Housebuilding within the wider economy

October 2008

Doug Godden
Head, Economic & Fiscal Policy
CBI
Credit crunch: market conditions

Credit squeeze

- Interbank lending rates still elevated
- Return to normal money market conditions not expected for some time

When will ‘normal’ conditions resume?

Market interest rates

3m LIBOR spread over 3m gilt repos

Interbank Lending
Credit crunch: the real economy

Mortgage approvals

Interest rate spreads: households

Interest rate spreads: companies

Banking sector – business by category

Spread between effective interest rate on new PNFC borrowing and Bank Rate

Spread between effective interest rate on new unsecured borrowing and Bank Rate (rhs)

Spread between effective interest rate on new mortgages and Bank Rate (lhs)

ICCs
Financial institutions
Private individuals

December  March  June  Next 3 months
Commodity prices

• Significant impact on inflation; squeeze on purchasing power
• Demand strength including from China etc
• Also some supply issues
• But prices peaked in July; down since

![Commodity prices chart](chart.png)

![World oil market chart](chart2.png)
UK: sharp slowdown underway

Retail sector
Retail sales volumes: month versus year ago

Financial services
Financial services business volumes: 3 months v. previous 3

Manufacturing
Volume of new orders: 3 months v. previous 3

CBI survey % balance

CBI survey % balance

CBI survey % balance

CBI survey % balance
Consumer squeeze

Real disposable income

GfK Consumer confidence

Average earnings

Unemployment rate
Construction: housing

% balance

New buyer enquiries

000s

Mortgage approvals

% q/q oya

Housing starts
Policy response limited

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**Consumer prices**
- CPI + forecast
- RPI + forecast

**Producer prices**
- Input prices (rhs)
- Output prices (lhs)

**PSNB**
- CBI forecast

**Bank of England base rate**
- CBI forecast

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% m/m oya

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% m/m oya

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% GDP

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%
UK overview

2008/09: shallow recession, modest recovery

- Slowdown in response to credit crunch and commodity price shock
- Inflation to peak late autumn; interest rate prospects improved
- But near-term recession; below-par growth through 2009

UK: Economic Forecasts

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<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
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</thead>
<tbody>
<tr>
<td>GDP</td>
<td>3.1</td>
<td>1.1</td>
<td>0.3</td>
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<tr>
<td>Household Consumption</td>
<td>3.2</td>
<td>1.8</td>
<td>-0.3</td>
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<tr>
<td>Manufacturing output</td>
<td>0.6</td>
<td>-0.6</td>
<td>-0.1</td>
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<tr>
<td>Consumer Prices</td>
<td>2.3</td>
<td>3.8</td>
<td>3.3</td>
</tr>
<tr>
<td>Unemployment (%)</td>
<td>5.3</td>
<td>5.5</td>
<td>6.5</td>
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Source: CBI
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