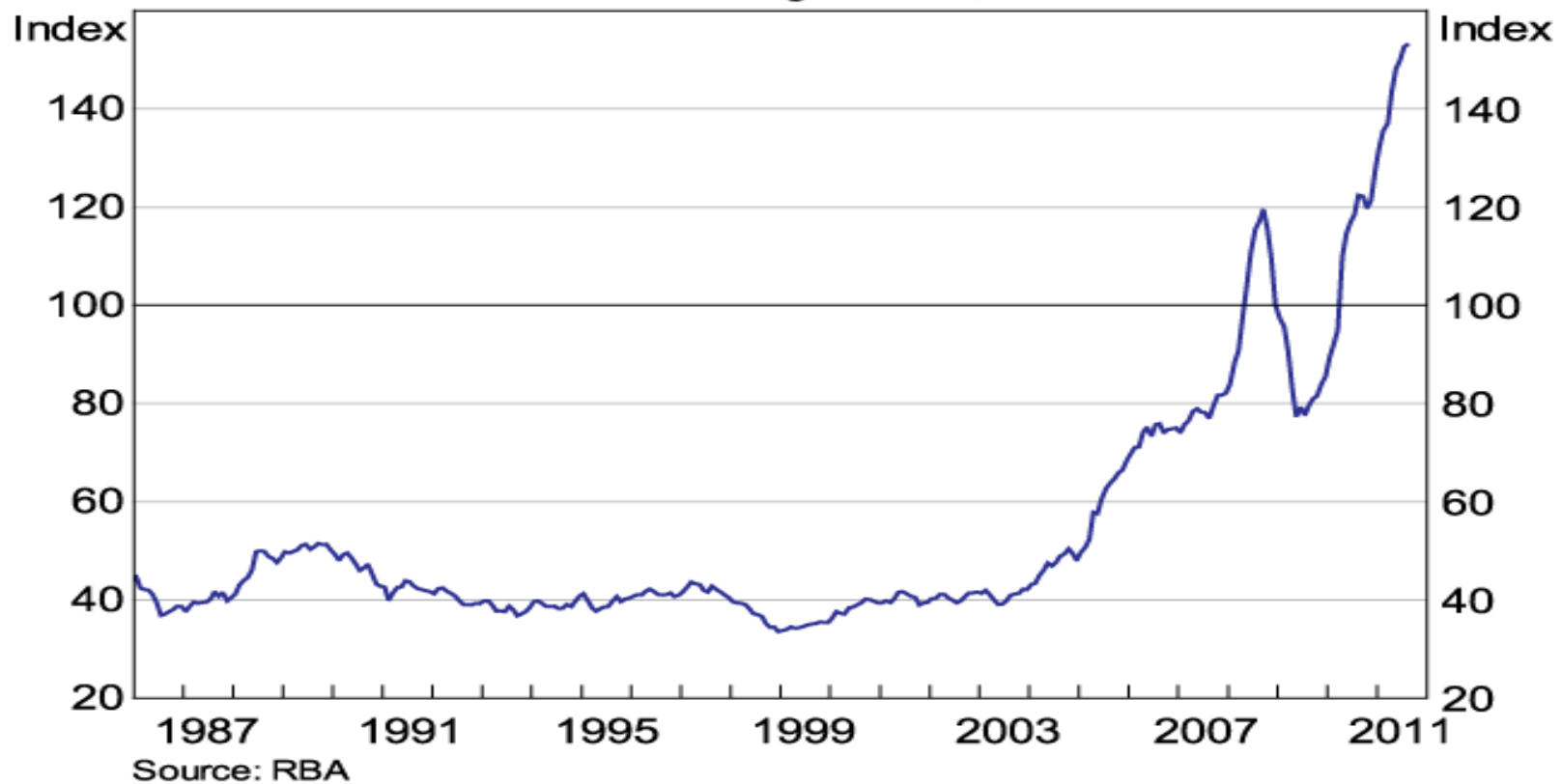
Because of this ...



# Commodity-driven inflation

## RBA Index of Commodity Prices

2008/09 average = 100, SDR

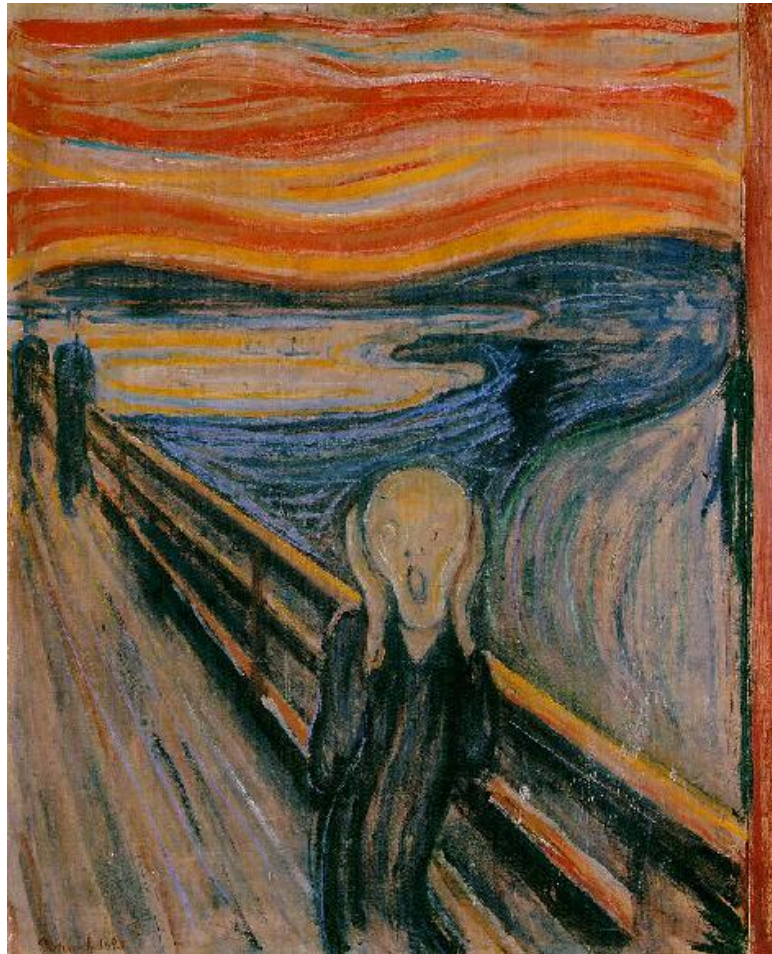




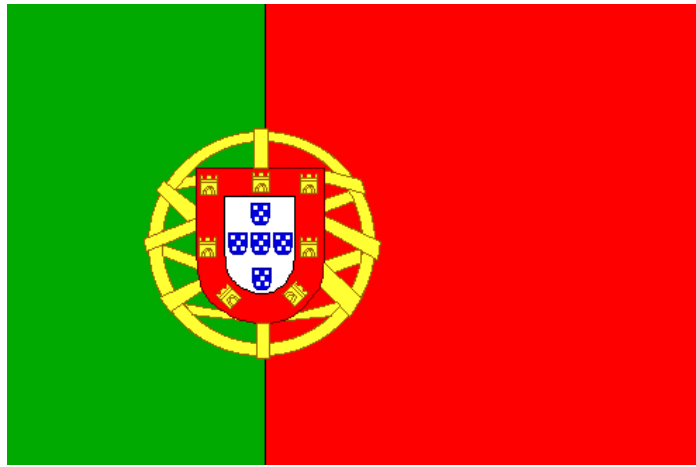
# The US debt downgrade



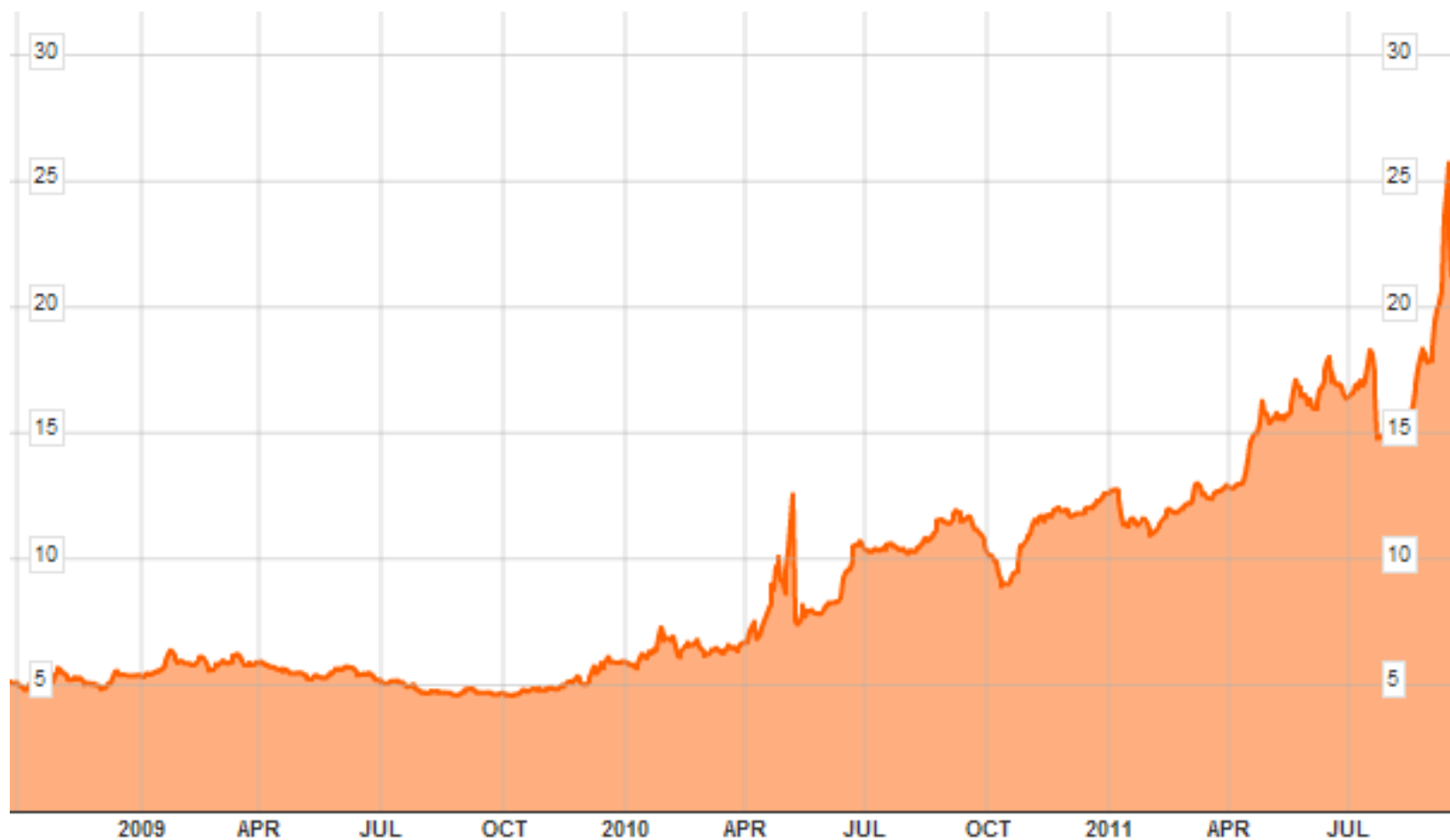
# Fears of another banking crisis



And most of all the eurozone



# Beware of Greeks bearing bonds



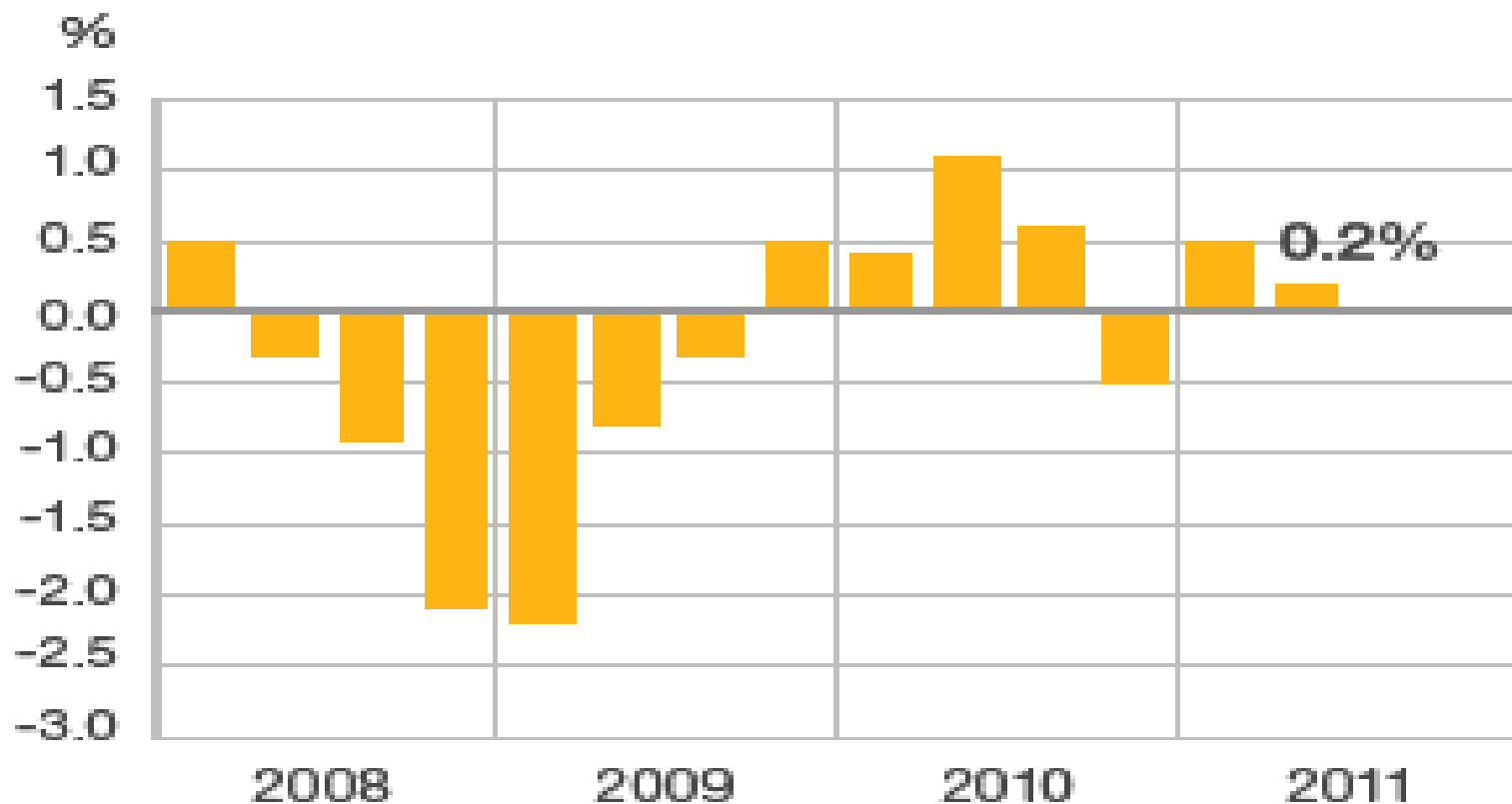


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# Options for the euro zone

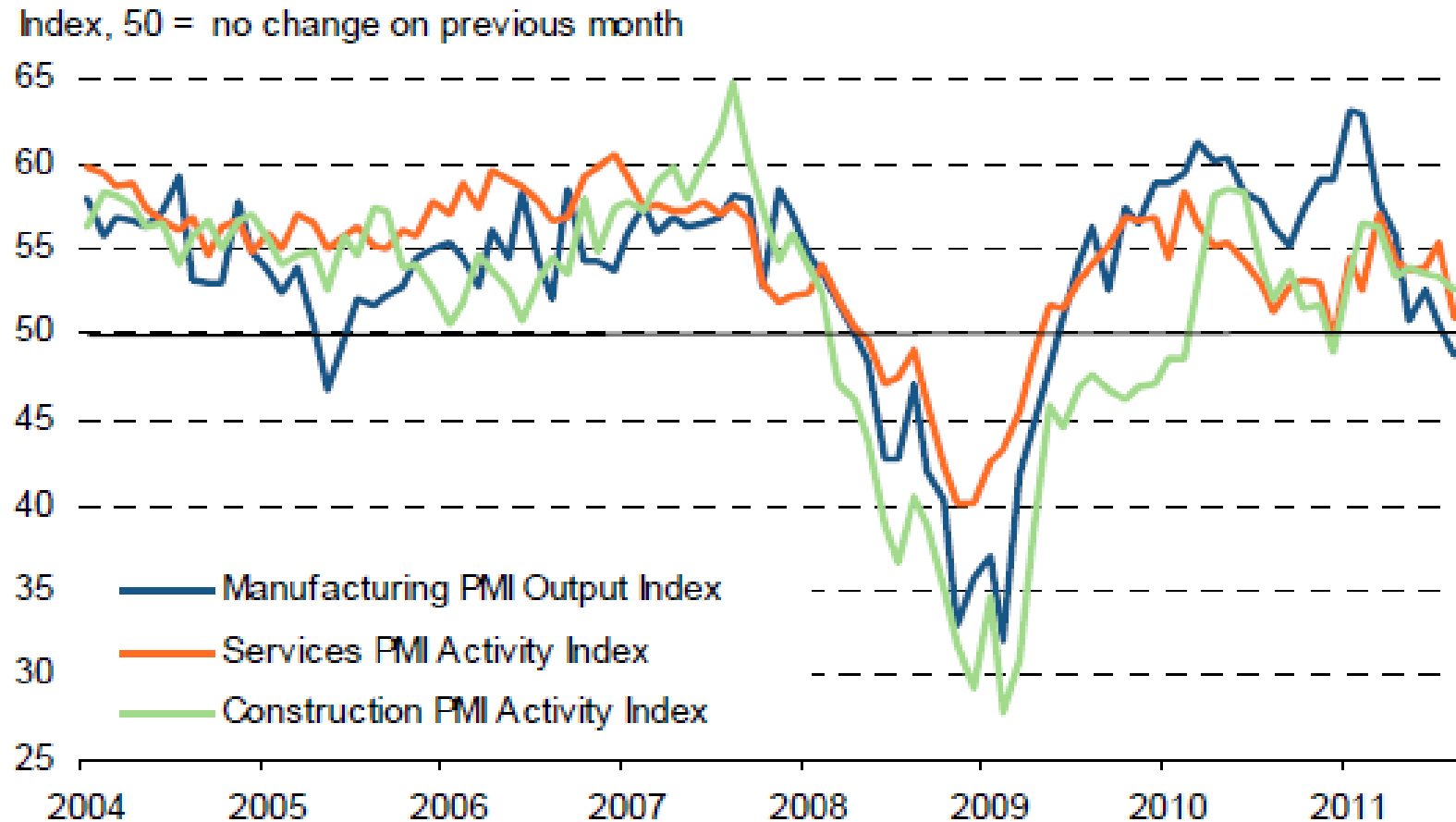
- A rapid move towards fiscal union – spreading the deficits around.
  - Muddling through
  - Partial break-up: Greece leaves and defaults, ring-fence and bolster banks and the rest.
  - Narrowing the euro: a smaller number of compatible economies stay in.
  - Disintegration and a return to national currencies.
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# Britain's recovery started OK



Source: ONS

# But has also run out of steam



Only partly because of these

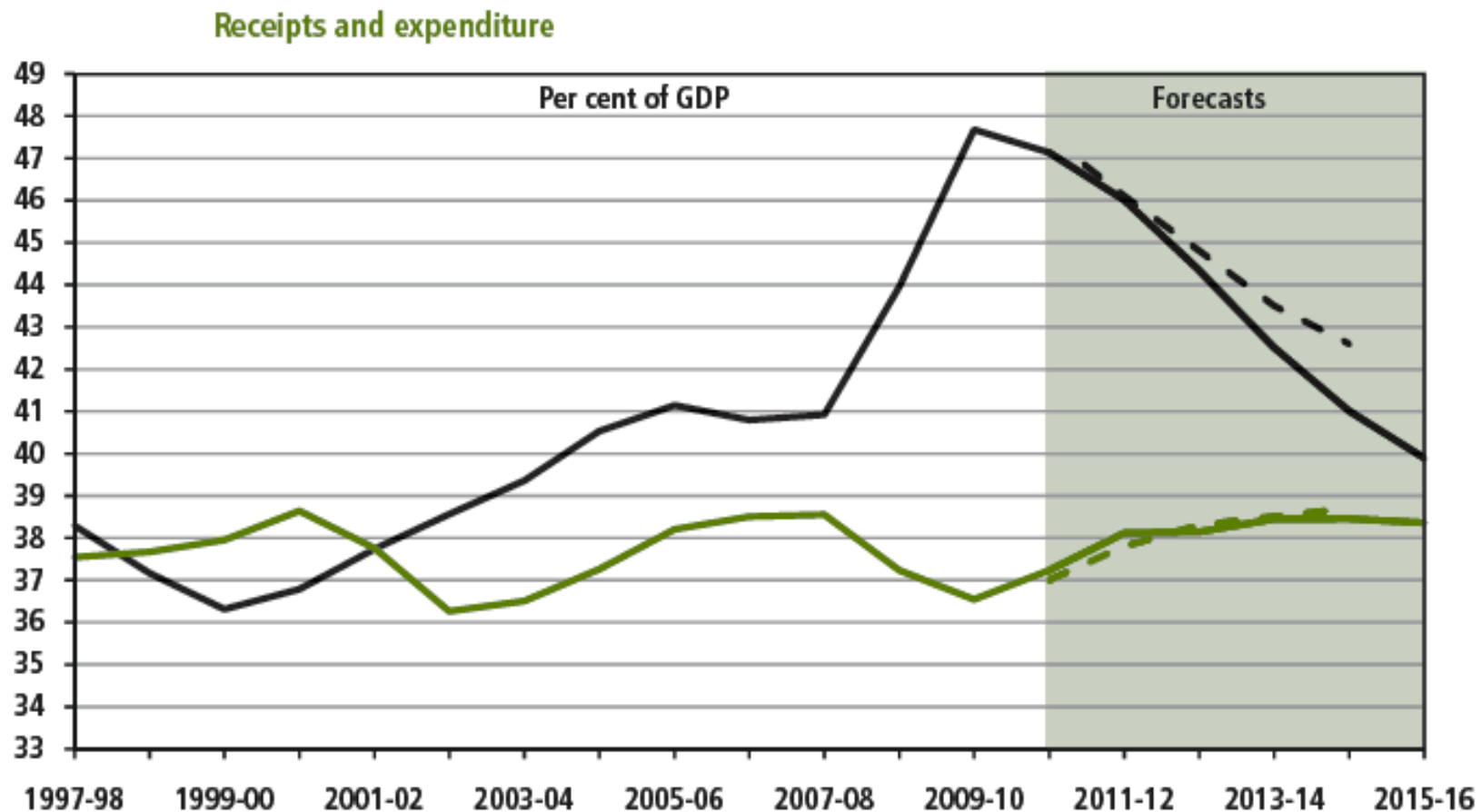


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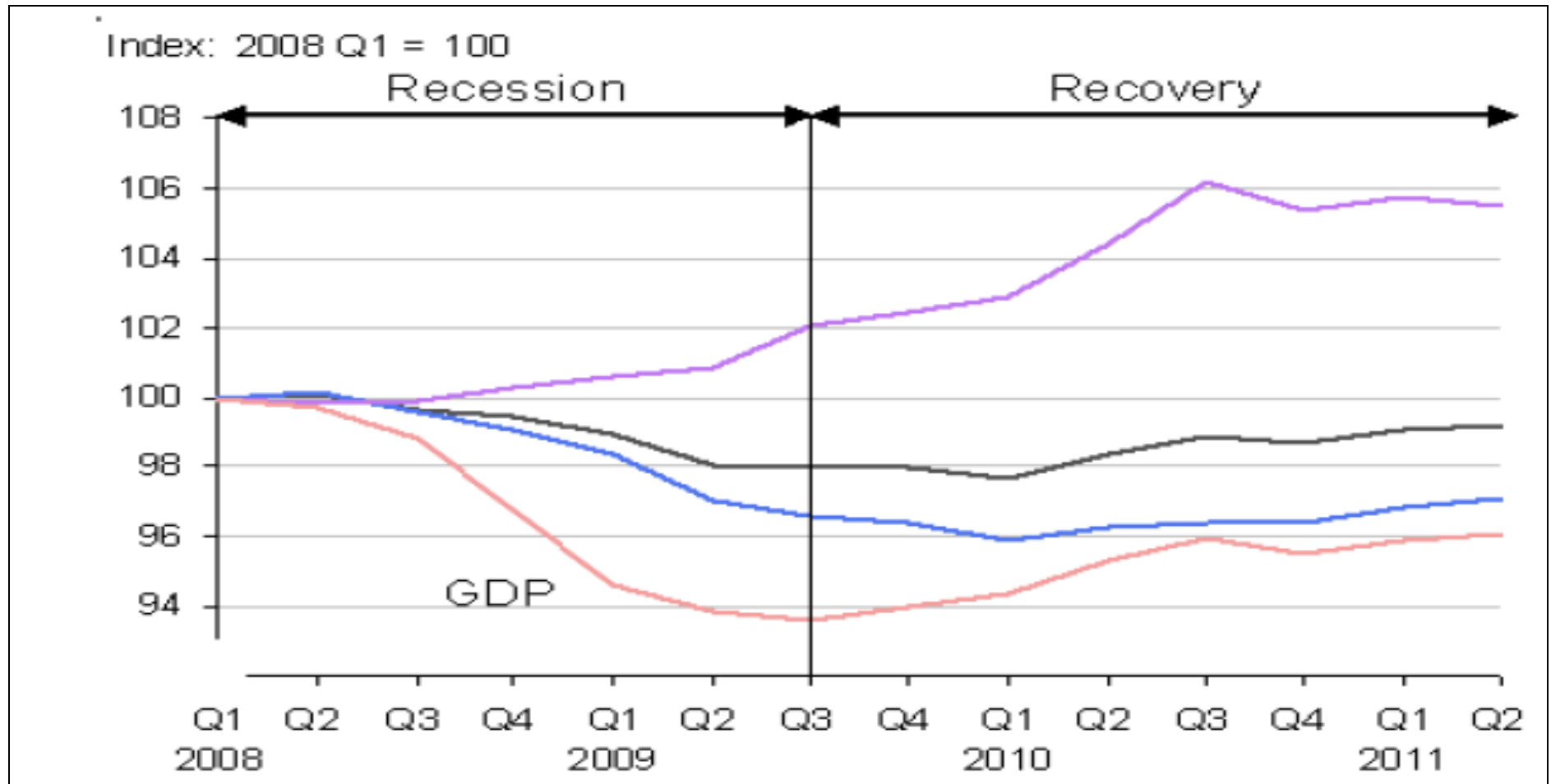
And maybe partly because of him



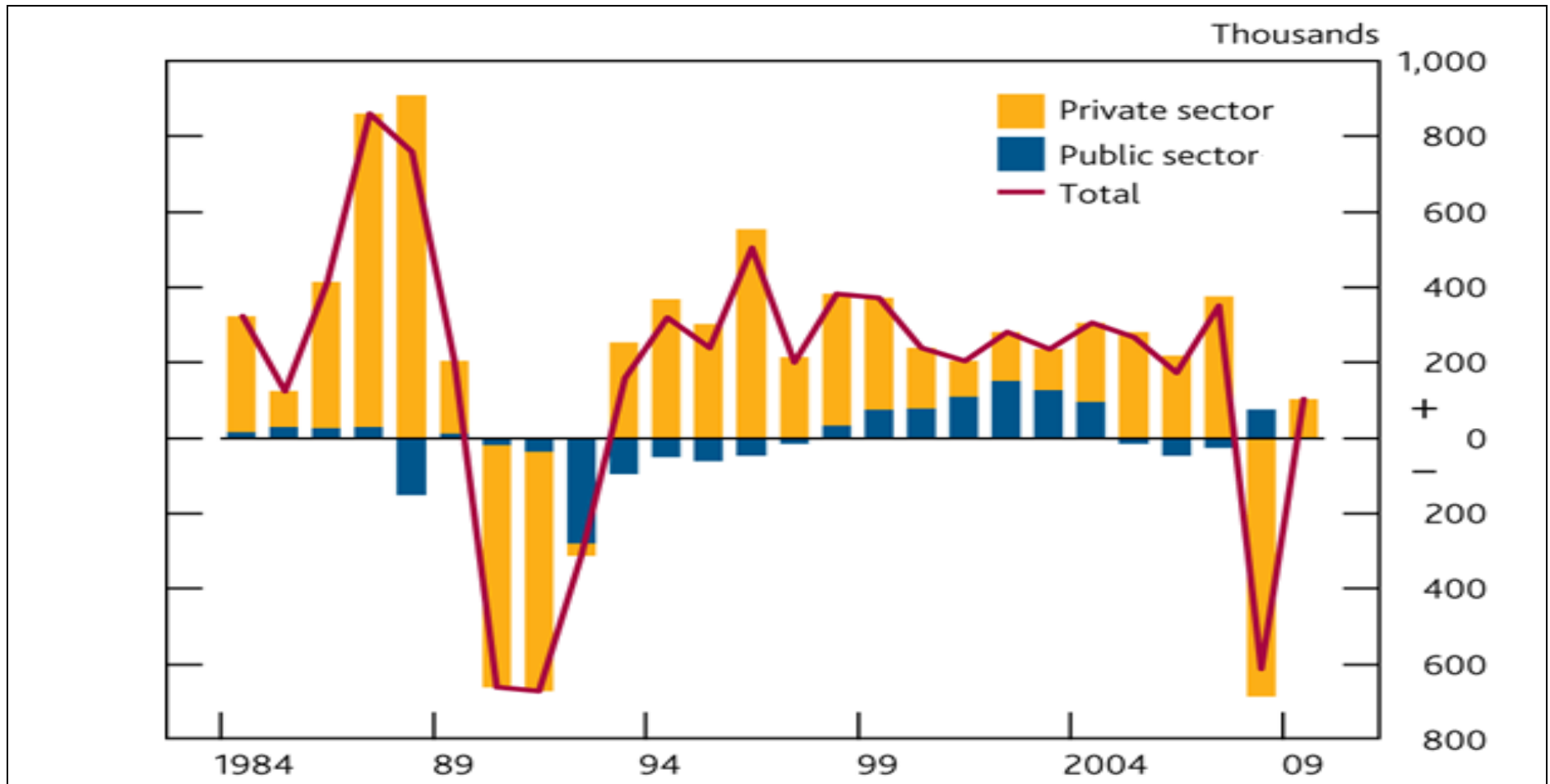
# No alternative to closing the gap



# Employment has held up well



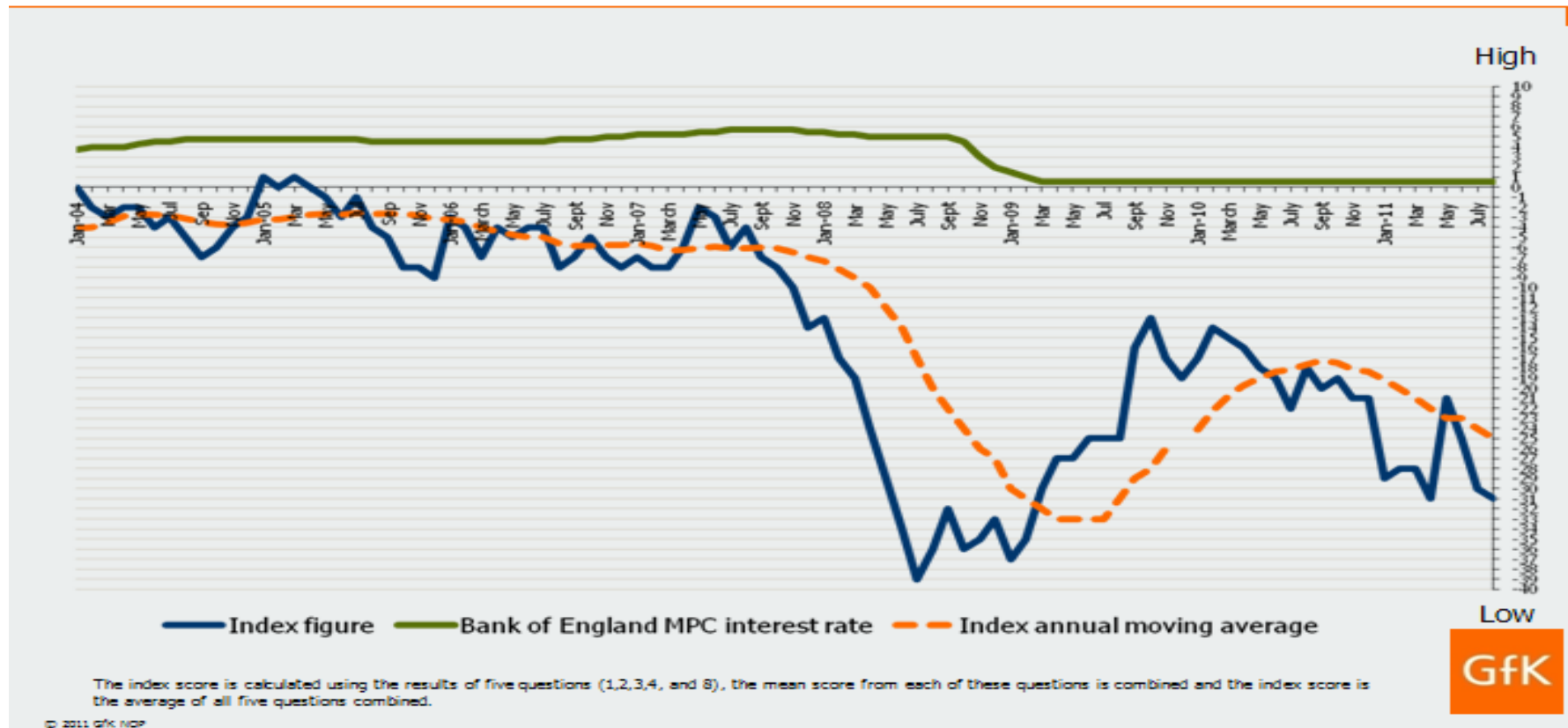
# And can continue to do so



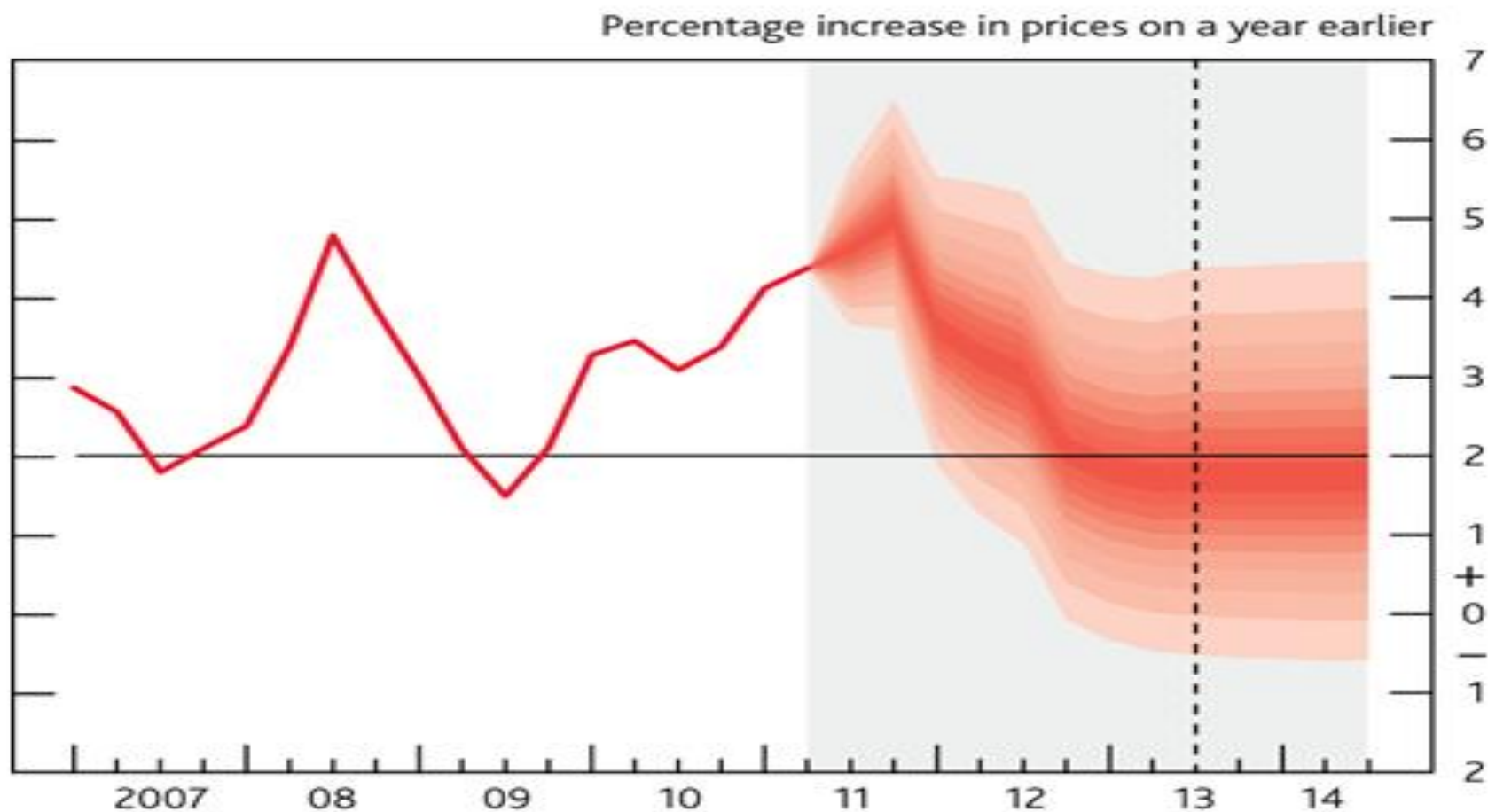


# But consumers are very gloomy

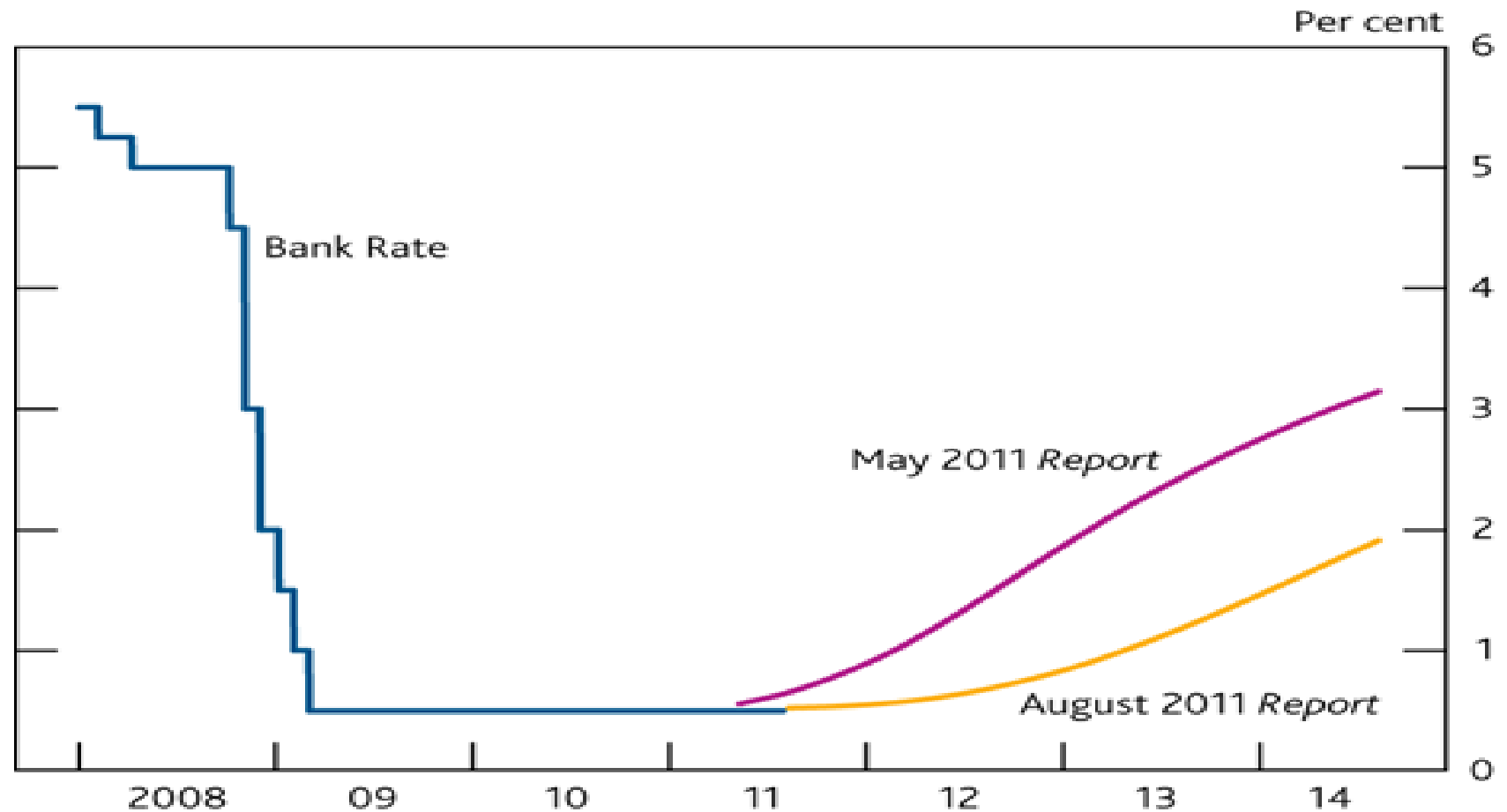
## Consumer Confidence Barometer – August 2011



# They and the Bank need low inflation



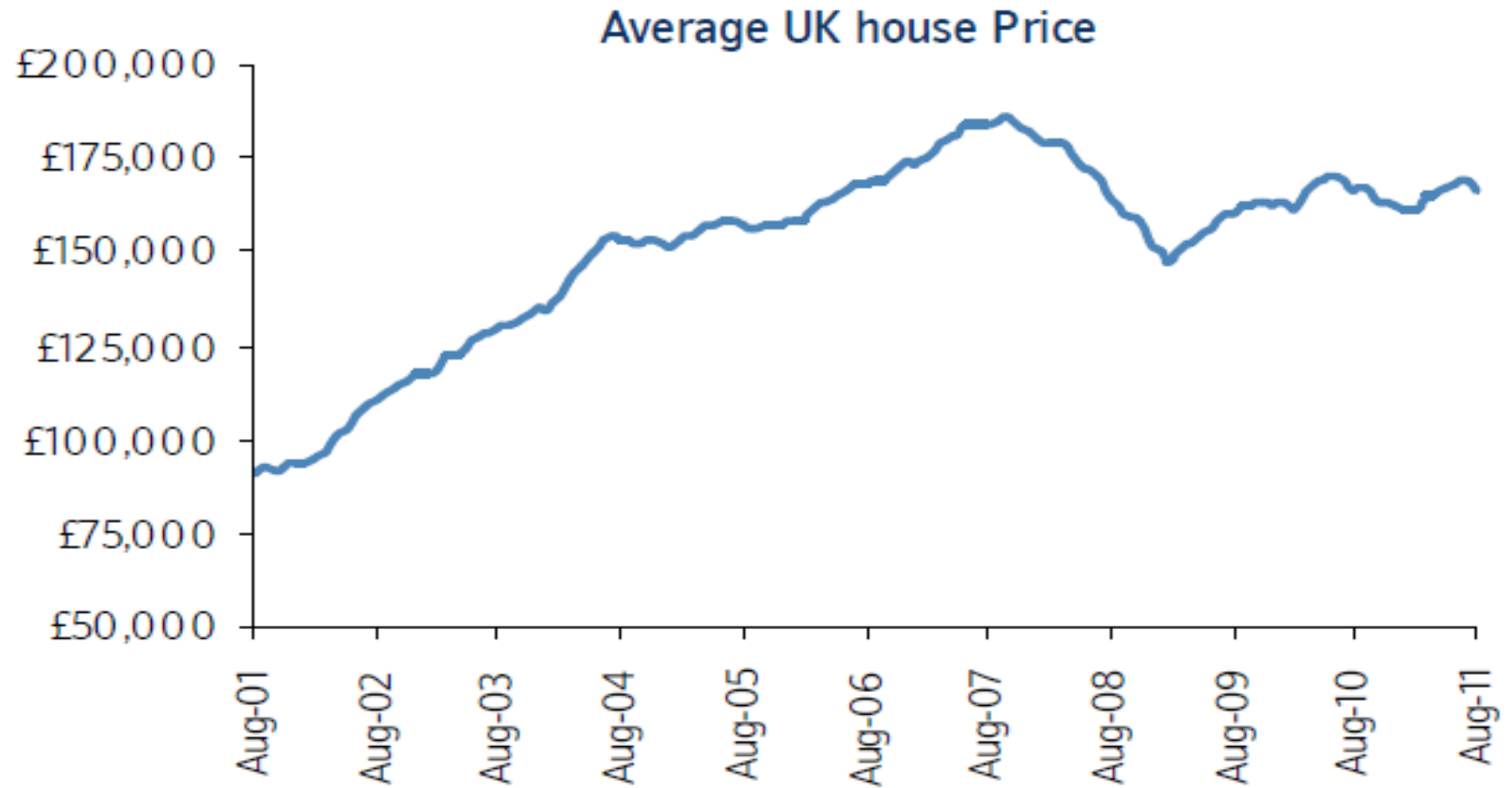
# The never-ending wait for a rate hike



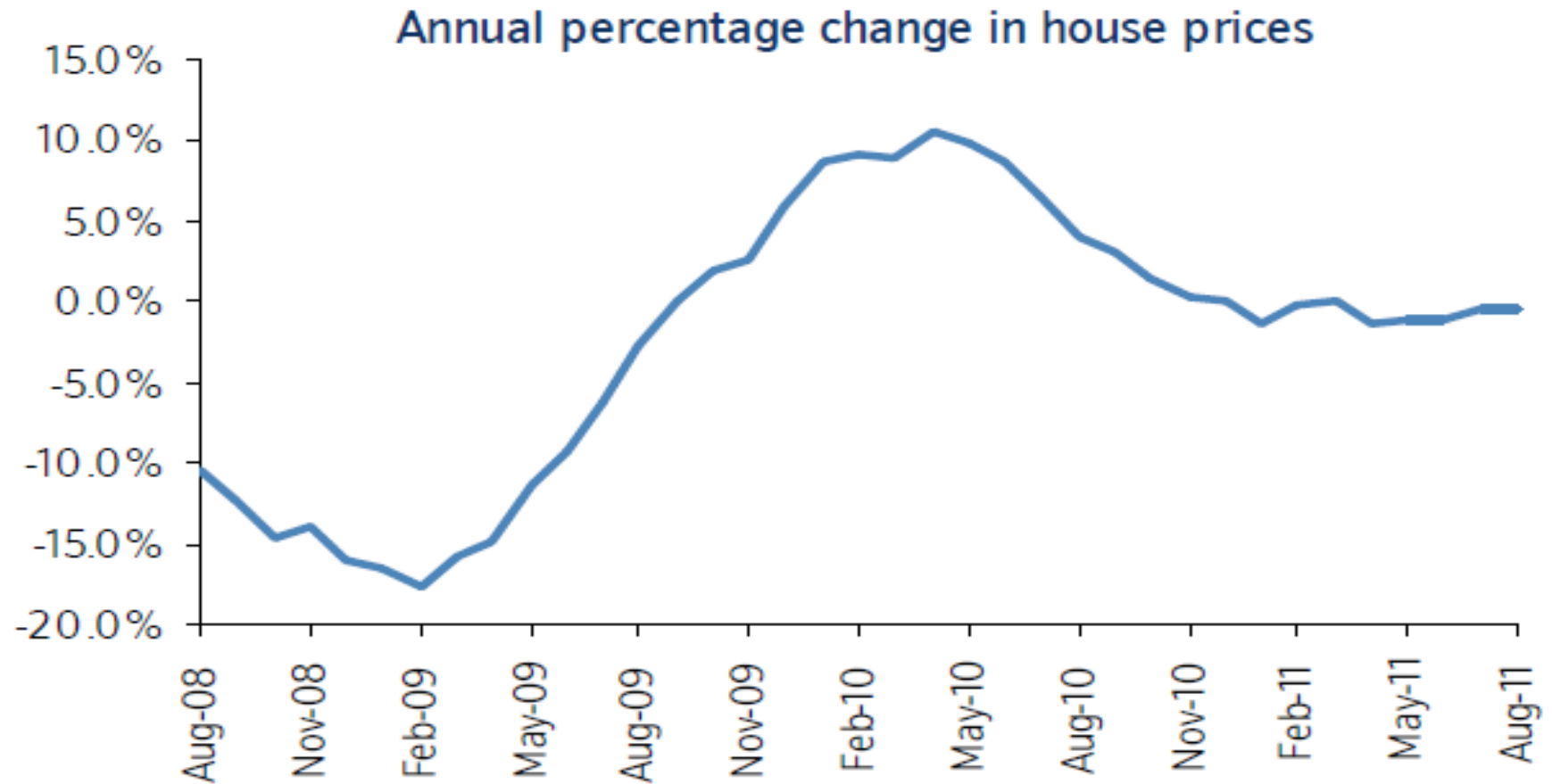
# What's the outlook for housing?



# Prices have held up pretty well

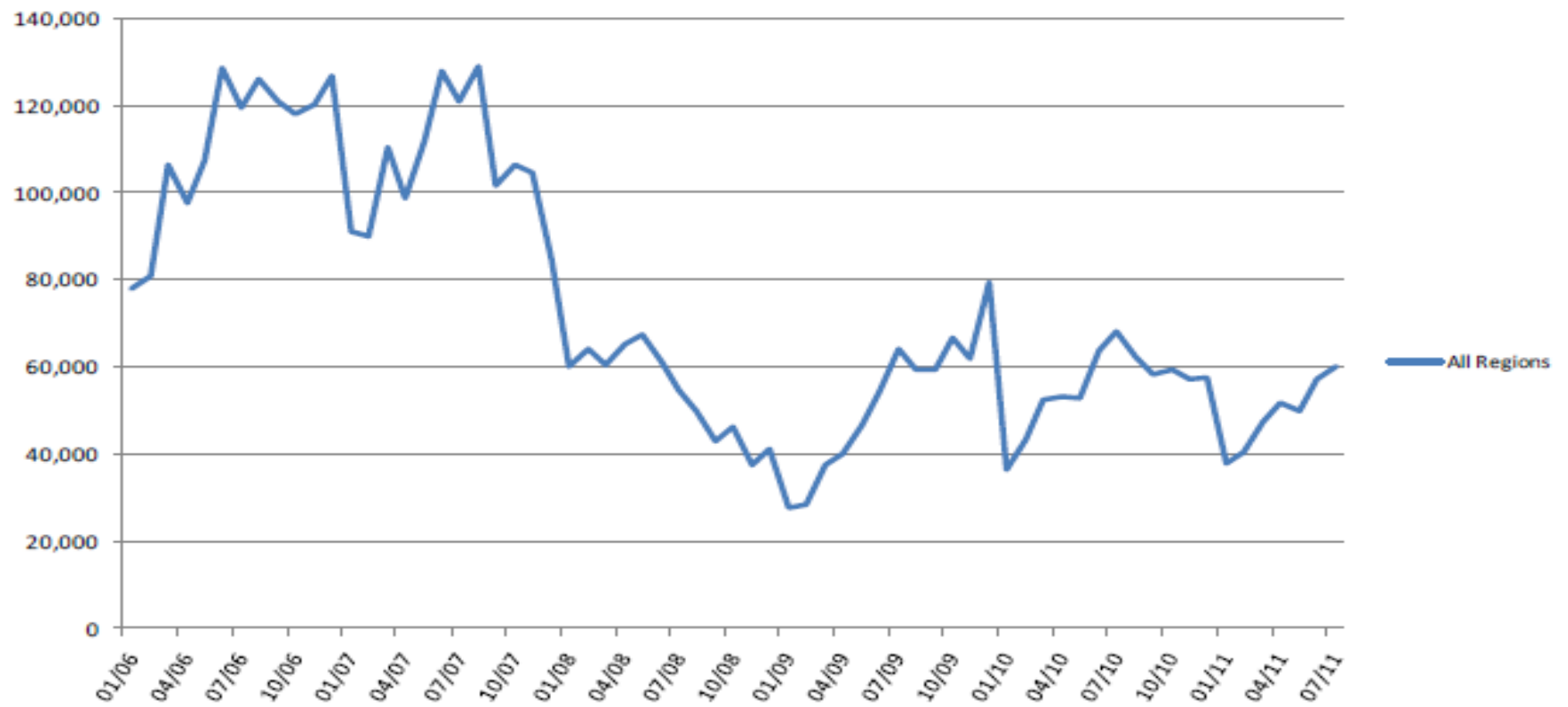


# But the post-crisis bounce is over



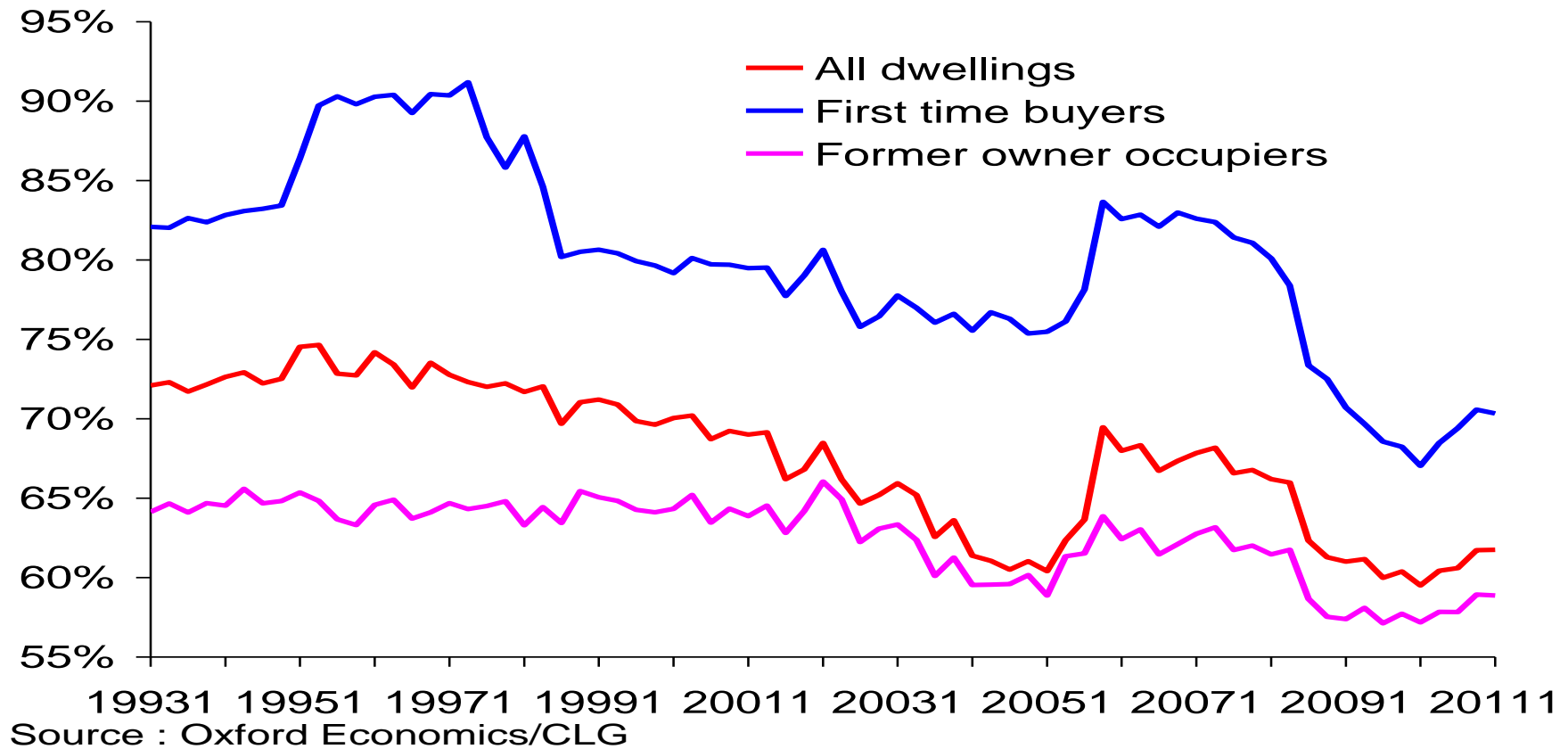
# Permanently lower transactions?

**Number of Housing Transactions per month  
England & Wales 2006 - 2011**



# LTVs creeping higher

## UK: LTV ratios

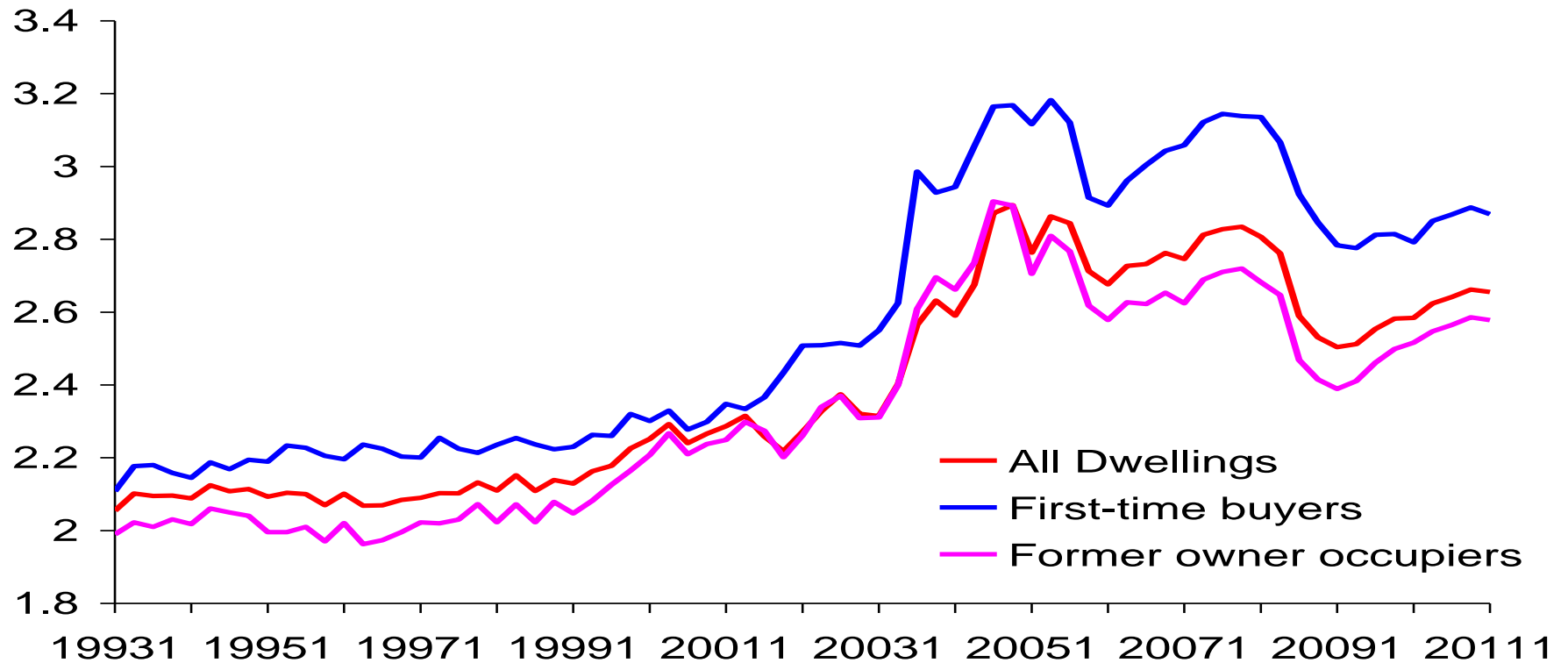




# As are income multiples

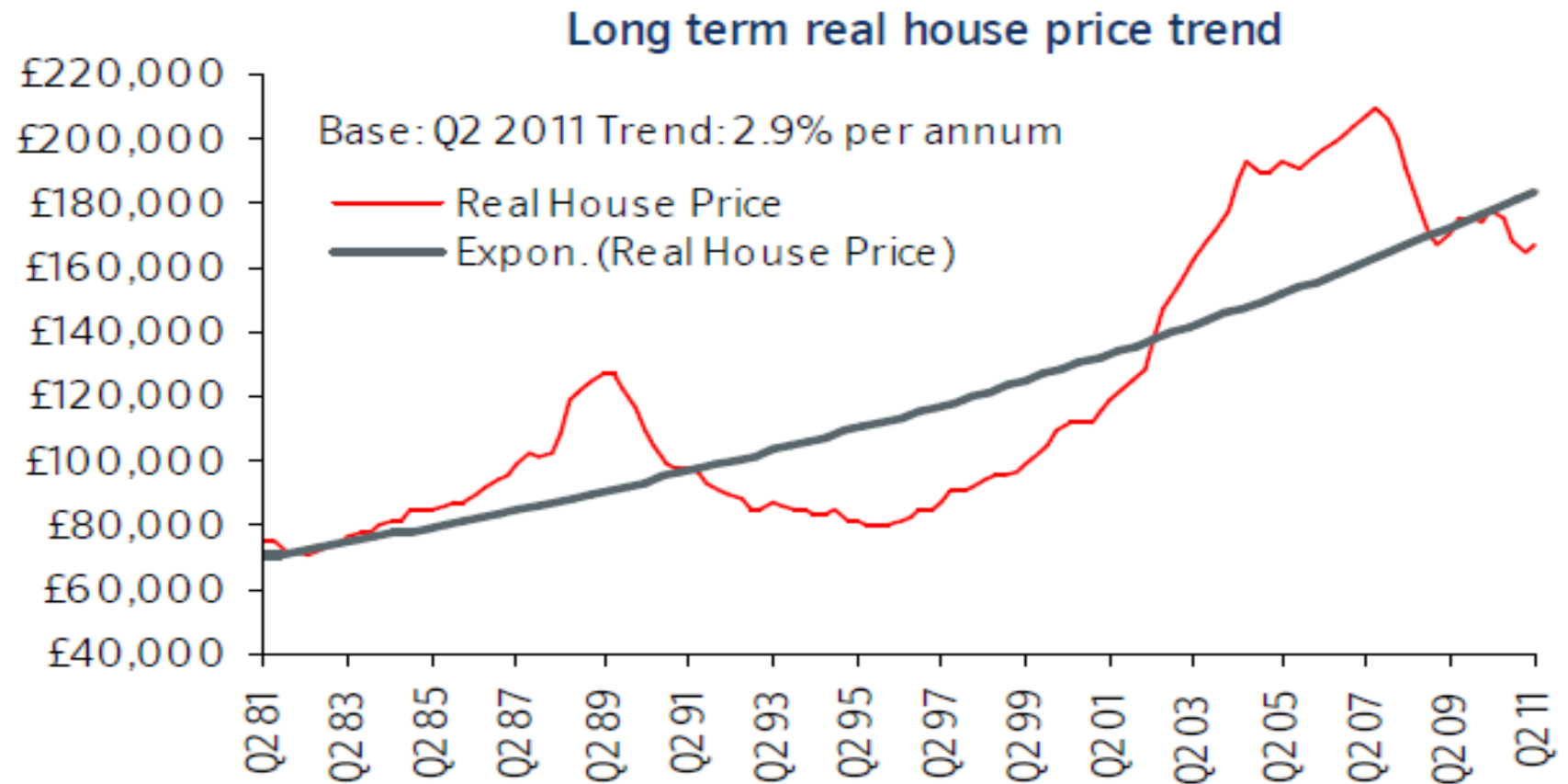
## UK: Income multiples

Mortgage advance as multiple of household income

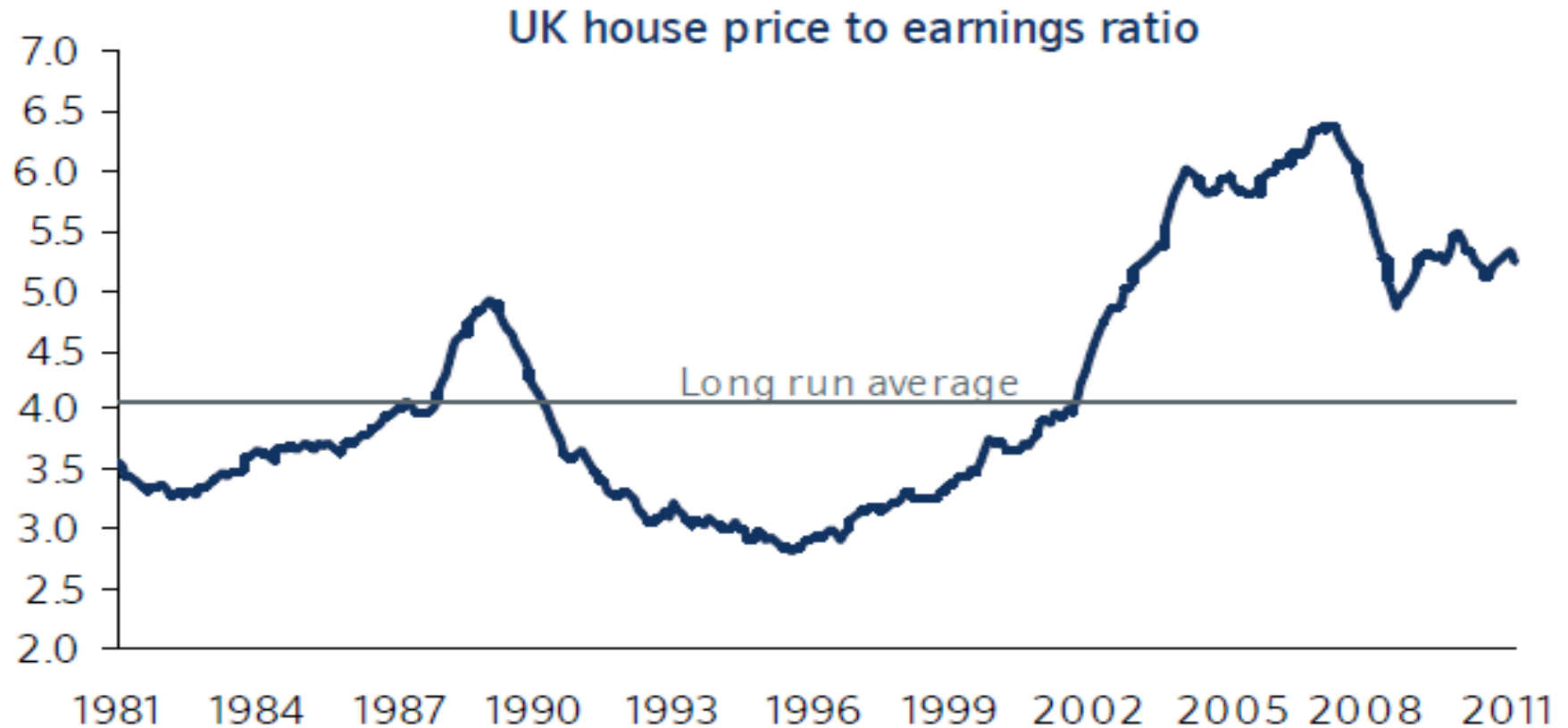


Source : Oxford Economics/Haver Analytics

# Has housing adjusted?



# Or is there some way to go?

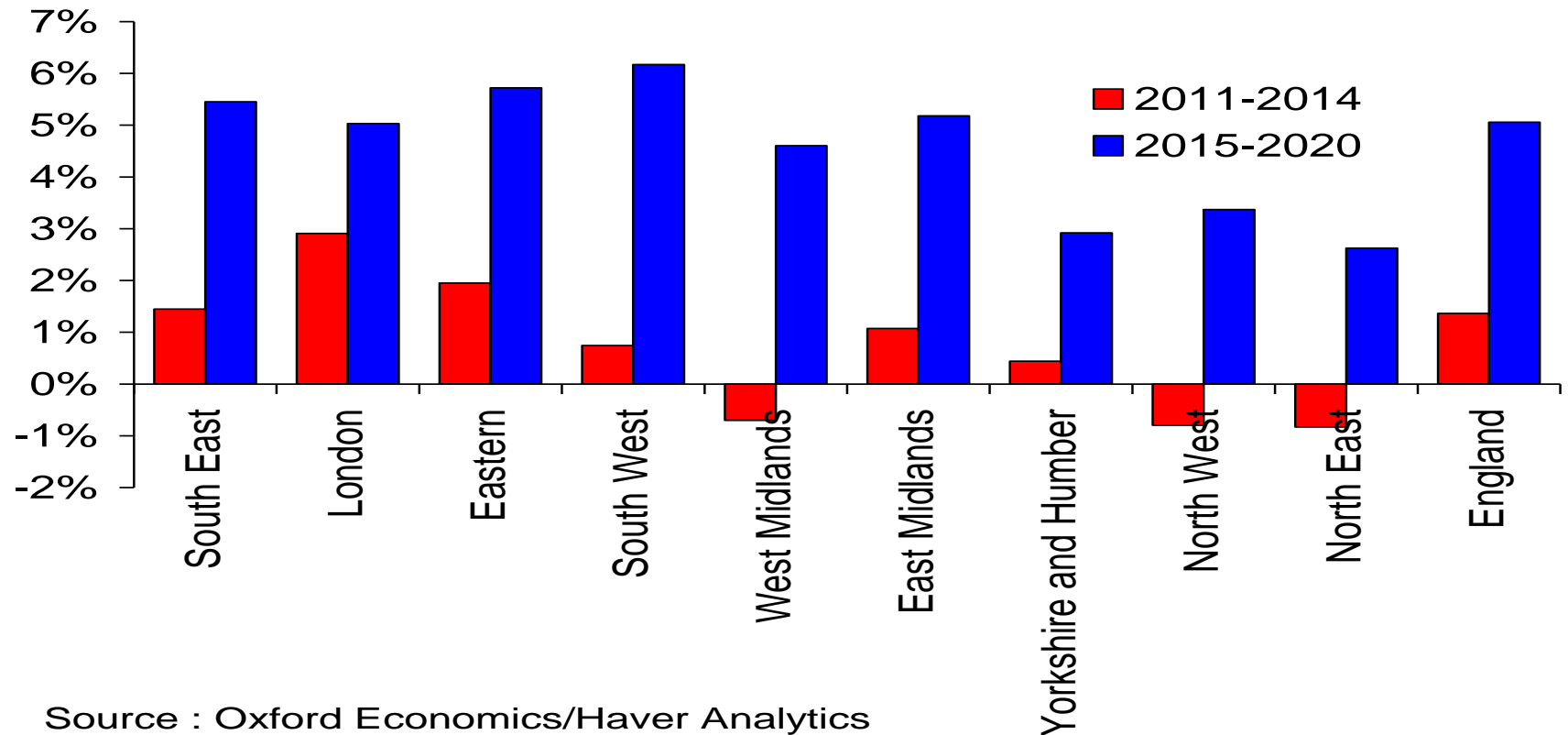


Source: Nationwide, ONS

# Some see plenty of potential

## House price growth by region

Average growth per year



# Conclusions

- Global economy still recovering but in a softer patch.
- Balance of global growth has shifted to emerging economies.
- Advanced economies all have problems.  
Fundamental for euro zone, weakness for America.
- UK can continue to recover through fiscal tightening but high inflation is an unintended squeeze.
- Very slow thaw happening in housing funding.
- For now, housing stuck in a 'low activity equilibrium'.