



UK Economy & Property Market Chart Book

July 2013

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RICS Economics

RICS Economics' market surveys and reports are available for free from the RICS web site - www.rics.org/economics

These include:

- The monthly UK Residential Market Survey <http://www.rics.org/housingmarketsurvey>
- The quarterly UK Construction Market Survey <http://www.rics.org/constructionmarketsurvey>
- The bi-weekly Asian Economic and Real Estate Research <http://www.rics.org/economics>
- The quarterly UK Commercial Market Survey <http://www.rics.org/commercialmarketsurvey>
- The semi-annual UK Rural Market Survey <http://www.rics.org/ruralmarketsurvey>
- The quarterly Global Commercial Market Survey <http://www.rics.org/globalpropertysurvey>
- The monthly RICS/ Ci Portuguese Housing Market Survey <http://www.rics.org/portuguesemarketsurvey>
- The quarterly India Construction Market Survey <http://www.rics.org/constructionmarketsurvey>

Evidence of a pick-up in activity in the UK continues to accumulate with both sentiment surveys and hard data painting a somewhat brighter picture. But interestingly, the latest revision to the National Accounts shows that the recession was actually rather deeper than previously projected and that, as a result, GDP currently actually remains rather further away (3.9% rather than 2.6%) from its Q1 2008 high.

Moreover, although the closely watched PMI indicators are suggesting that the economy may record an even stronger second quarter growth figure, following a 0.3% increase in the first three months, we are a little concerned by the shift in tone in financial markets regarding the prospects for interest rates that followed US Federal Reserve Governor Ben Bernanke's remarks on tapering of bond purchases. At one level, these comments may count for little in terms of the deliberations of the new head of the Bank of England Mark Carney. However as chart 3 clearly demonstrates, swap rates (wholesale money) in the UK have risen sharply over the past month with even two year maturities seeing a significant retracement.

This does not of course mean that base rates are heading higher anytime soon. Indeed, we expect the MPC to shortly announce new measures designed to provide reassurance that this is indeed not on the agenda; even before the latest round of turbulence, Mark Carney was known to favour some form of forward guidance on base rates to provide a greater level of confidence and transparency for markets. But even with this initiative, there is a danger that higher medium term money rates could soon begin to feed through into an increase in borrowing costs eroding some of the advantage secured through the Funding for Lending Scheme.

Aside from this concern, a key headwind for the UK remains developments in the euro area where the economic picture remains weak. Against this unhelpful backdrop, it remains a challenge for British exporters to boost volumes. Meanwhile, the Chancellor set out his long awaited spending plans for 2015/16 in the recently announced CSR. Much was made of the increases in investment spending but critically, these are designed to fit within the envelope for capital expenditure set out in the March budget. Moreover, since they relate to a period post the next general election they will have little bearing on the immediate prospects for a sustained recovery.

For the hard pressed construction sector, the latest news flow has been a little better. The drop in construction output in the first quarter of the year was actually reduced from 2.4 to 1.8% in the National Accounts revisions. Meanwhile, the latest PMI data shows a further modest improvement in sentiment in subsequent months. Housing rather predictably, given the focus of government policy, does appear to be leading the way with NHBC data showing private housing starts up 12.3% at the

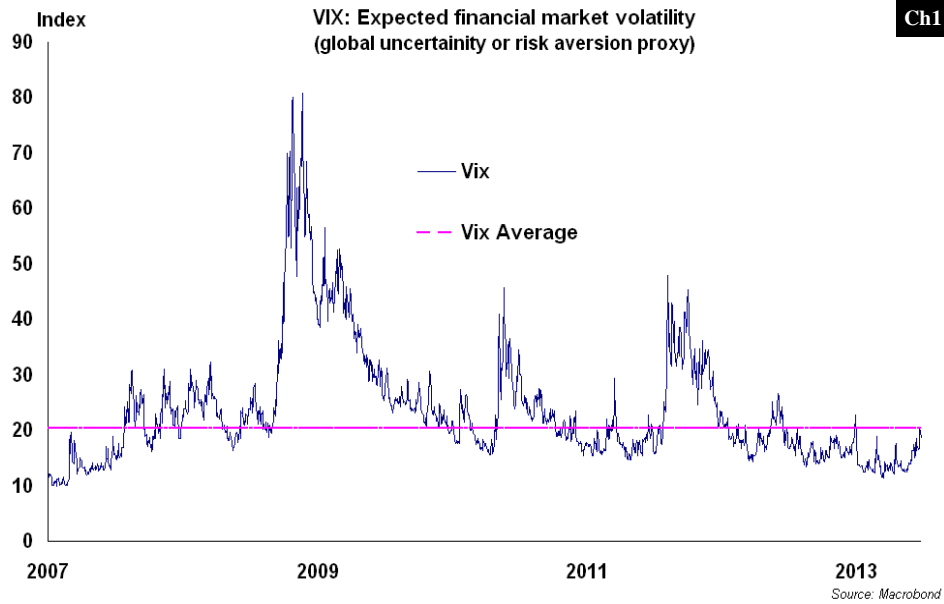
end of May compared to the same period in 2012.

This is also being reflected in the second hand residential market. Sales data (as captured by HMRC) and mortgage approvals numbers are rising and most indices also appear to be signalling a slightly firmer trend in prices. Moreover, the RICS' Residential Market Survey's price and sales expectations indicators suggest that these trends will continue to strengthen over the coming months. London continues to lead the pack but according to our own indicators, the majority of regions are now seeing an improving price picture.

Finally on the commercial sector, early evidence for the second quarter suggests that property values are steadying at a headline level although this continues to mask markedly different trends across the country with West End and City office values still recording strong gains thanks in part to investment from overseas investors (particularly Middle Eastern). Interestingly, credit availability for prime real estate appears to be improving but Bank of England data suggests that this has yet to be reflected in a rise in net lending to the sector.

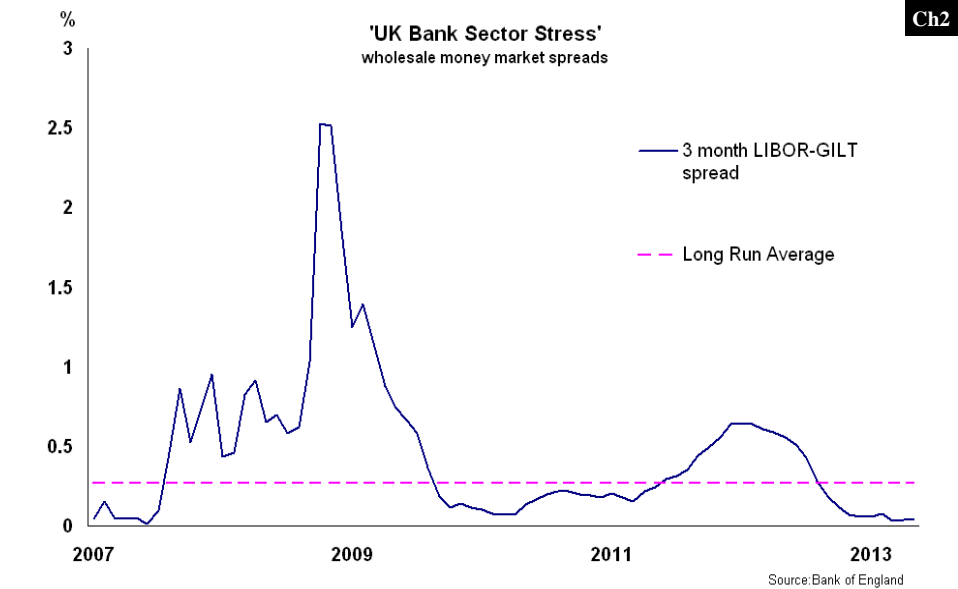
	Forecasts		
	2011	2012	2013(f)
GDP (y/y % avg)	1.0	0.2	0.8
CPI (y/y % avg)	4.2	2.7	2.8
Base Rate (q4)	0.5	0.5	0.5
Unemployment rate (q4) %	8.3	7.8	8.0
ONS House Prices (q4/q4 %)	0.0	2.3	4.0
Housing Transactions (000s)	883	930	980
IPD Com Prop Cap Values (q4/q4 %)	1.5	-3.0	0.0
IPD Rents (q4/q4)%	1.0	0.0	0.0
Construction Output (y/y % avg)	2.4	-6.0	2.0

Financial market volatility has picked up in recent weeks



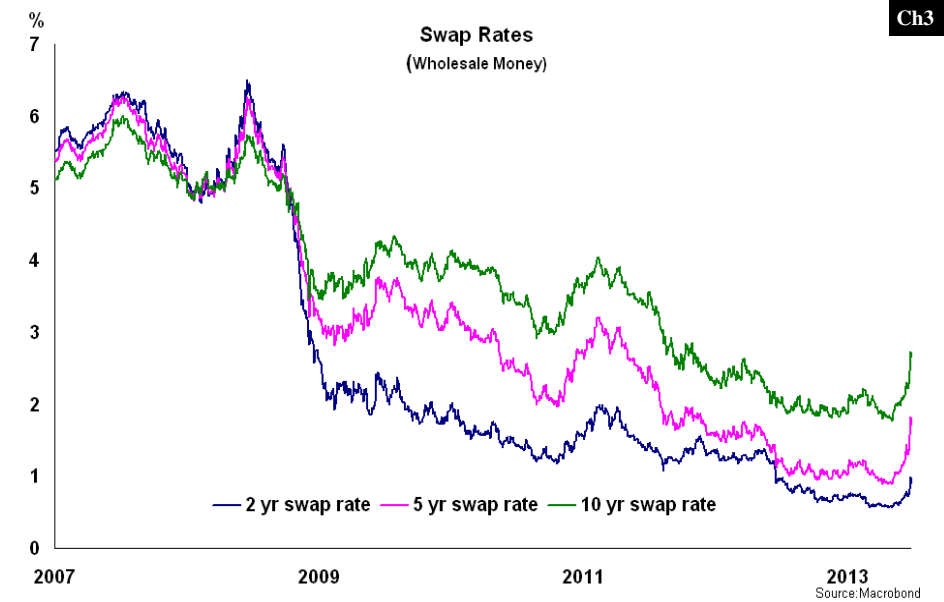
Ch1

Banks' short term funding costs have remained quiescent



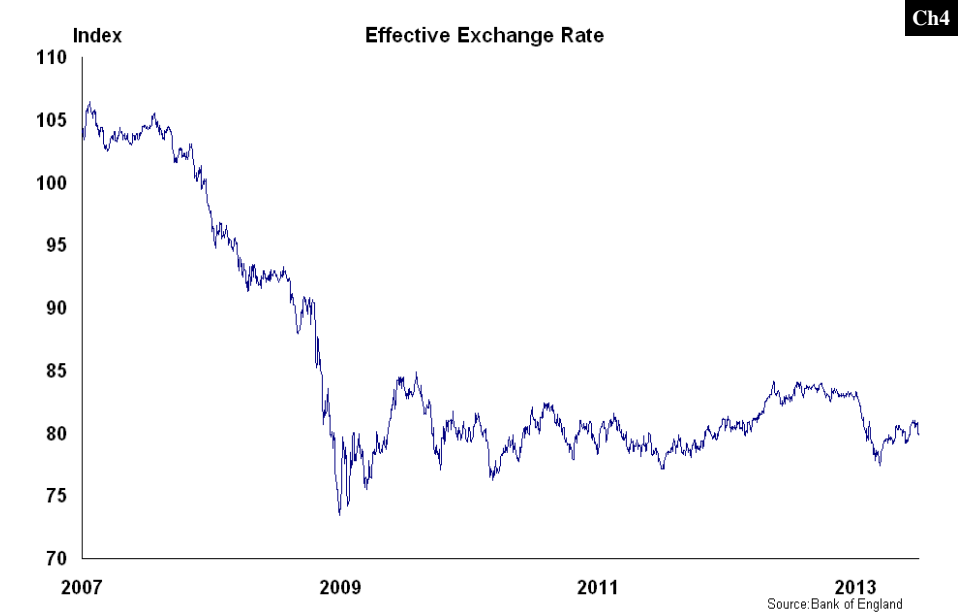
Ch2

But markets are now pricing in higher long term interest rates



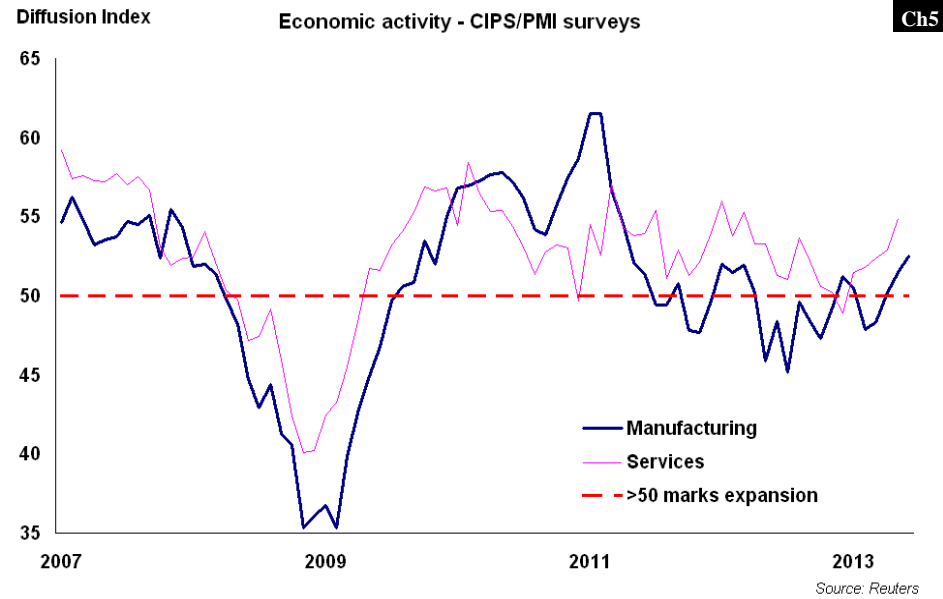
Ch3

Sterling still remains about 25% below its 2007 level

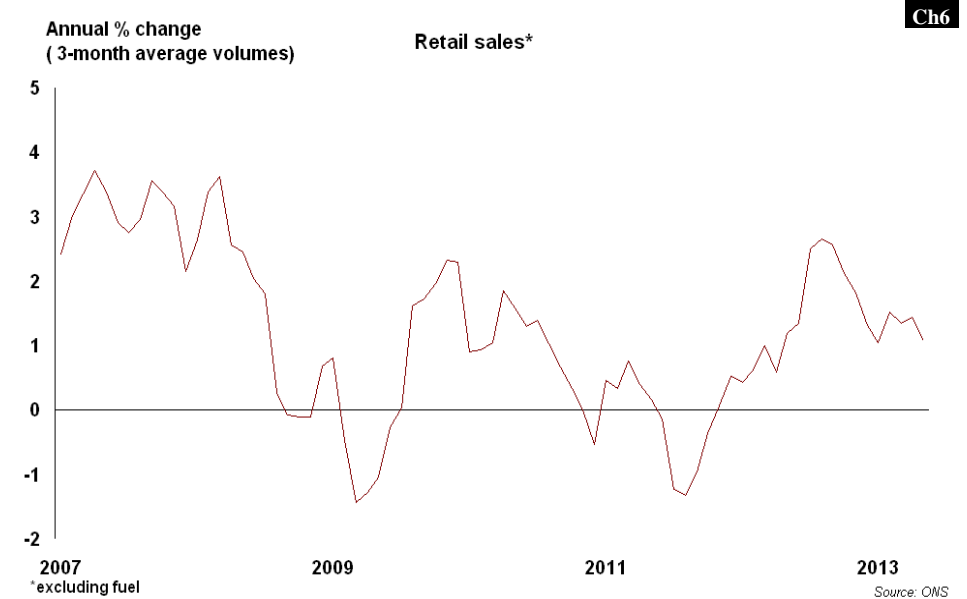


Ch4

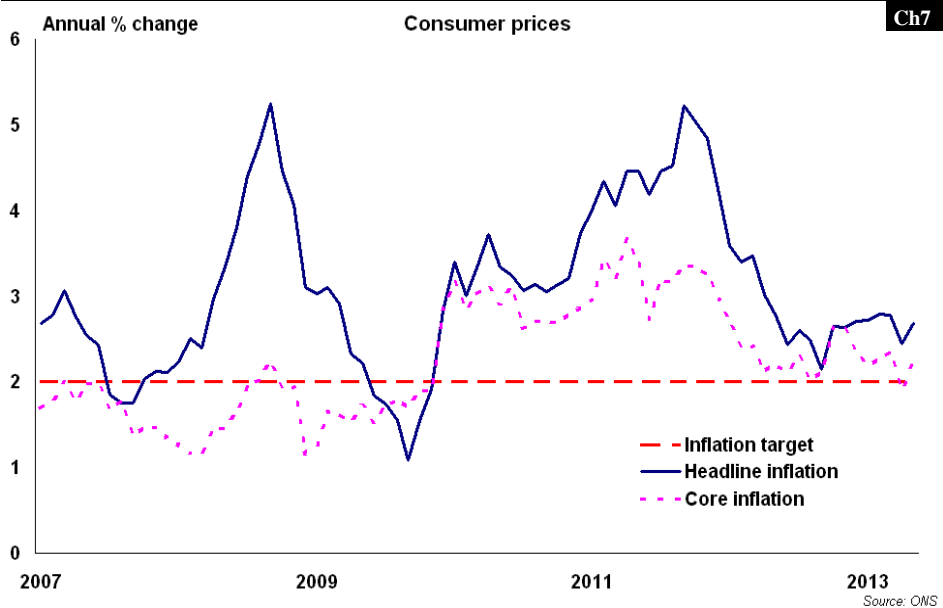
Business surveys show that manufacturing output expanded in June



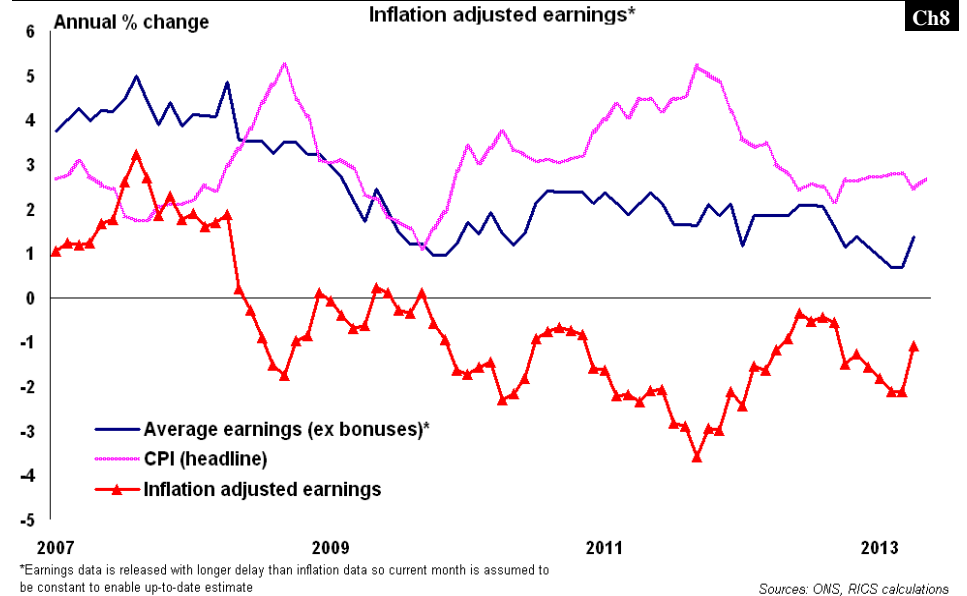
But retail sales growth has slowed in recent months



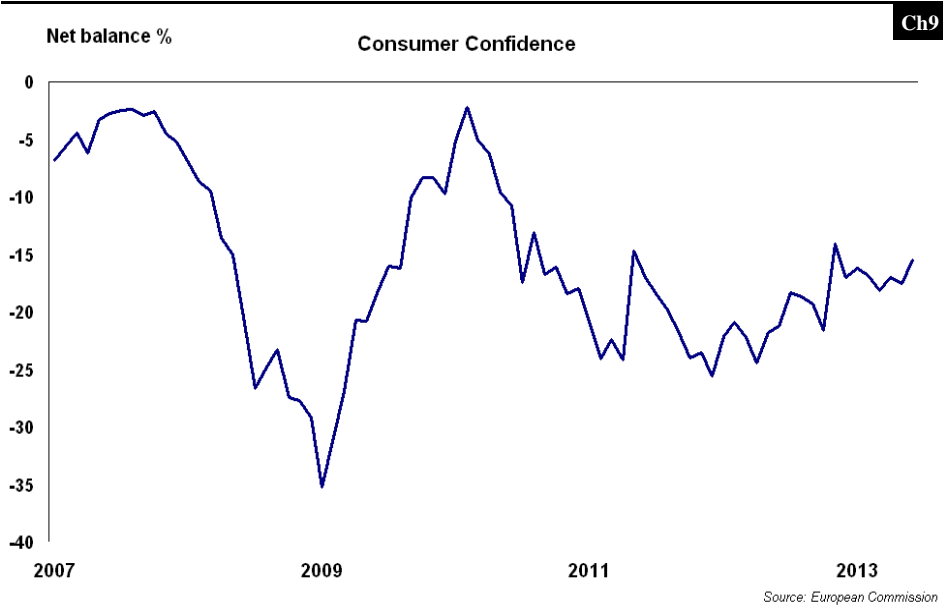
Inflation remains broadly stable and slightly above target



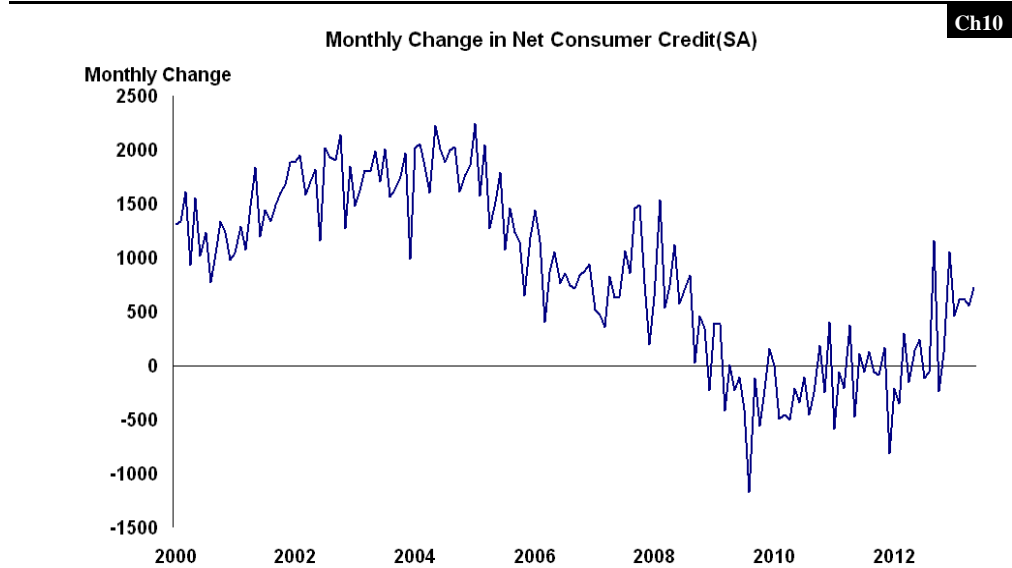
While real earnings are still falling, but at a slightly slower pace



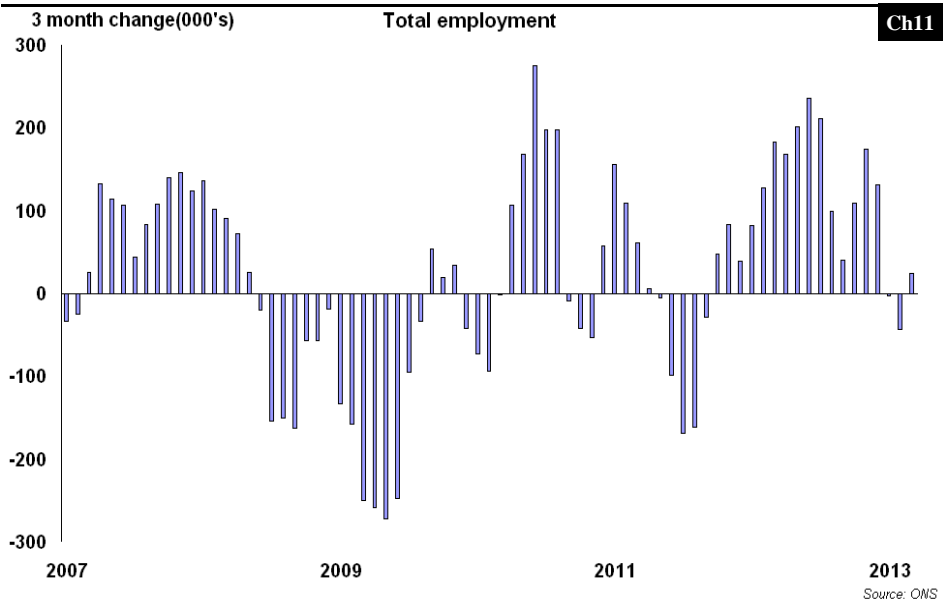
Consumer confidence, although still depressed, is improving



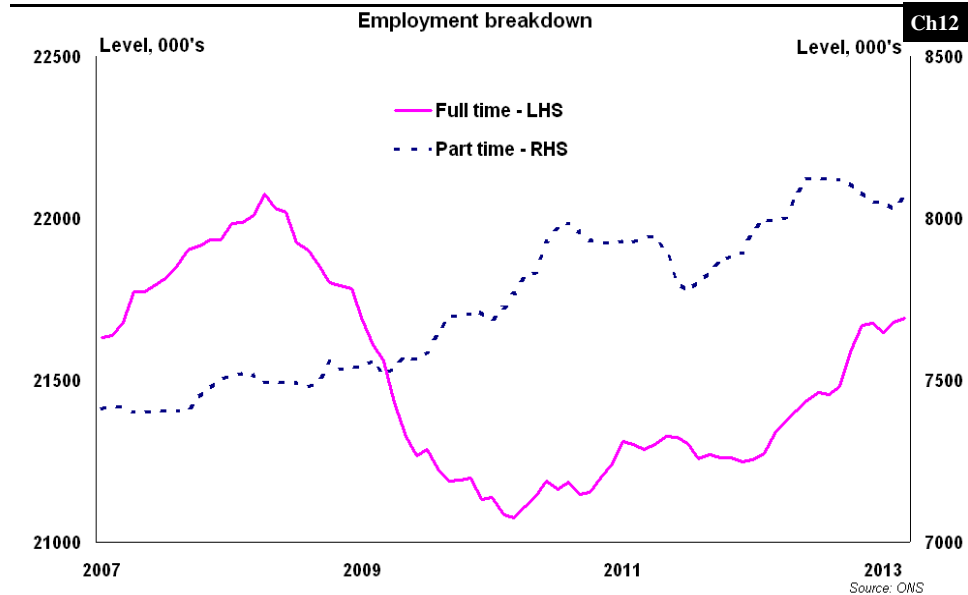
And this is reflected in a rise in consumer credit



The rise in employment has lost momentum

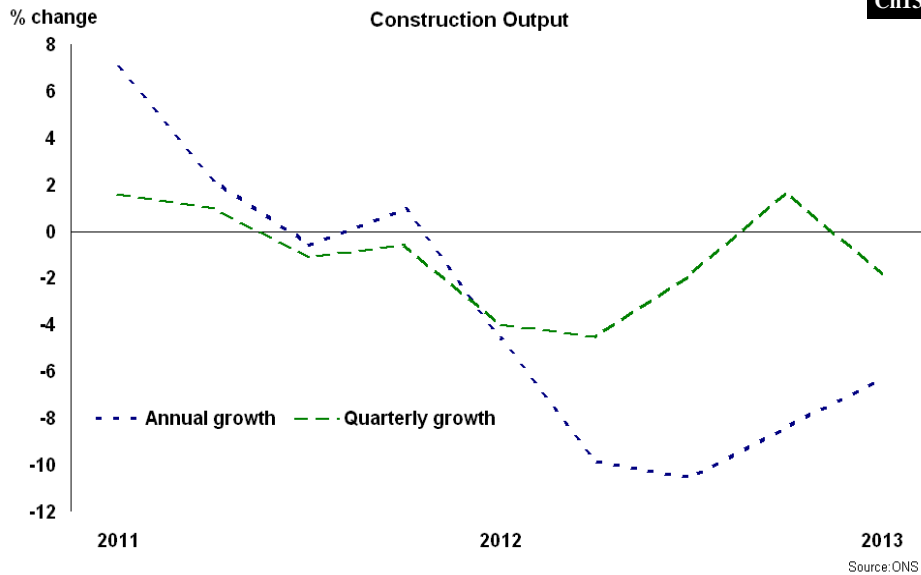


But the number of full time jobs is still increasing



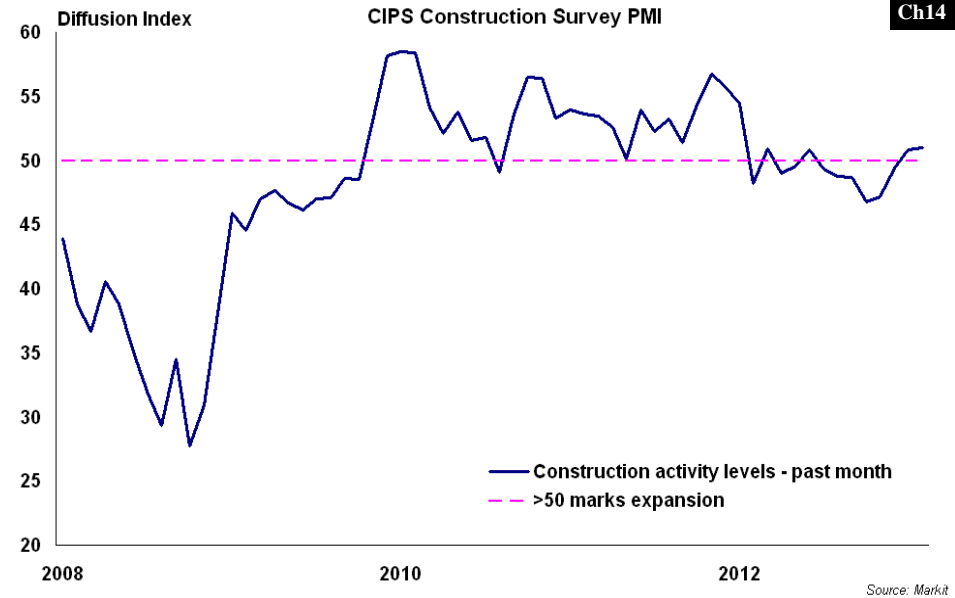
Construction output fell 1.8% in Q1 2013 vs Q4 2012

Ch13



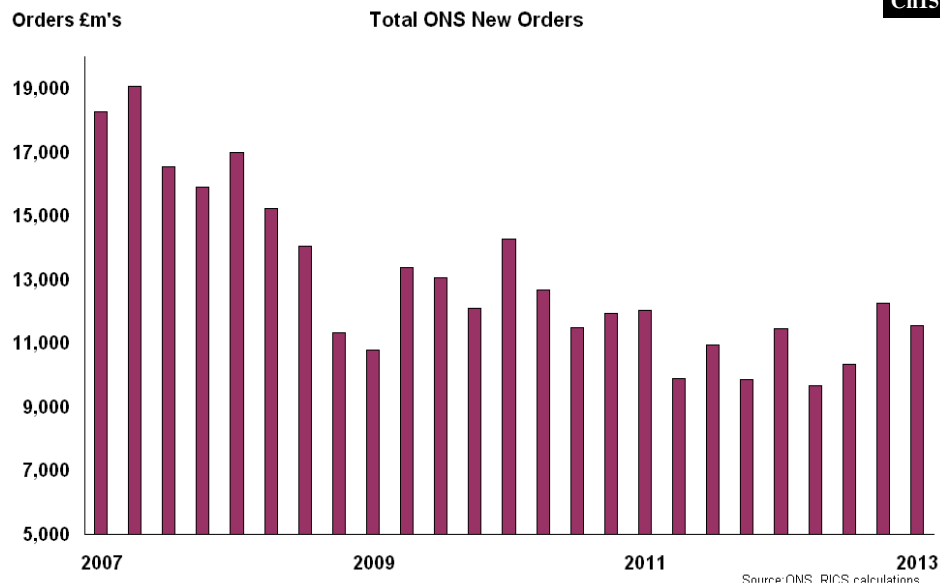
But sentiment surveys point to a subsequent modest pick-up in activity

Ch14



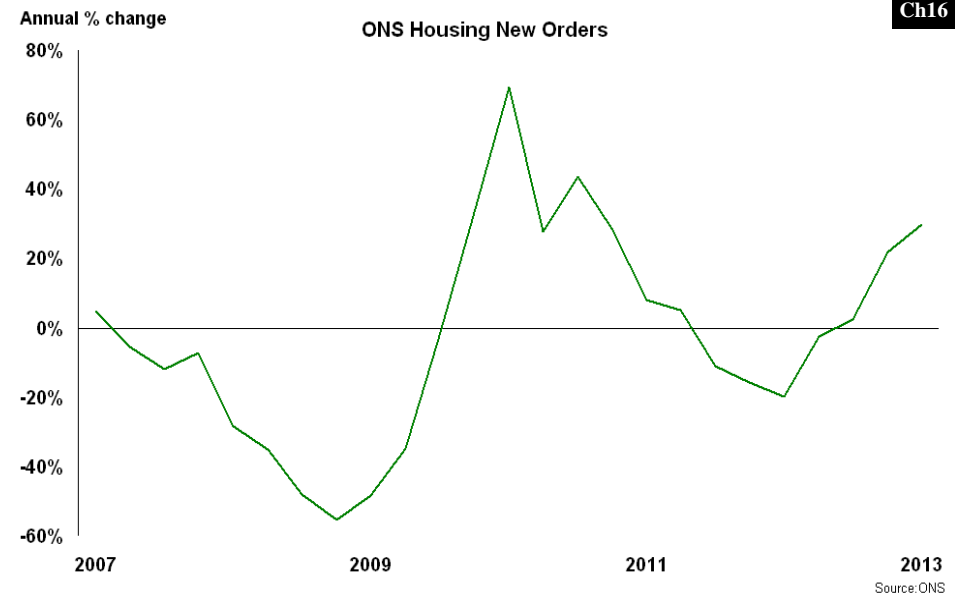
Total new orders are broadly flat across the year

Ch15

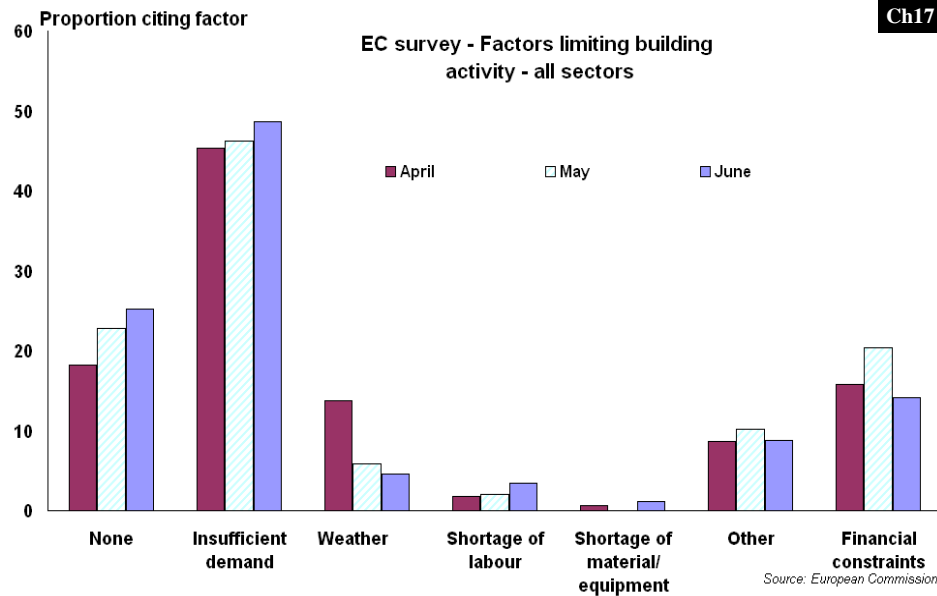


Although new housing activity seems to be picking up with orders rising

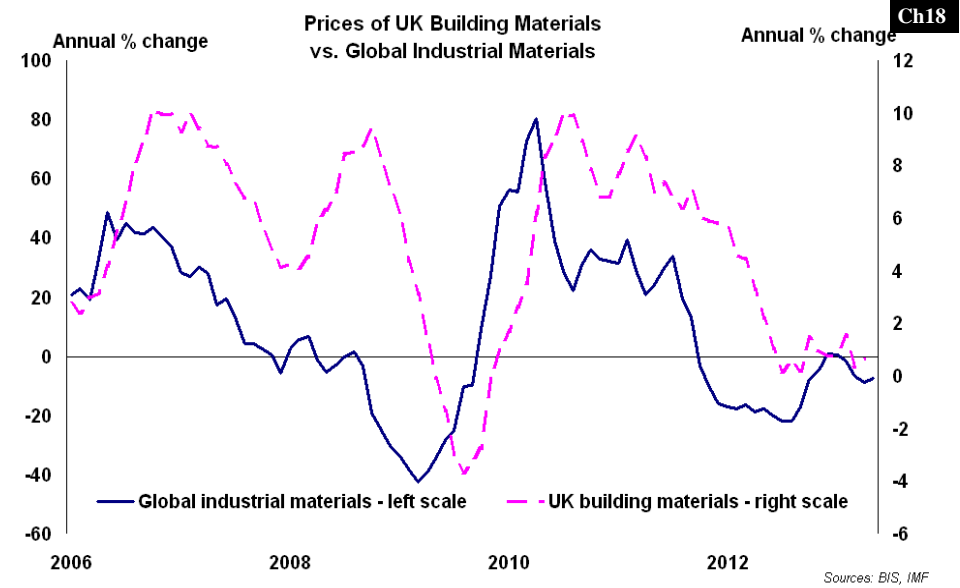
Ch16



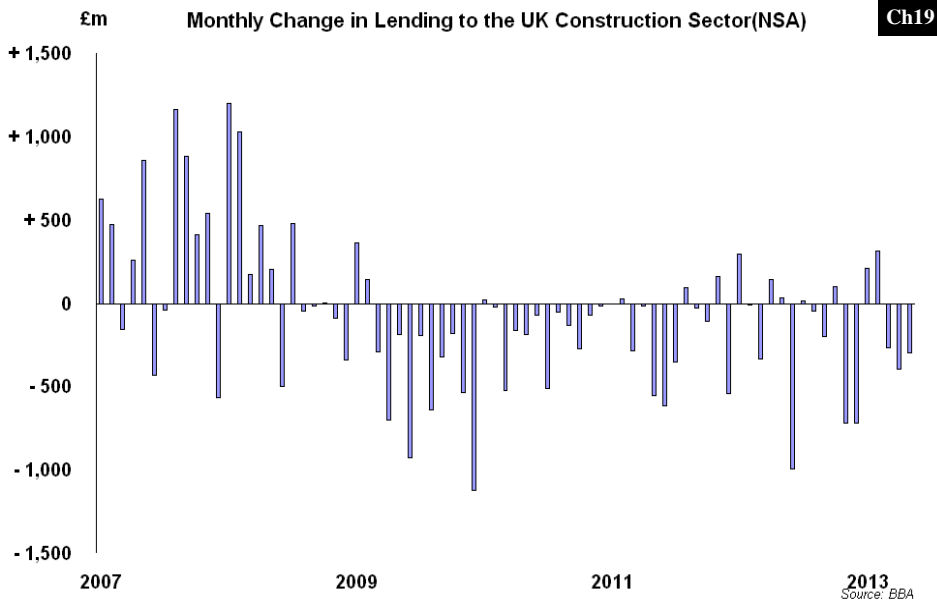
Insufficient demand has been the biggest drag on construction activity



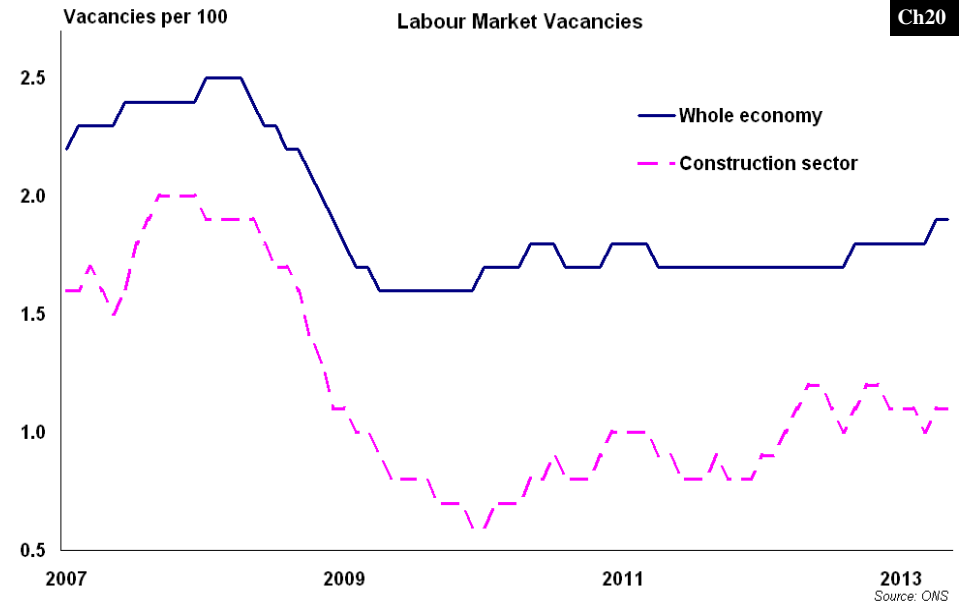
While cost pressures have largely subsided recently



Bank lending to the sector has contracted over £11.5bn since 2009

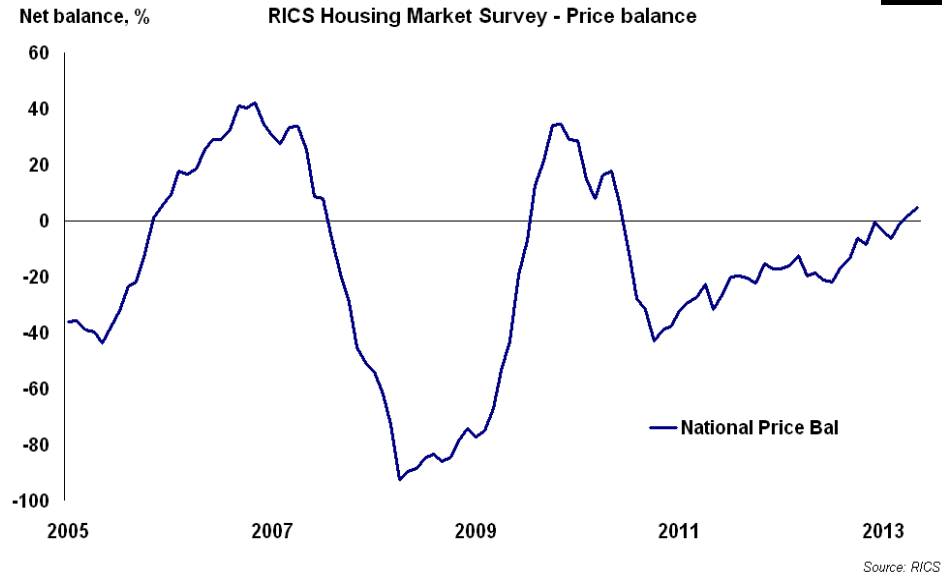


Demand for construction labour remains weak



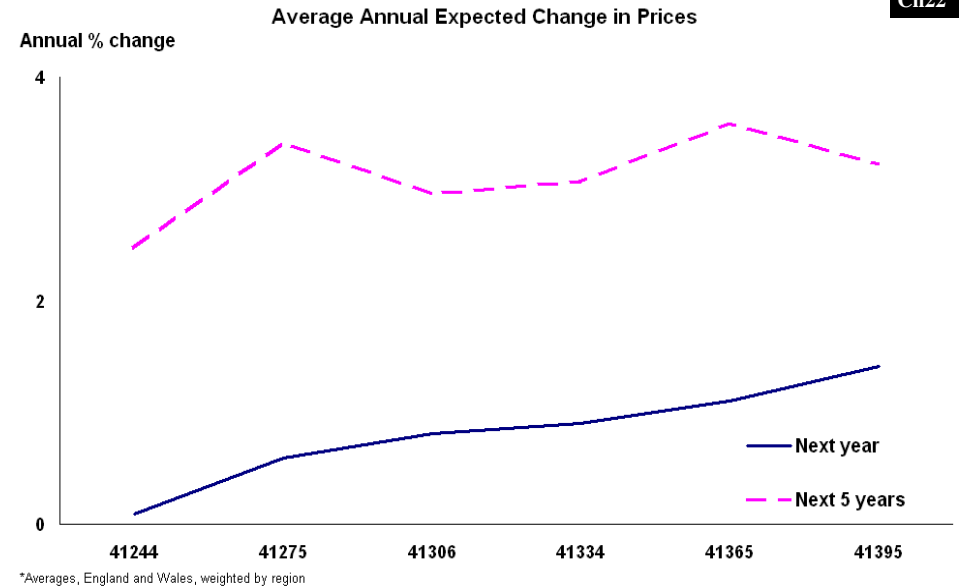
RICS survey data suggest a slight increase in prices

Ch21



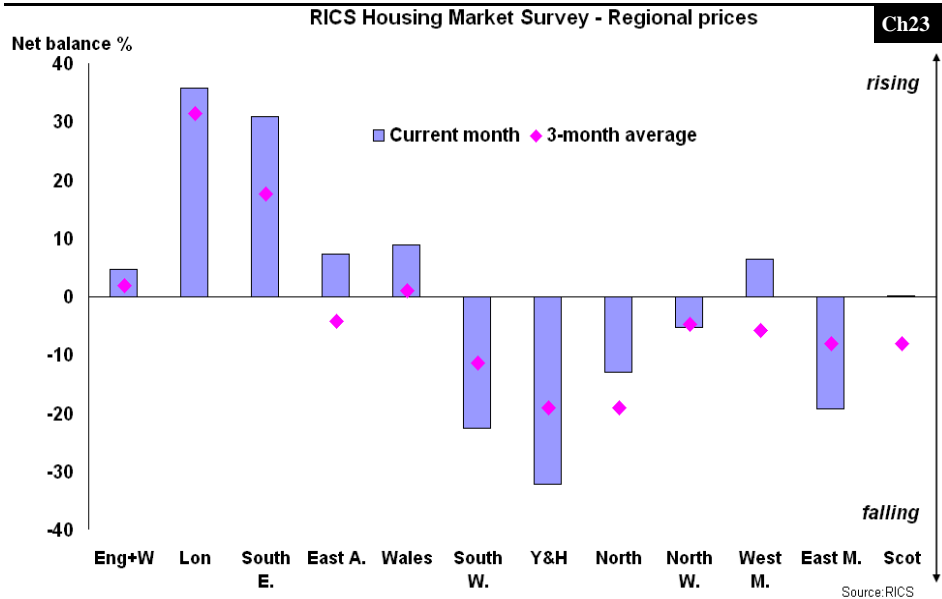
And our surveys point to further price rises

Ch22



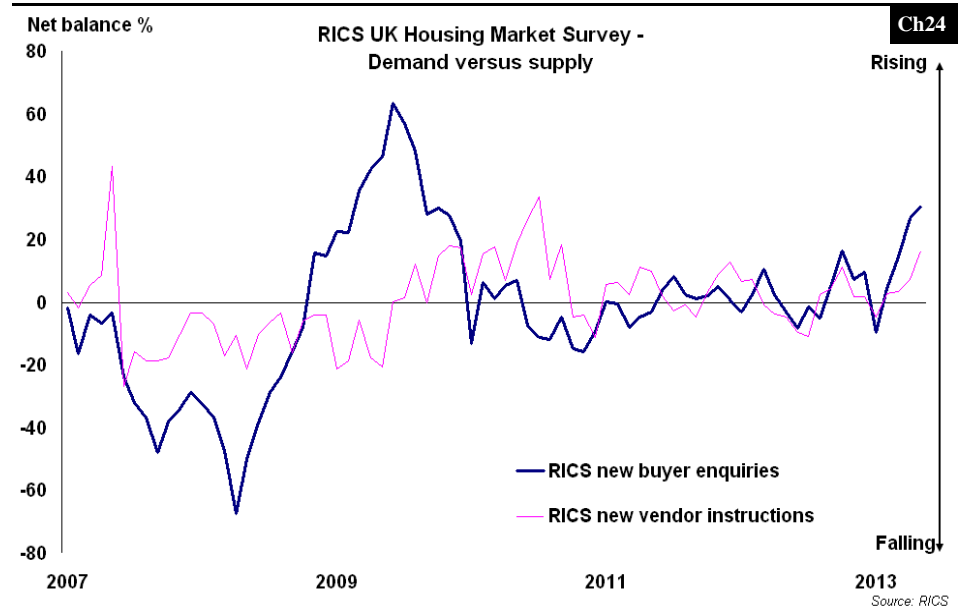
Many regions are now seeing prices stabilise or rise

Ch23

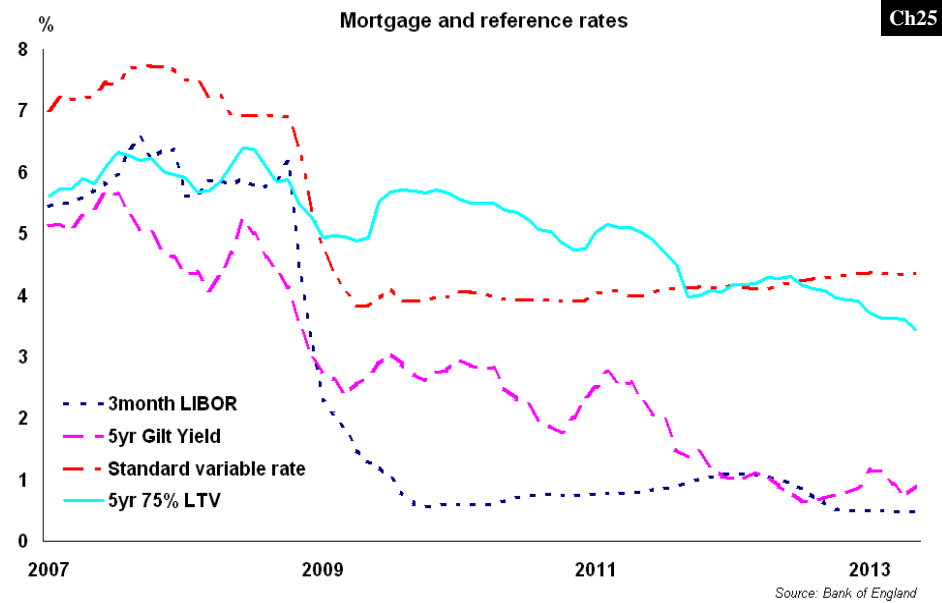


And RICS buyer enquiries and instructions series signal rising activity

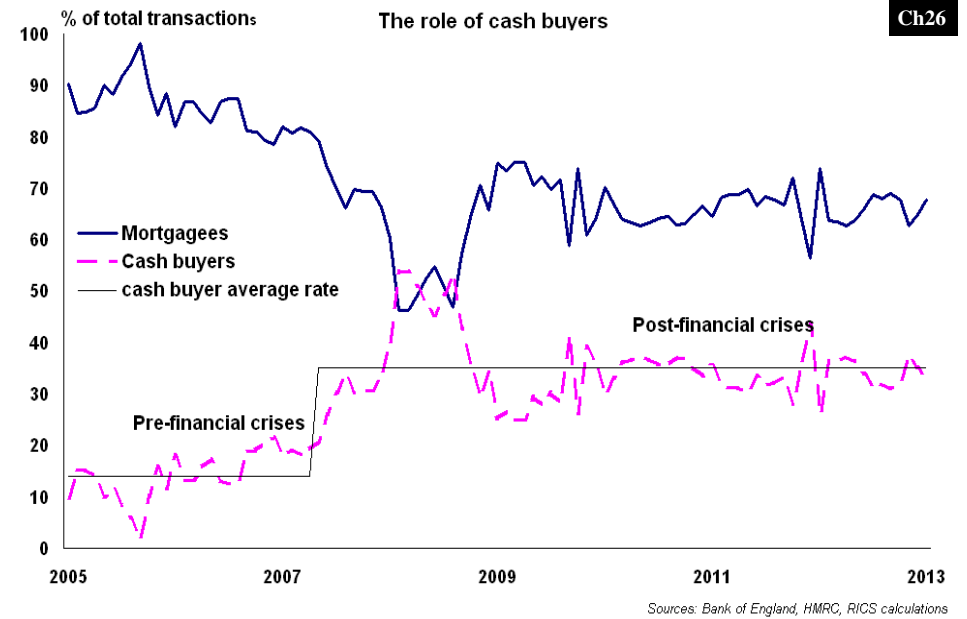
Ch24



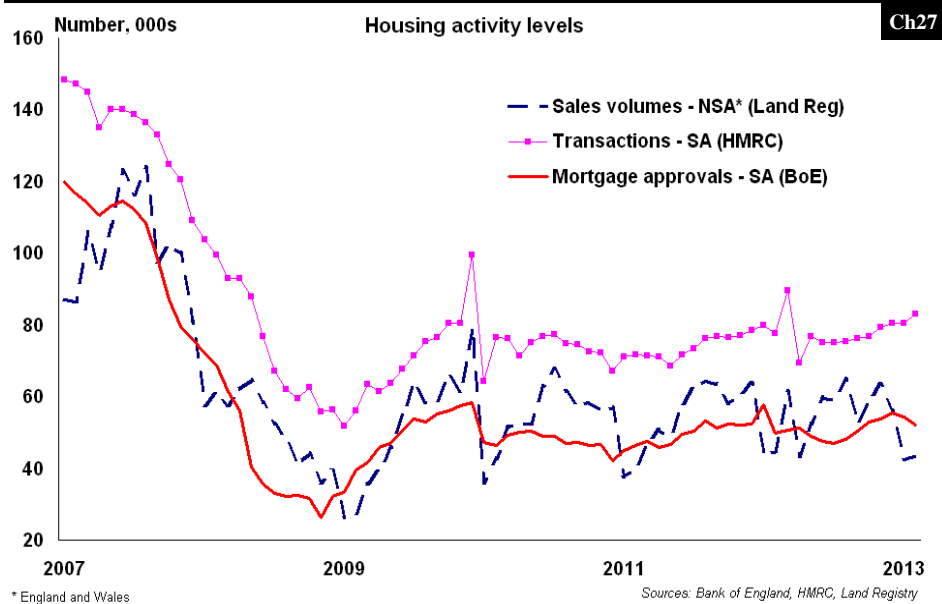
The FLS has helped bring fixed mortgage rates down



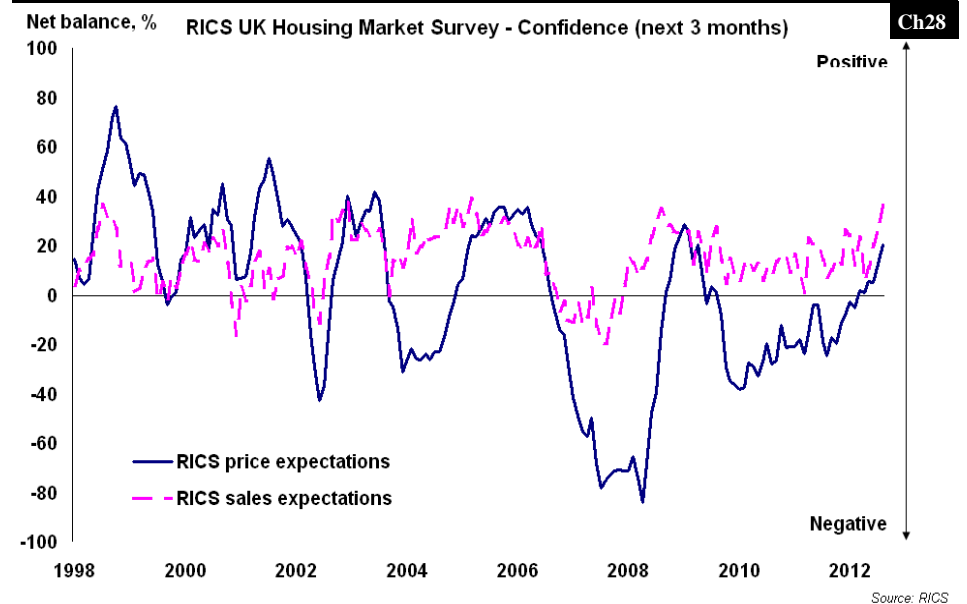
But the role of cash buyer still remains relatively prominent



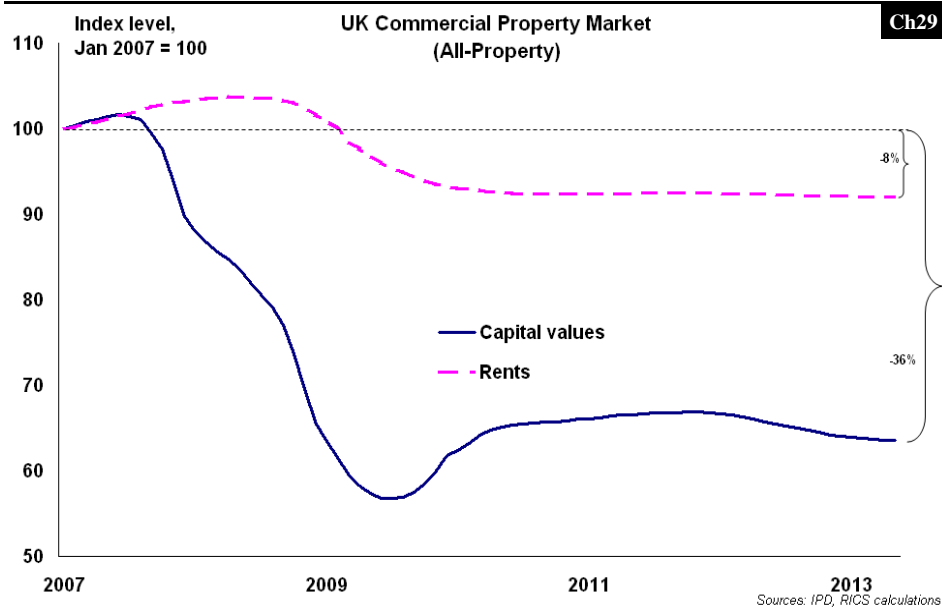
HMRC transactions are up 9% year on year in May



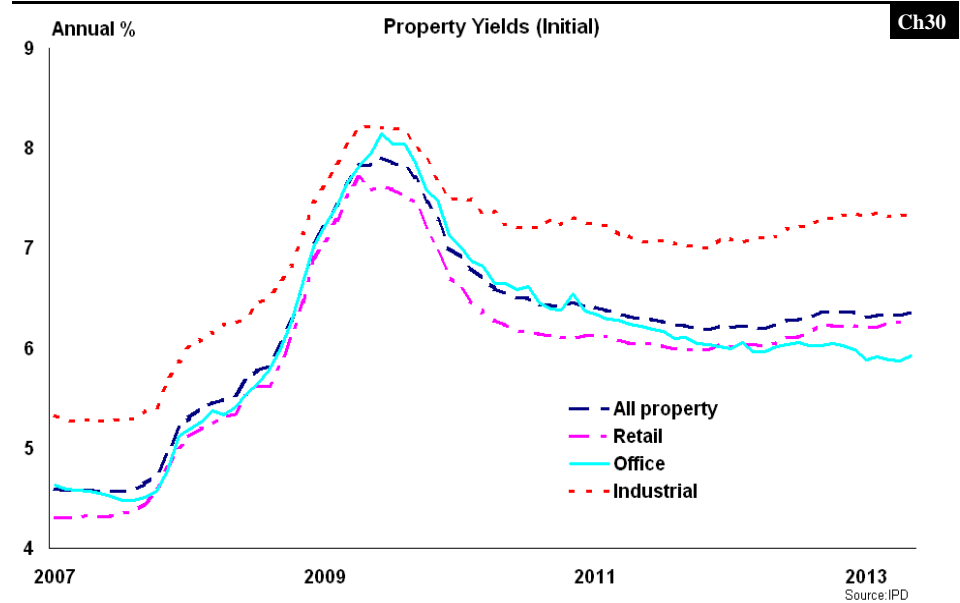
While RICS price and sales expectations continue their positive trend



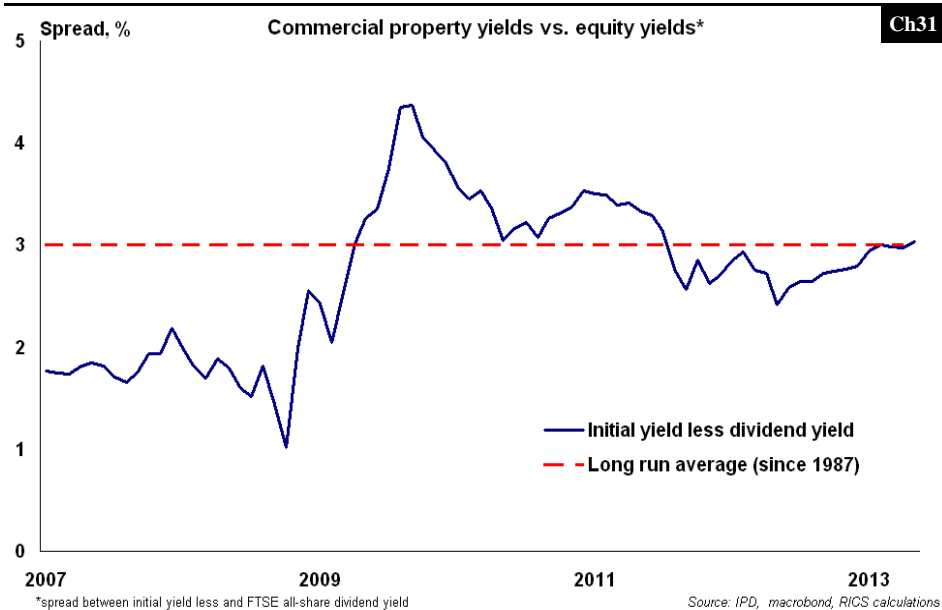
Capital values are broadly unchanged since 2010



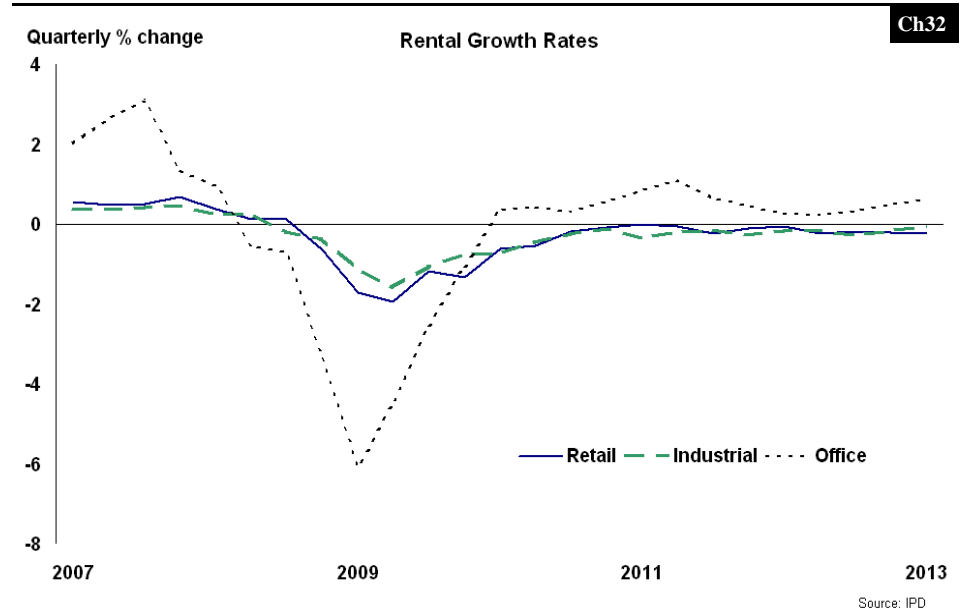
Industrial property continues to offer the highest initial yield



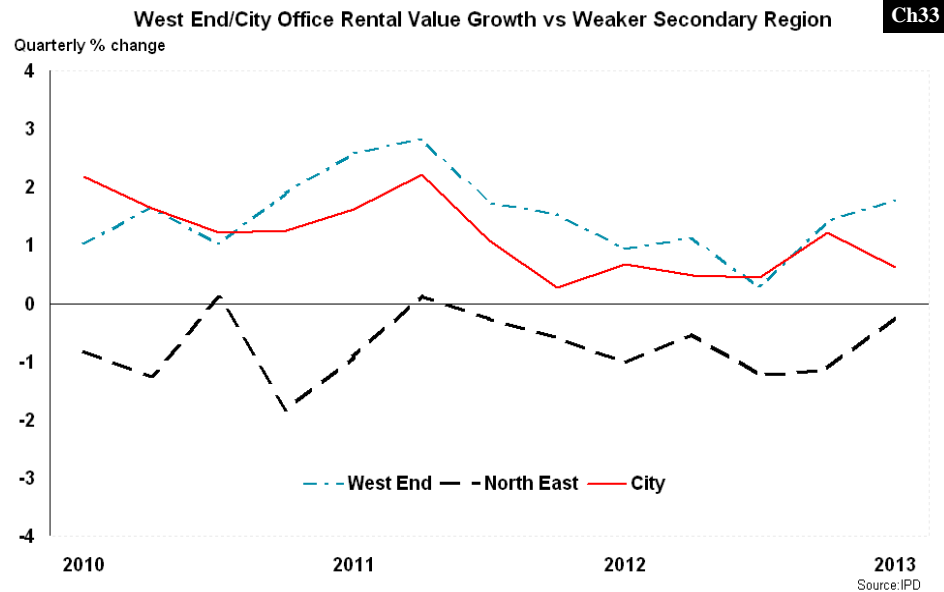
Crude metrics indicate commercial property is fairly valued



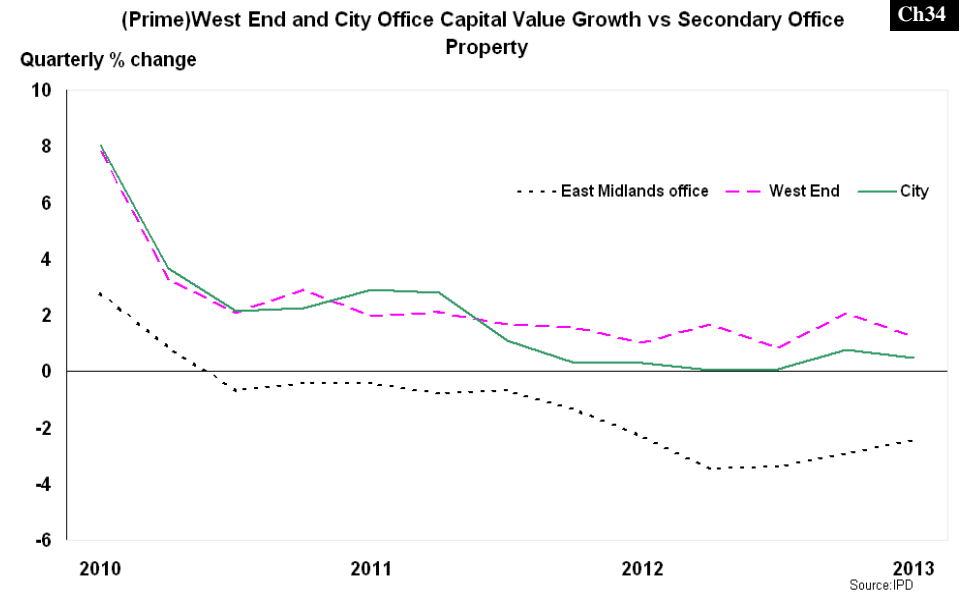
The office sector is still the only sector showing modest rent growth



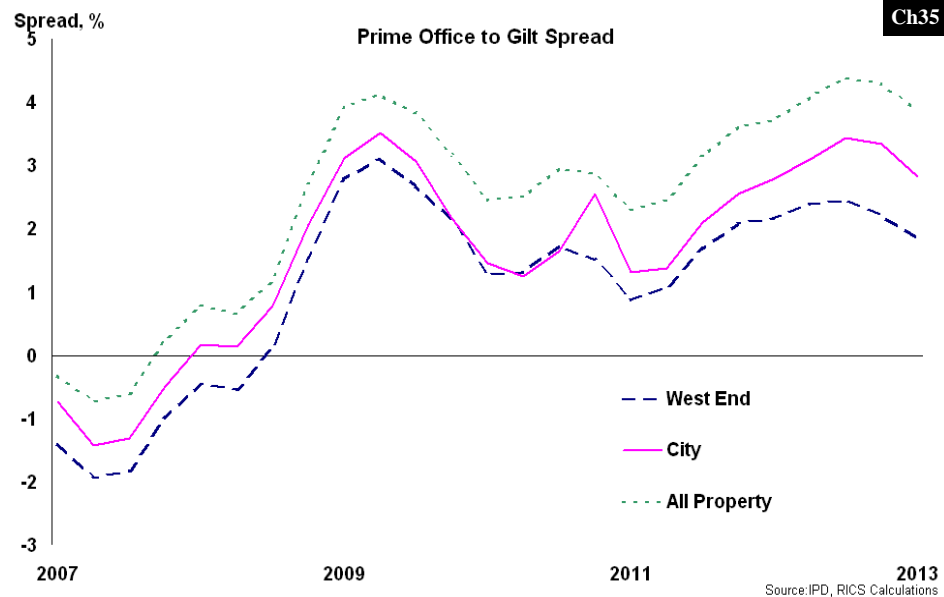
And growth in office rents is driven largely by the prime sectors



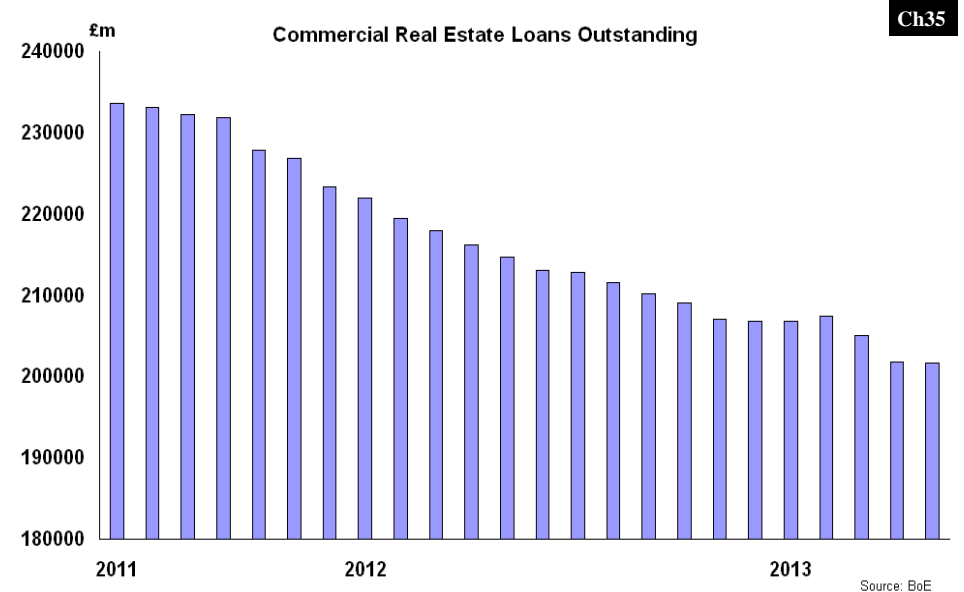
Prime sectors have also seen continued capital value growth



Perceived safety of prime CRE comes through in low spreads



Lenders are continuing to scale back the size of their loan book



Key property data release dates

Frequency	Body	Period covering	Release date
M	Markit/CIPS Construction Survey	July	03-July
M	Halifax House Price Index	June	05-July
M	BoE MPC decision	July	04-July
M	RICS Housing Market Survey	June	09-July
Q	BoE Monetary and Financial Statistics	June	27-July
M	Labour Market Statistics	June	17-July
M	ONS Output in the construction industry	May	16-July
M	ONS Consumer Price Inflation	June	16-July
Q	Building Price and Cost Indices	Q1	16-July
M	ONS House Price Index	June	17-July
M	Consumer price index (inflation)	June	17-July
M	BoE MPC Minutes	July	17-July
Q	ONS GDP Preliminary Estimate	Q2	25-July
M	CML Gross lending	June	18-July
M	BBA lending	June	23-July
M	Land Registry House Price Index	June	26-July
M	Nationwide House Price Index	June	26-July
M	HMRC Property Transactions	June	23-July
M	IPD UK Monthly Property Indices	June	12-July
Q	IPD Quarterly Property Indices	Q2	31-July
M	BSA Lending Statistics	June	29-July

p=provisional

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Over 100 000 property professionals working in the major established and emerging economies of the world have already recognised the importance of securing RICS status by becoming members.

RICS is an independent professional body originally established in the UK by Royal Charter. Since 1868, RICS has been committed to setting and upholding the highest standards of excellence and integrity – providing impartial, authoritative advice on key issues affecting businesses and society.

RICS is a regulator of both its individual members and firms enabling it to maintain the highest standards and providing the basis for unparalleled client confidence in the sector. RICS has a worldwide network. For further information simply contact the relevant RICS office or our Contact Centre.

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