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THE SUNDAY TIMES

Interesting Times

Brexit, the UK economic outlook and what it means for housing

Two themes

- Brexit and the broader economic backdrop.
- What it means for housing.

Britain and Brexit

Europe claims another prime minister

What will be the fate of this one?

A reminder of the Brexit timetable – Phase 1

Article 50 of the withdrawal process was triggered on March 29 2017, and due to be completed within two years: by March 29 2019. It was agreed at an early stage that the withdrawal agreement would cover three main elements:

- A "divorce bill" covering the UK's commitments made as an EU member, including contributions to the budget until the end of 2020. The agreed sum is around £39bn ($51bn).
- Measures to secure the rights of EU citizens in the UK and UK citizens living in the rest of the EU.
- A legal commitment to maintaining an open border between Ireland and Northern Ireland, in line with the Good Friday Agreement which secured an end to "the troubles".

And the Irish backstop

In the event of the UK and the EU being unable to negotiate a comprehensive trade deal by the end of the transition period (December 2020 extendable to December 2022), the backstop will apply. It consists of two elements:

- The whole of the UK will remain in a single customs territory with the EU, similar to the customs union but with the proviso that the UK would be free to negotiate third country trade deals.

- Northern Ireland, additionally, to effectively remain in the EU single market, following EU regulations, so goods can freely cross the border with Ireland.

- It is this, treating Northern Ireland different to the rest of the UK and establishing a border in the Irish Sea that has so upset the Democratic Unionist Party.

A ‘cliff-edge’ Brexit is something to be avoided

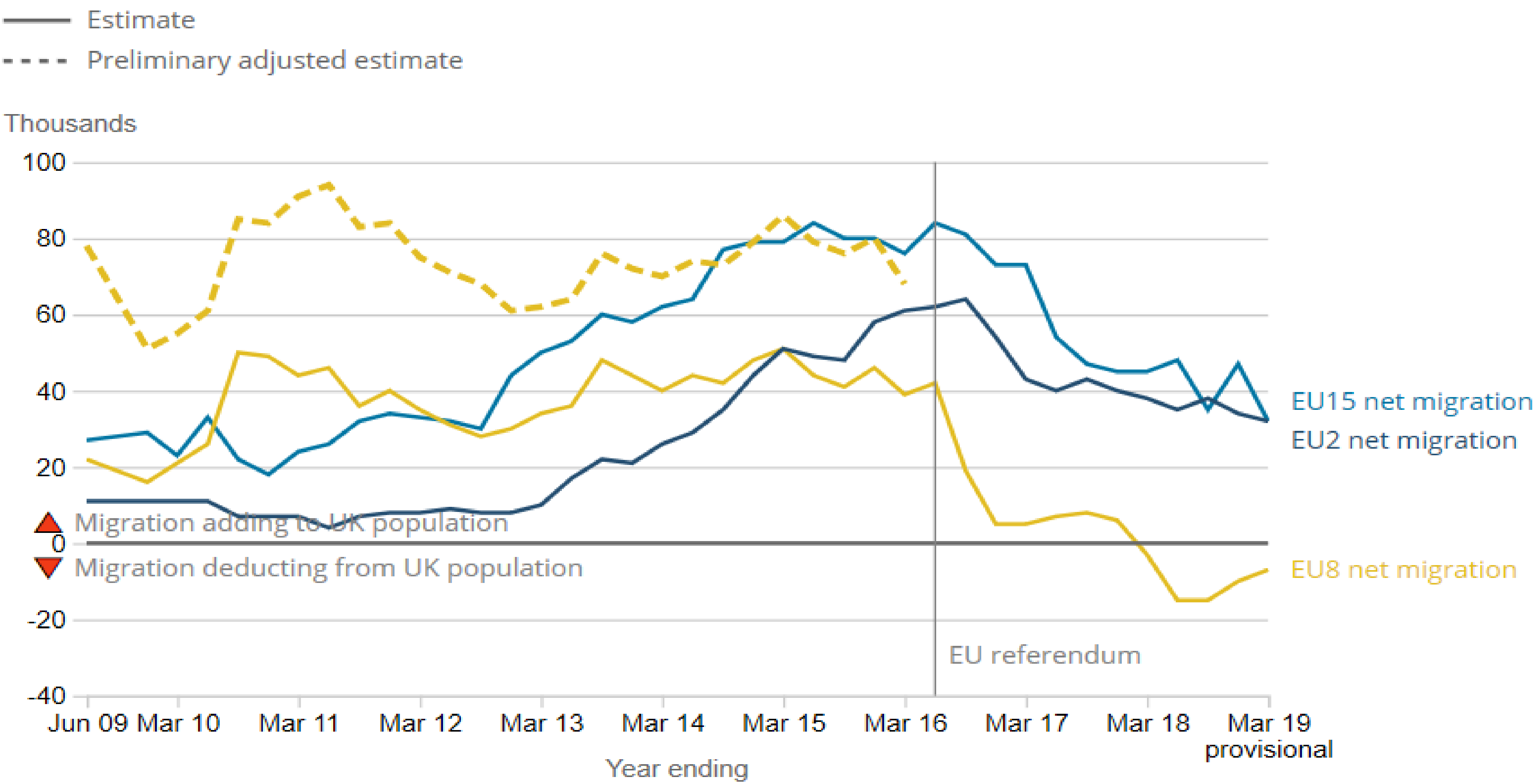
What would no deal mean?

- A short-term economic shock, a sharply lower pound. Falling house prices, higher unemployment. A shift in the direction of UK interest rates. Bank of England would probably respond in a similar way to August 2016.
- Disruption of EU supply chains, congestion at the ports. Possible delays in supplies of food, medicines, etc.
- Long-run economic damage: 8%-10% of GDP.
- A political crisis in the UK, bringing a Corbyn government closer. Risk of civil disturbances.
- Status of EU citizens left in limbo, though government has offered reassurance.
- A hard border in Northern Ireland.

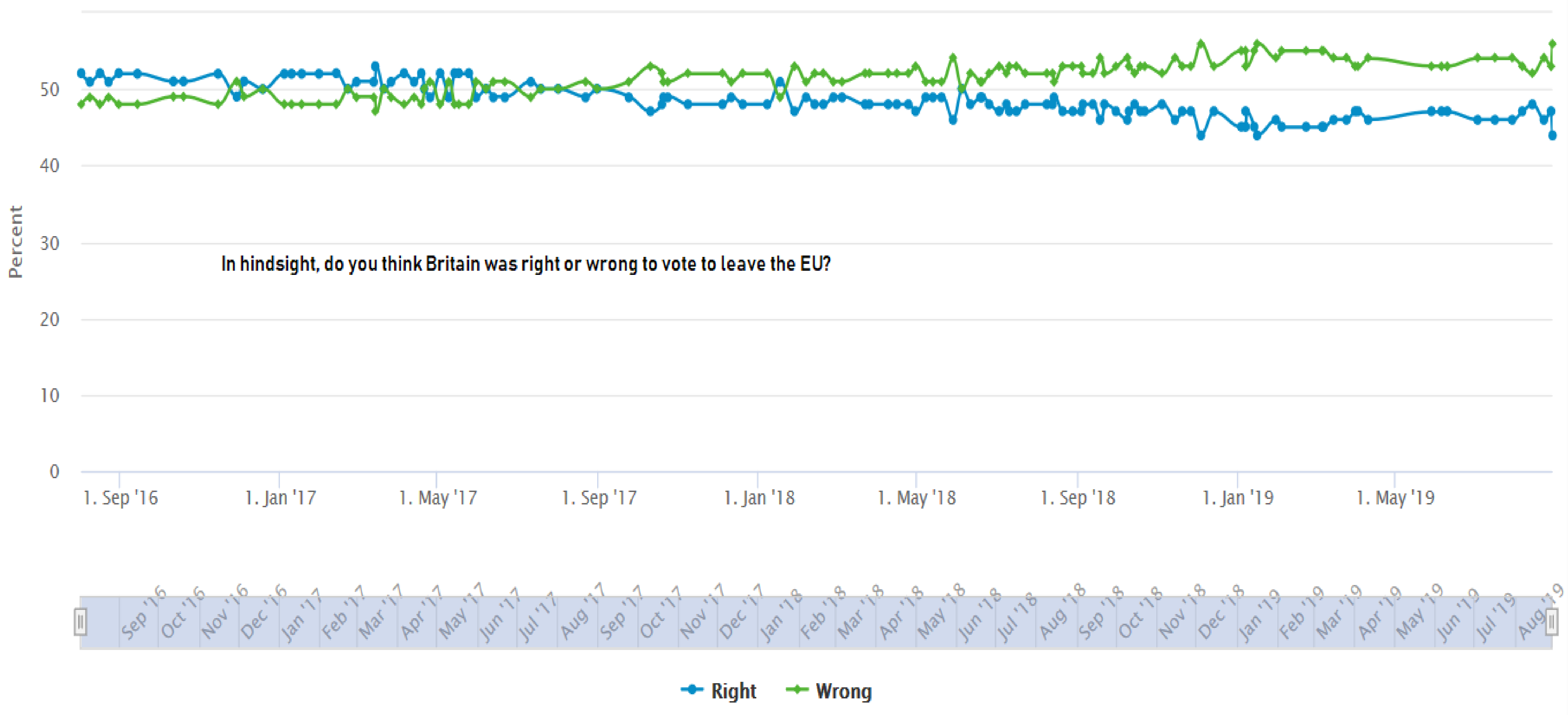
Or, as the OECD put it recently

"Substantial uncertainty persists about the timing and nature of the withdrawal of the United Kingdom from the European Union, particularly as concerns a possible no-deal exit which could push the UK into recession in 2020 and lead to sectoral disruptions in Europe." **OECD**

EU migration is down sharply



Bregrets, there are a few



What is going to happen?

A deal remains (just) the most likely outcome, but there is a worryingly high possibility of a no-deal Brexit. The chances of that have risen.

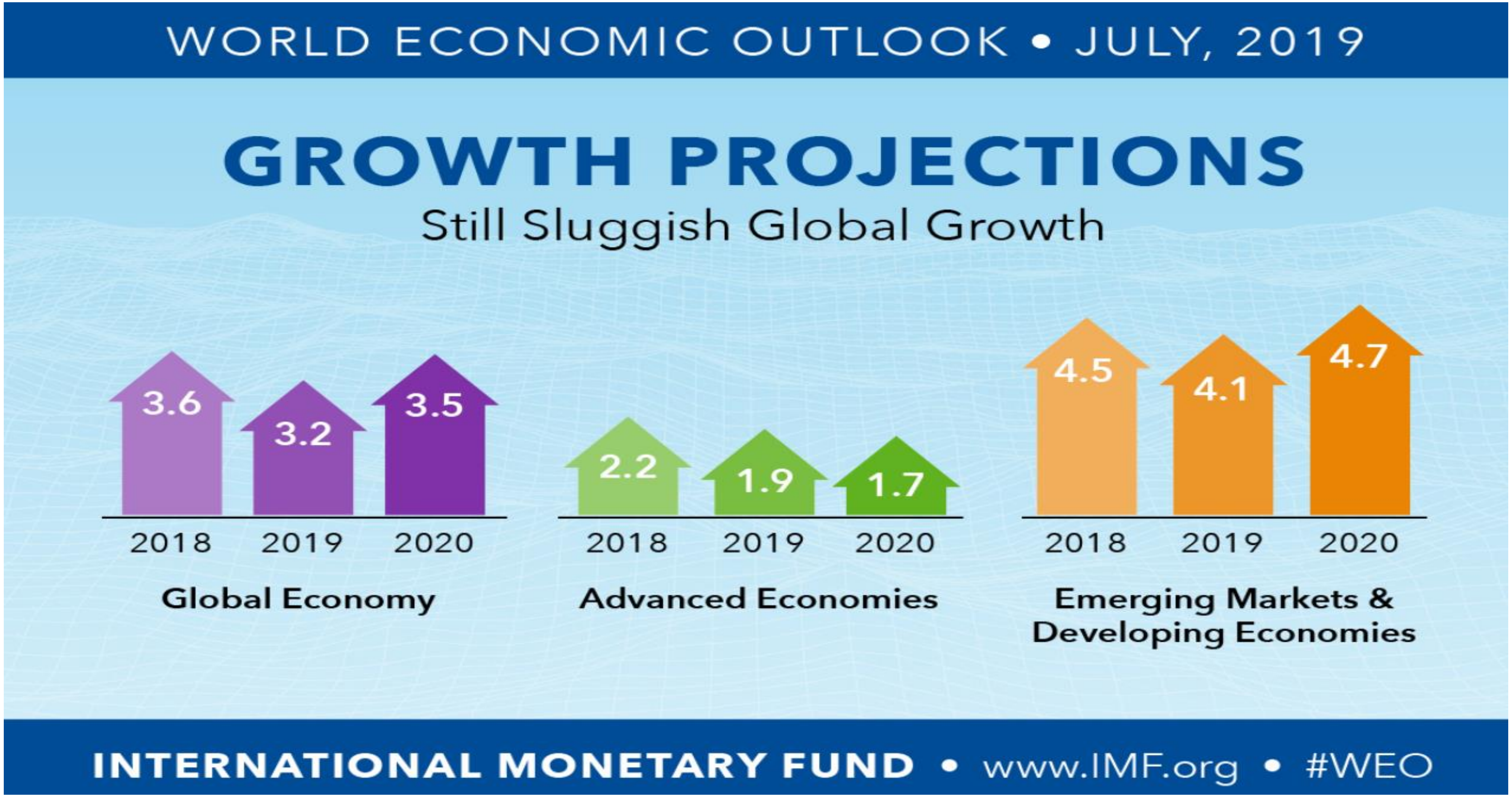
The global economy is weaker than hoped

Some of which is down to him

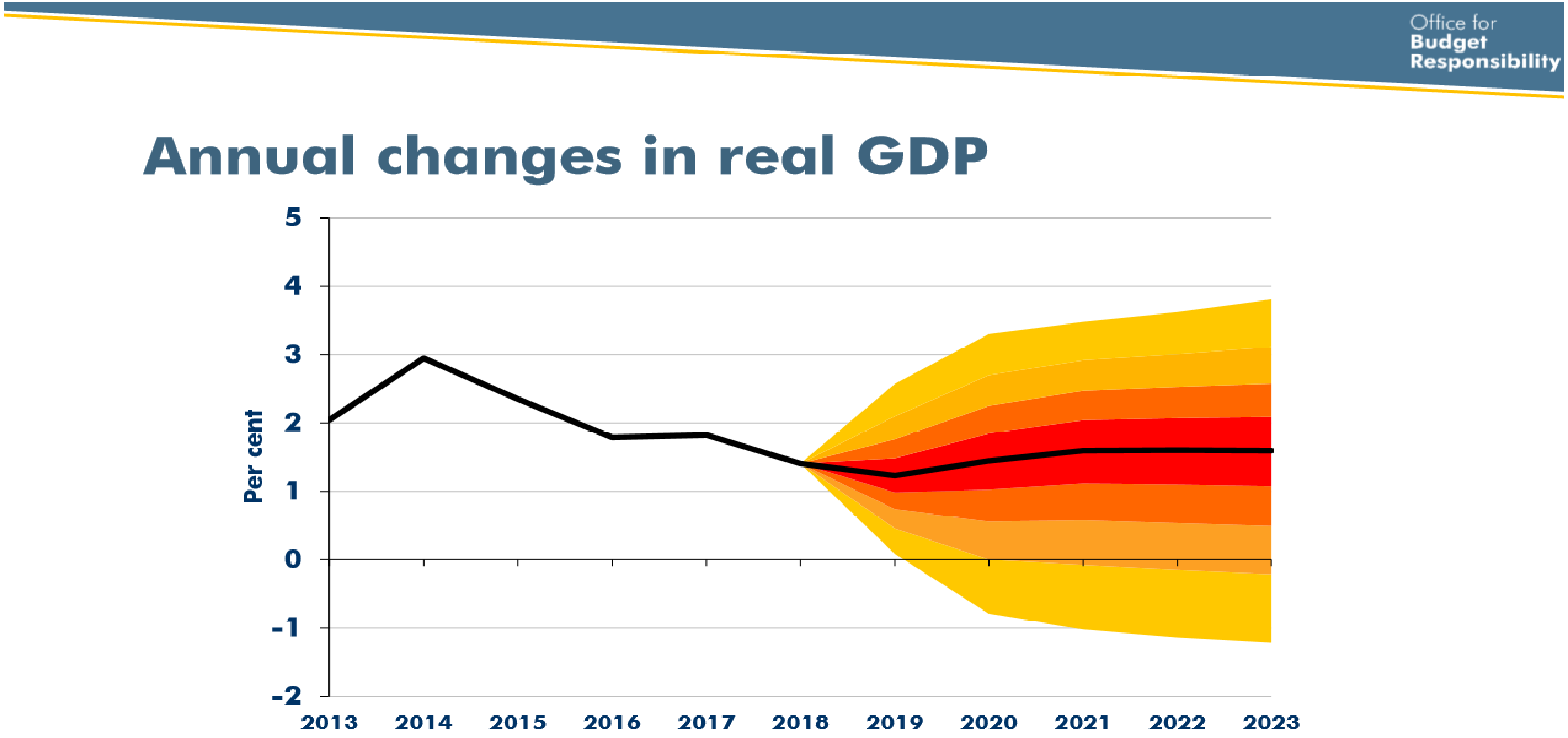
Though he wanted to end this trade war quickly

TRADE WARS

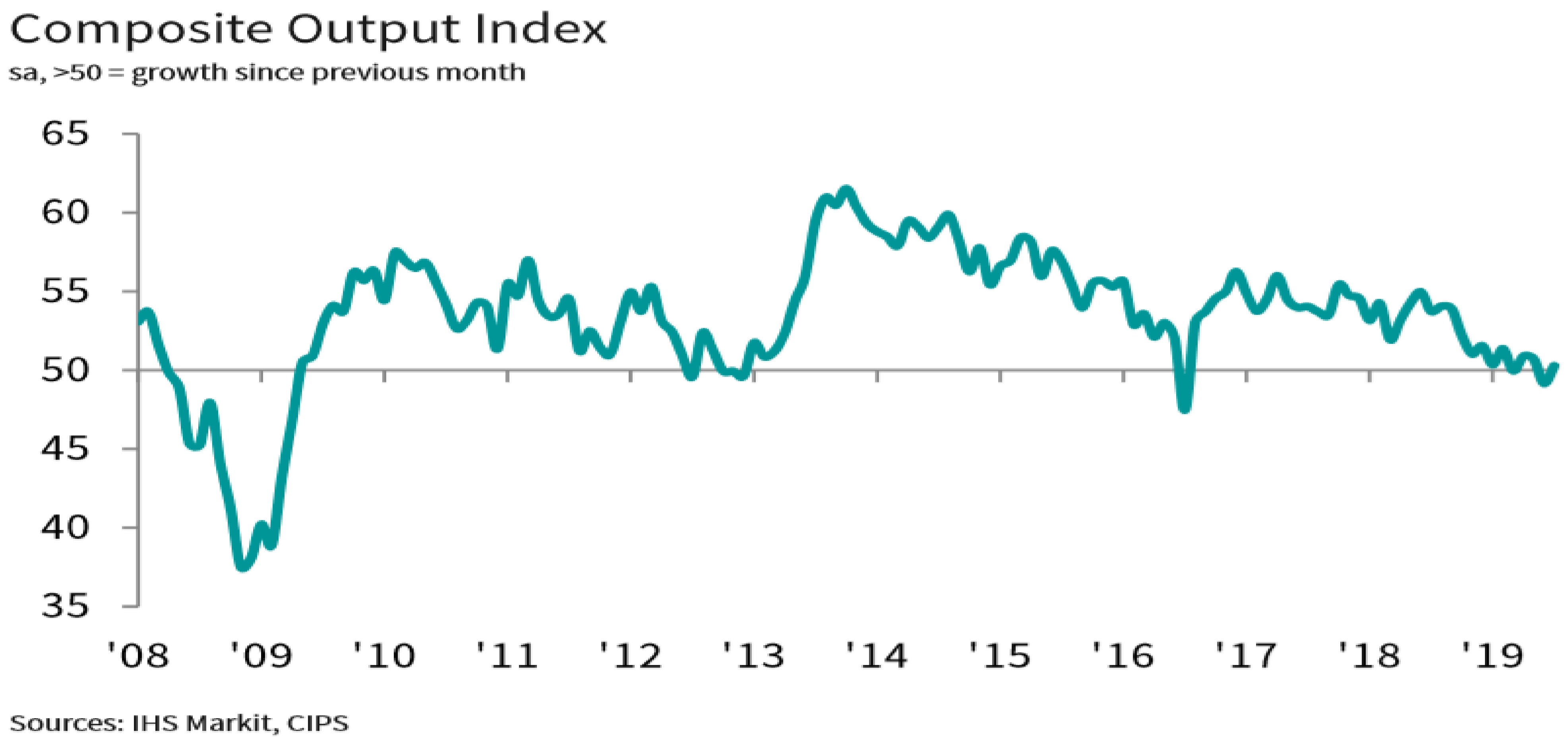
A softer patch for the world economy



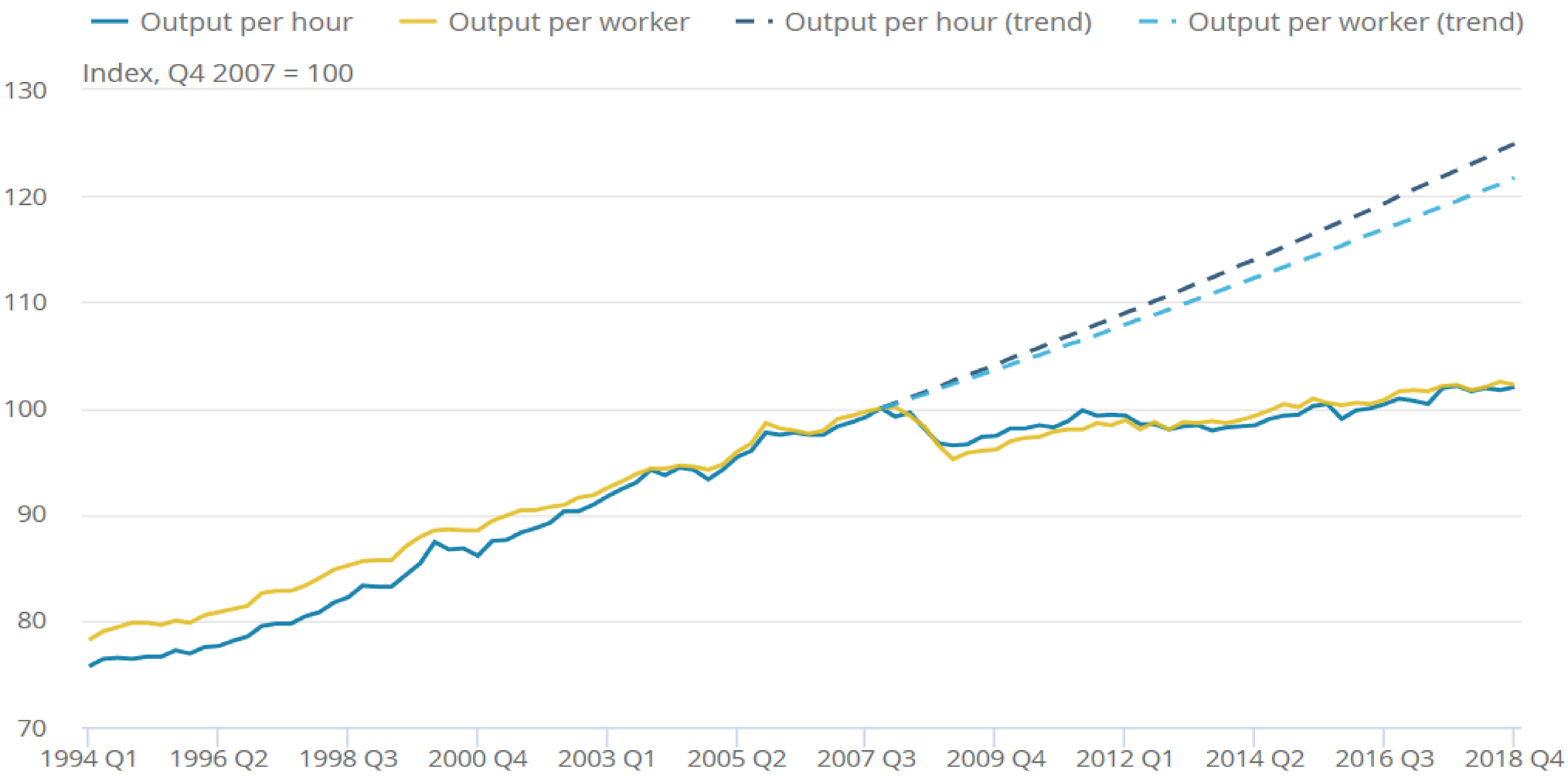
UK growth prospects are weaker than we'd like



The economy's ground to a halt in recent months

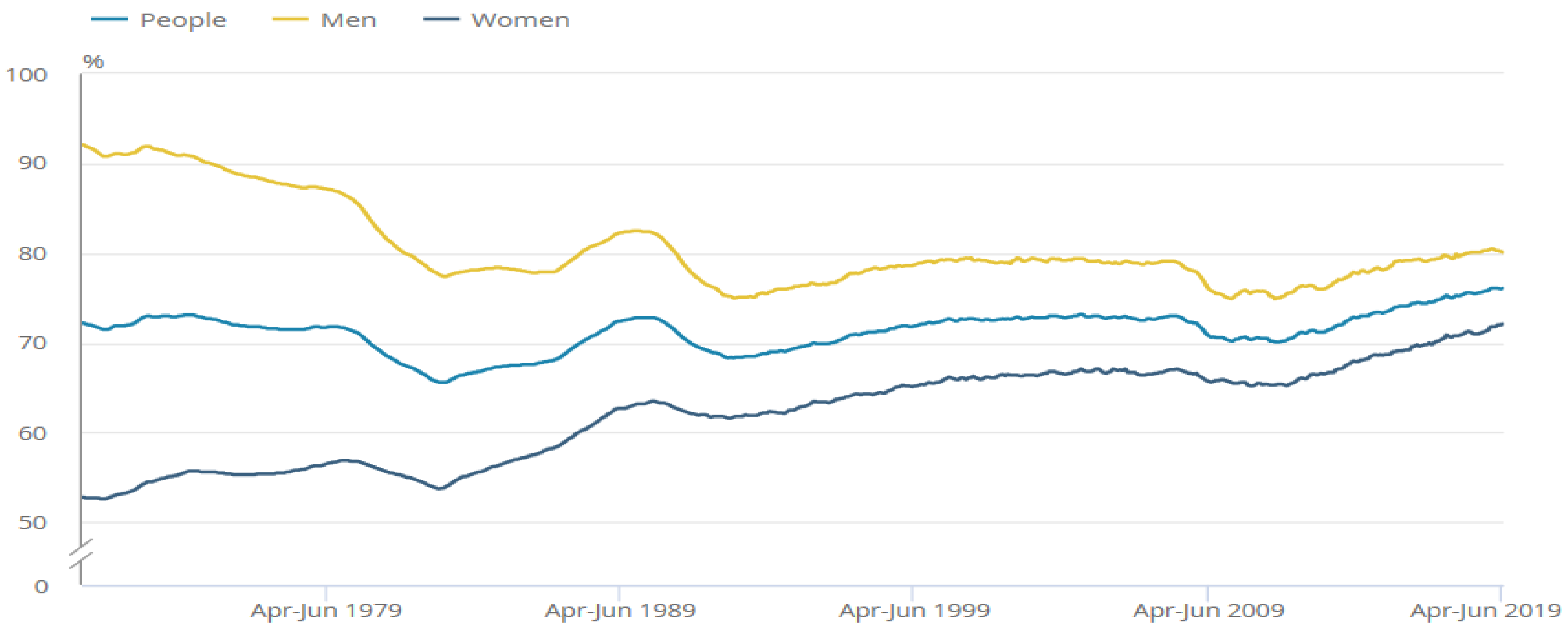


And no productivity growth for a decade



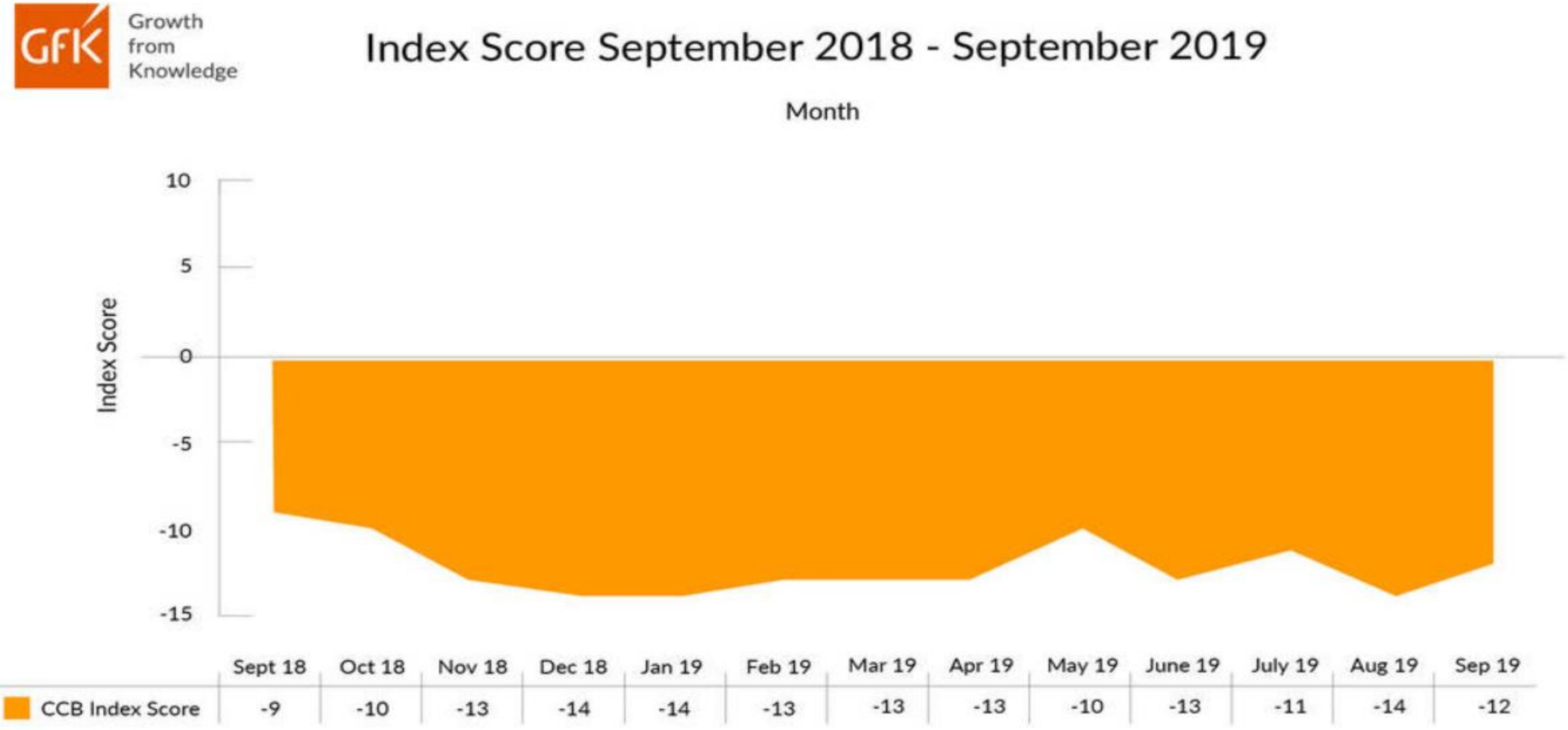
Employment is an undoubted bright spot

UK employment rates (aged 16 to 64 years), seasonally adjusted, January to March 1971 to April to June 2019



Source: Office for National Statistics – Labour Force Survey

But consumer confidence remains weak



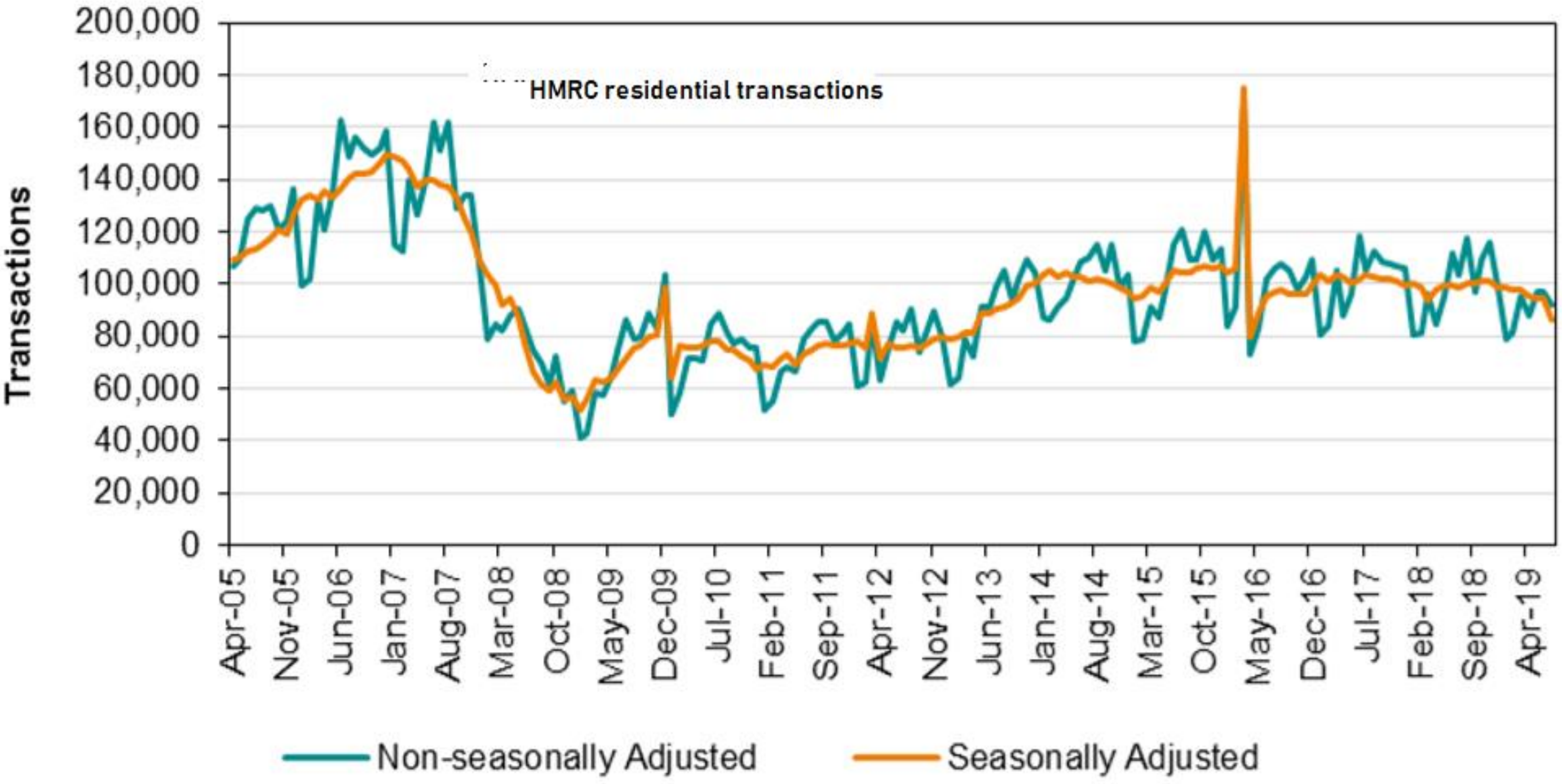
Source: GfK Consumer Confidence Barometer on behalf of the European Commission (September 2019)

What does this mean for housing?

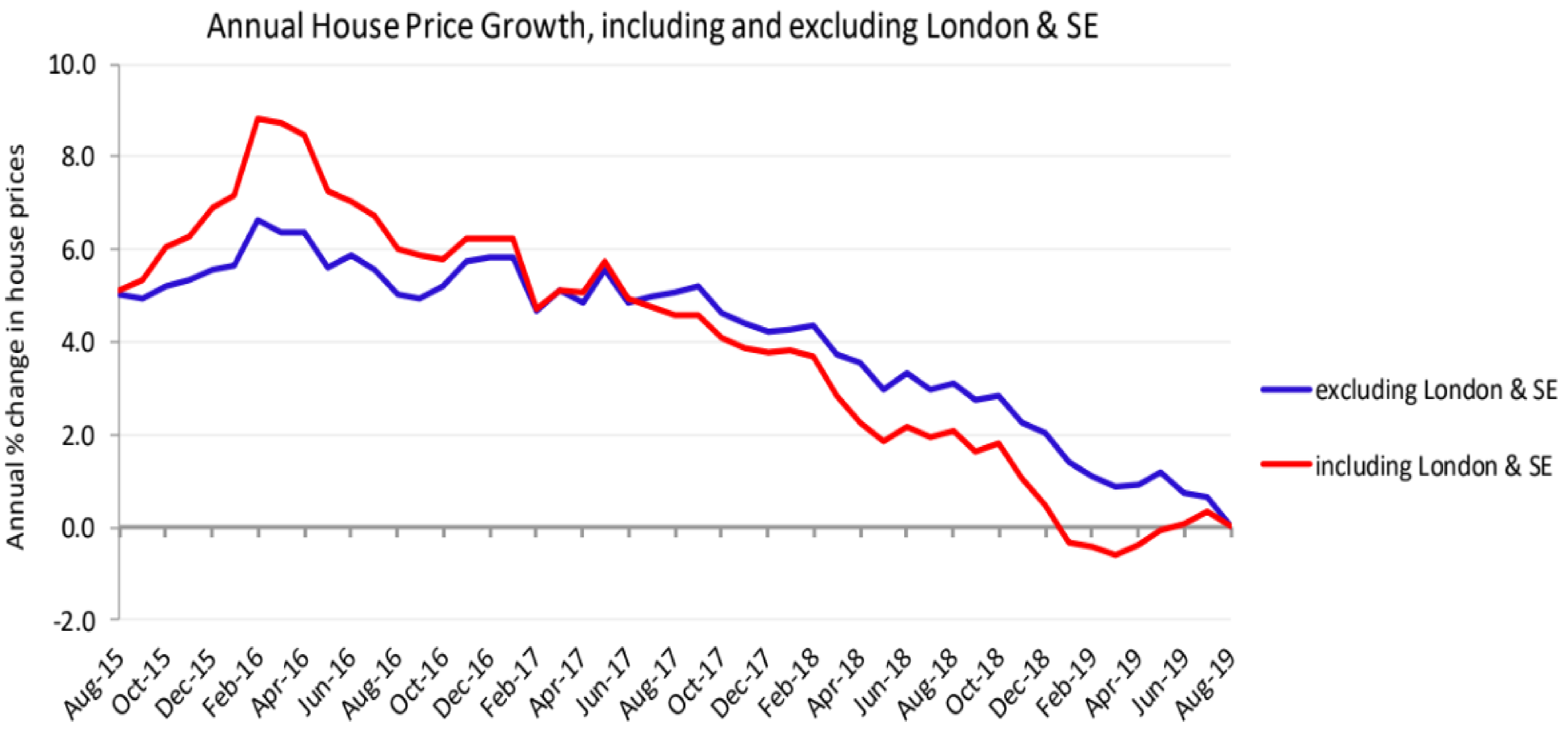
New homes market remains strong, not just because of Help to Buy, though some signs of levelling off.

Second-hand market more of a struggle because of uncertainty and high transaction costs. Stand-off between weaker demand and subdued supply set to continue.

Housing transactions still quite flat

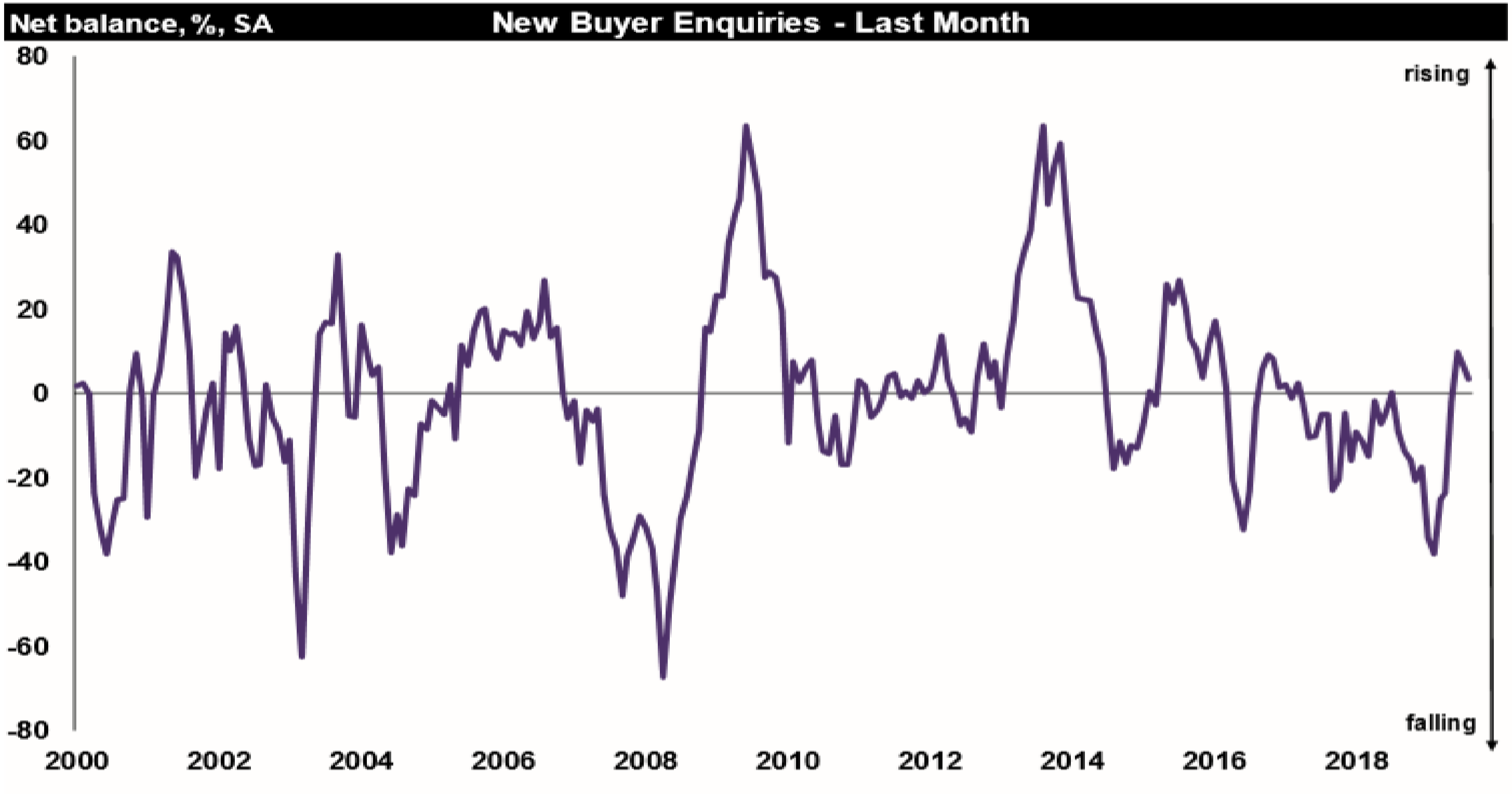


A big slowdown in house-price inflation



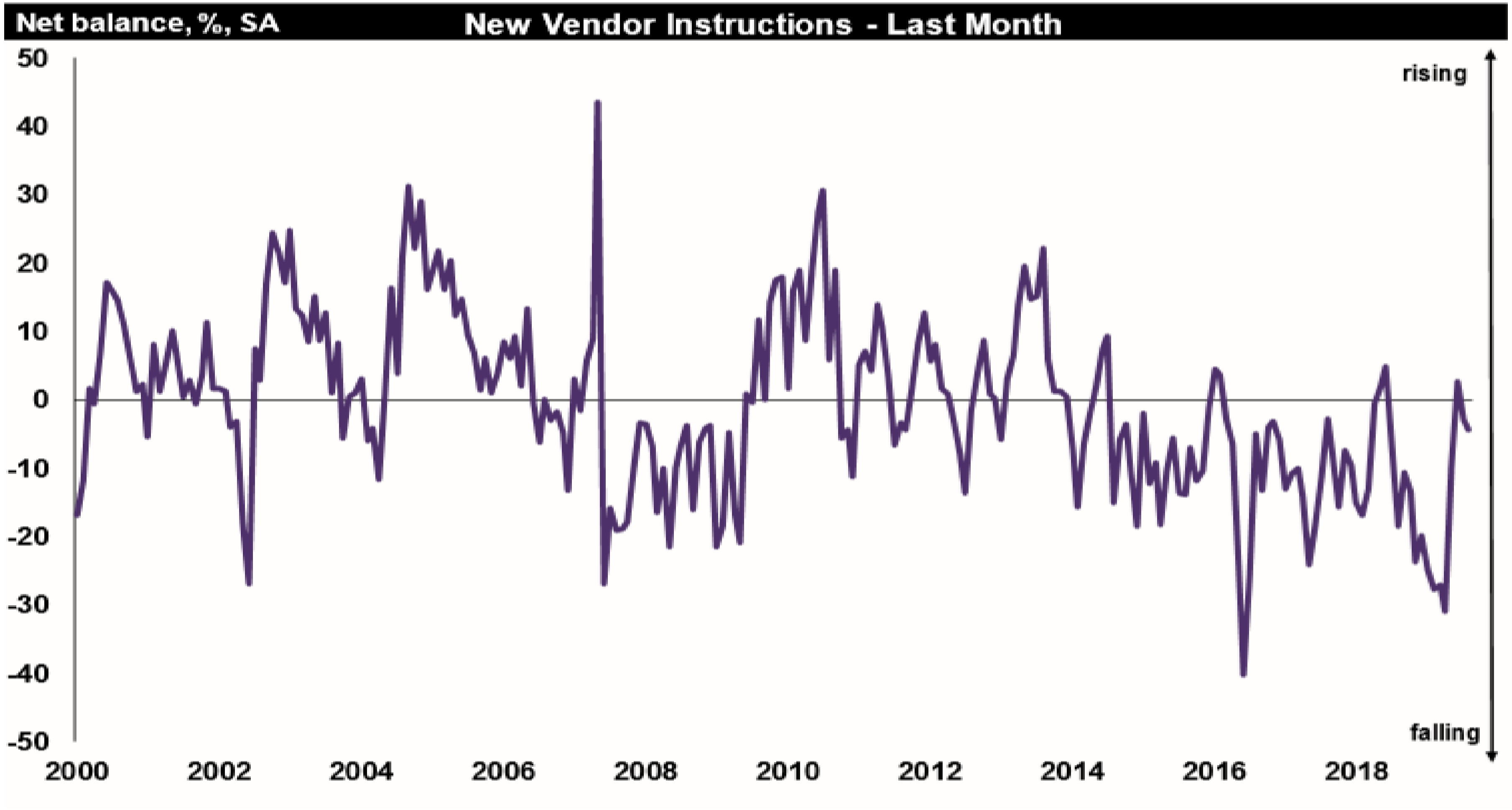
Some welcome signs of life in housing demand

National Enquiries - Past month



And in sales instructions

National New Vendor Instructions - Past month



Three ways the housing market could go

- Continuing on its current path, assuming a smoothish Brexit. That means modest house price rises – and some small falls in London and the south-east – transactions remaining depressed relative to pre-crisis levels. A continued sharp difference between the new-build market, supported by Help to Buy, and the existing homes' market.
- A no-deal shock to the housing market, hitting confidence, prices and turnover, with prices down by 5%-10%, transactions even weaker. A cut in interest rates would help prevent anything worse.
- A much bigger house-price shock, 30%-40% down, in the event that the Bank of England was forced to push interest rates up to 4% or 5% to support a slumping pound.

But don't be too scared by the Bank of England

- Its no-deal stress tests were based on a 35% fall in house prices.

But this was based on the unlikely assumption of the Bank being forced to raise interest rates to 4%.

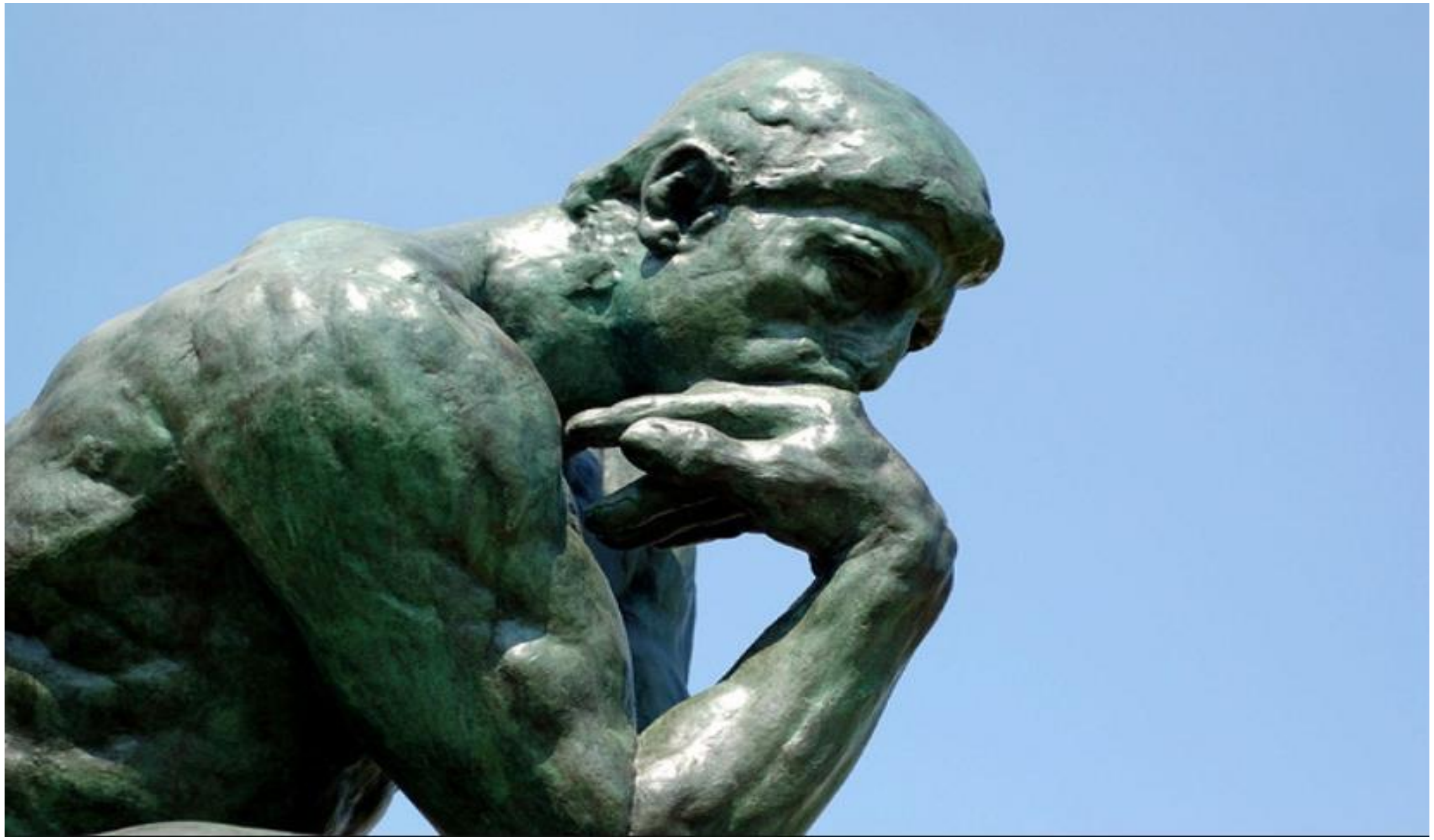
A more likely no-deal outcome would be a rate cut and a 5%-10% fall in house prices

And this is enough to worry anybody

Labour and the housing market

- Labour would introduce discounted right-to-buy for the tenants of private sector landlords but suspend right-to-buy for social housing.
- Help to Buy would be under pressure after a change of government, though John Healey, Labour’s housing spokesman, has talked about targeting it more tightly, rather than abolition.
- But a big shift towards more social and public-sector housing; at least 100,000 affordable social and council homes a year for 10 years.

So plenty to think about



And don’t forget to count those skips