



UK Economy & Property Market Chart Book

October 2013

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RICS Economics

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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 Asia 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>

Recent survey evidence reinforces the opinion that the pace of economic growth in the UK looks set to continue, at least into the coming quarters, with PMI data staying on an upward trend and with some measures of sentiment reaching multi-year highs. The third estimate of Q2 GDP left the growth rate unchanged at 0.7% quarter on quarter.

Activity in the Eurozone, the UK's main trading partner, is also looking more promising of late with the recently released Markit PMI Composite Index for the region reaching a 27-month high. This is thanks largely to the apparent strength of the region's service sector. More stable Eurozone growth should boost UK exports to the region and reinforce the domestic economic recovery.

Thanks to a fall in central government spending, the UK's net public borrowing was less than expected in August. The latest figures show that the UK's net public borrowing came in at £13.2bn in August, down from £14.4bn in August last year.

While conditions at the macro level do look to be on the mend, real earnings are still being squeezed by inflation. Despite this, consumer confidence levels continue to improve, probably due to continued increases in employment levels and more positive expectations for future growth prospects, and retail sales maintain their upward trend growing by 1.7% over the three months to August.

Recently released international data has shown just how poor the UK's productivity performance has been relative to other developed nations in the post crisis period. The Bank of England holds the view that as the economy recovers, growth will come through increases in productivity and this is likely to result in relatively pedestrian increases in employment. It is for this reason that it sees the attainment of a 7% unemployment rate - the cornerstone of its forward guidance on interest rates - as a relatively distant prospect; not expecting this level to be reached until 2016. Market participants, however, are now pricing in the first rise in Bank Rate in early 2015.

The housing market sustained its improvement over the month with prices, mortgage approvals and transaction levels all trending higher and with RICS measures of price and sales expectations pointing to further growth in the months ahead. The Bank of England's Funding for Lending Scheme has lowered mortgage rates substantially since its introduction and has undoubtedly been a factor behind this increase in activity. Although in its early stages, the government's Help to Buy scheme also seems to be supporting demand. In their September meeting, the Financial Policy Committee discussed recent

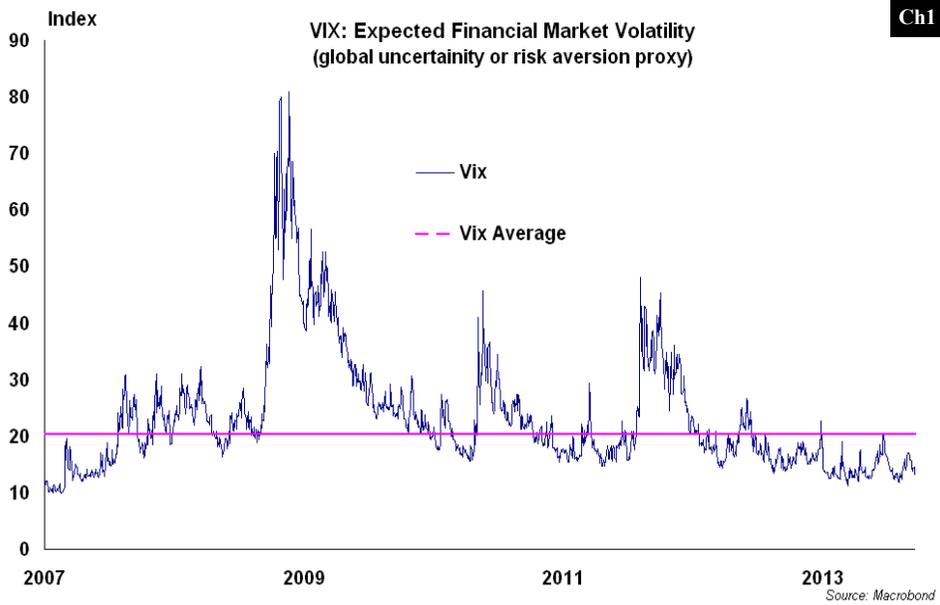
rises in house prices and the risk of over-heating. They remain, as yet, unconcerned with conditions in the current market place because, in an historical context, many measures of market pressure do not look elevated at present. House price-to-earnings ratios, for example, are almost unchanged over the last 3 years and are at the levels of around 10 years ago. Meanwhile, the RICS sales-to-stock ratio, at 26, also does not look high relative to its level in previous periods of rising prices. The committee, therefore, do not see recent developments as out of the ordinary but do appear willing to act should conditions threaten financial stability. They have also recently been given new responsibilities for the oversight of the Help to Buy scheme and will conduct annual reviews of the scheme with the power to recommend that the current £600,000 price cap be reduced or that the fees paid by banks for the guarantee be increased. The prime minister announced recently that the second stage of the scheme will be brought forward from its previously scheduled start date of January 2014 and will begin at the start of October.

The construction sector appears to be showing more signs of recovery, with new orders growing by around 20% in Q2 and ticking up across all sub-sectors. Survey evidence also presents an improved picture of the industry, with Markit's construction PMI now at a level not seen for 3 years.

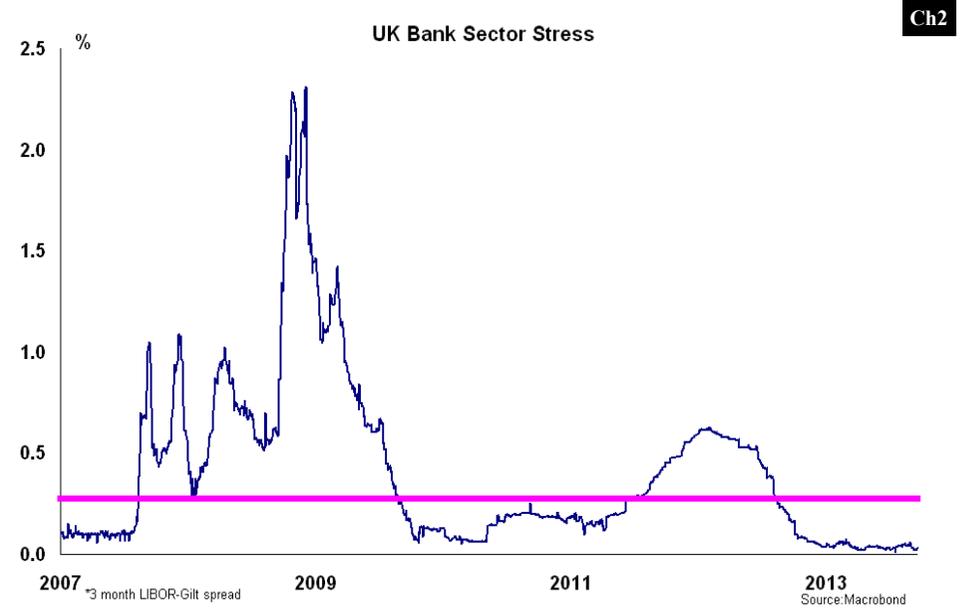
In the commercial property sector, the downward pressure on capital values in the retail and industrial sectors has eased slightly in recent months. Meanwhile, capital values are growing in the office sector. The office sector is also outperforming in terms of rental value growth and reports suggest that investor interest in the sector is beginning to spread outside of London and the South East, which have been the hotspots of investor activity in recent years.

	Forecasts		
	2012	2013	2014
GDP (avg)	0.2	1	1.8
Inflation (q4)	2.7	2.8	2.3
Unemployment (q4)	7.8	8	7.8
Base Rate (q4)	0.5	0.5	0.5
IPD Commercial CV (q4)	-3	0	0
IPD Commercial Rents (q4)	0	0	0
ONS House Prices	2.3	4	3
HMRC Transactions (000s)	930	980	1100
Mortgage Repossessions (000s)	35	33	33
Construction Output (avg)	-8.3	2	3
Housing Starts England (000s)	99	120	130

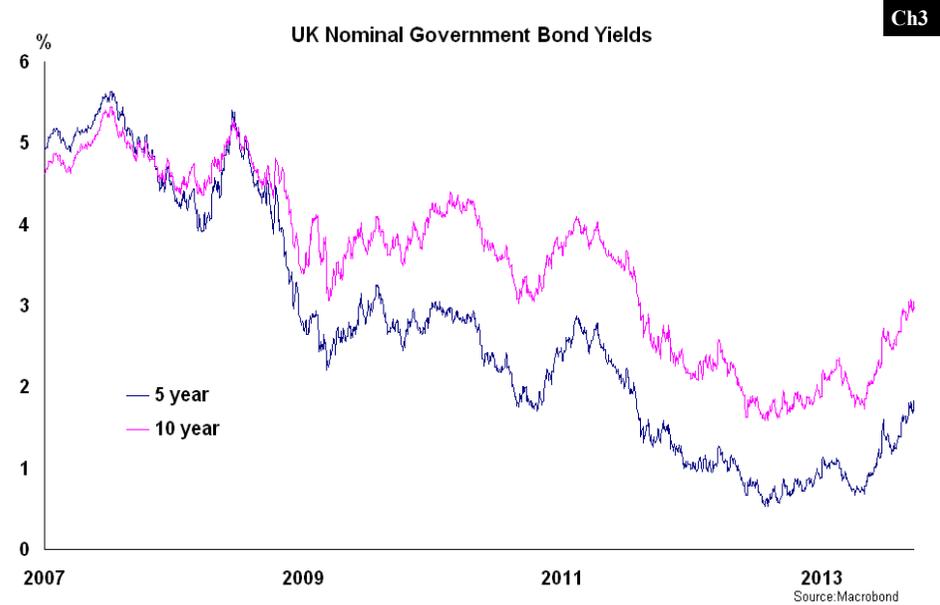
Global risk appetite remains strong



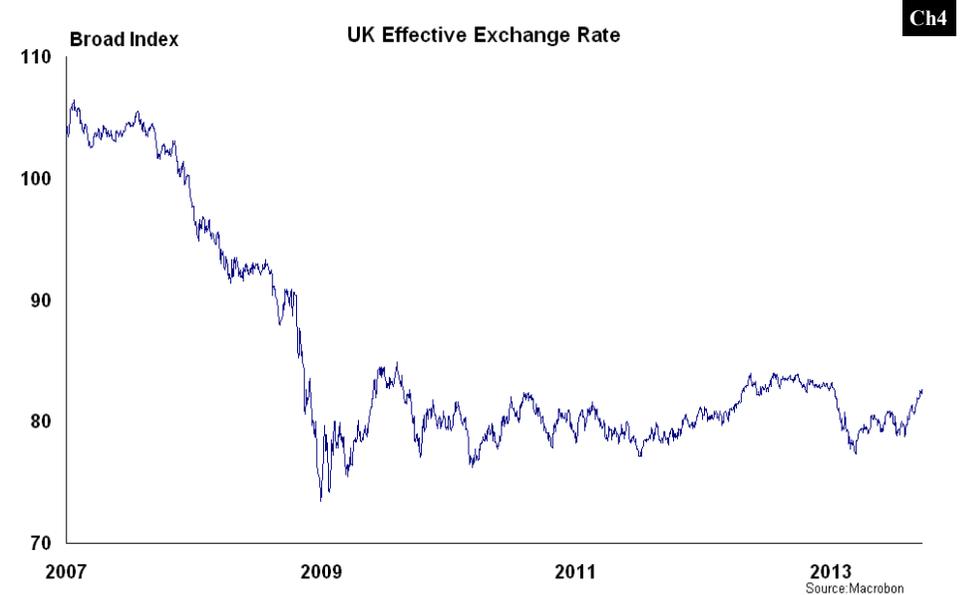
UK banks funding costs remain at historic lows



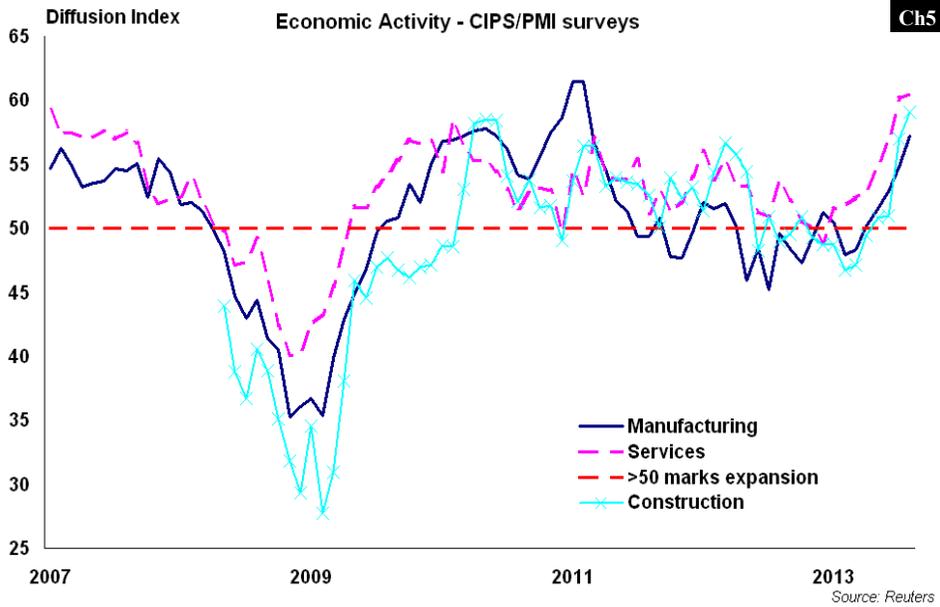
Bond markets have begun to price in higher growth and future rate rises



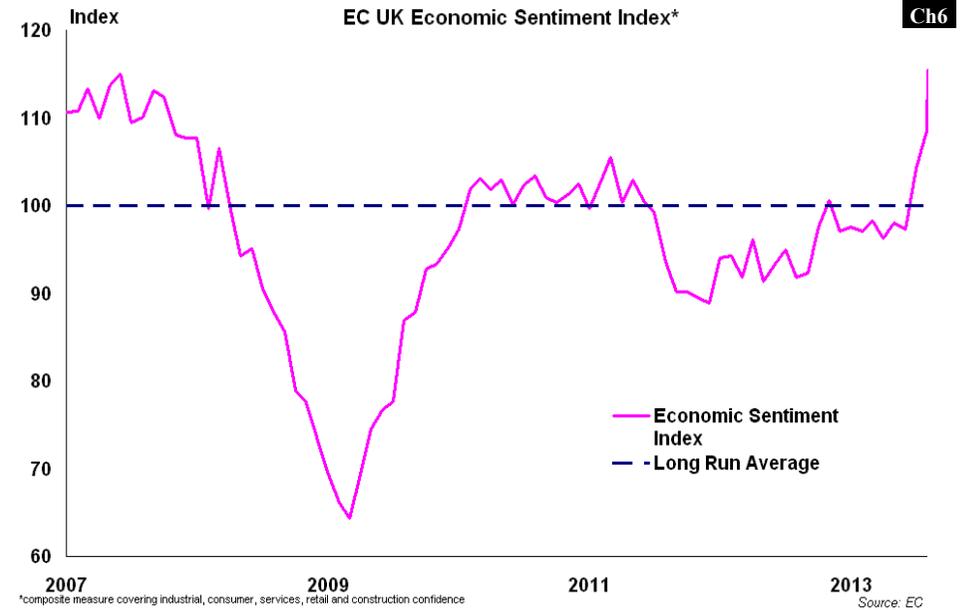
Sterling still remains about 25% below its 2007 level



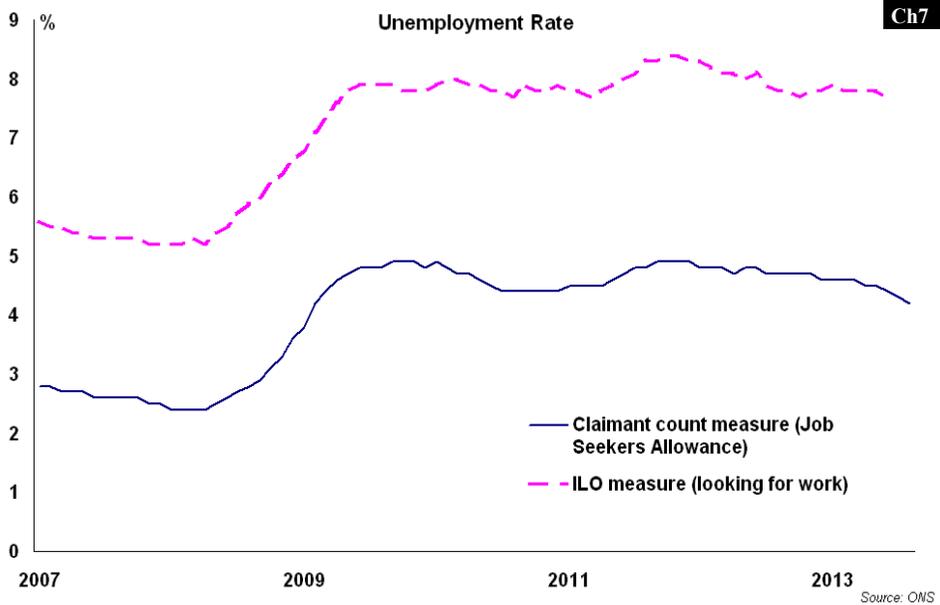
Recent survey PMI's indicate stronger growth to come



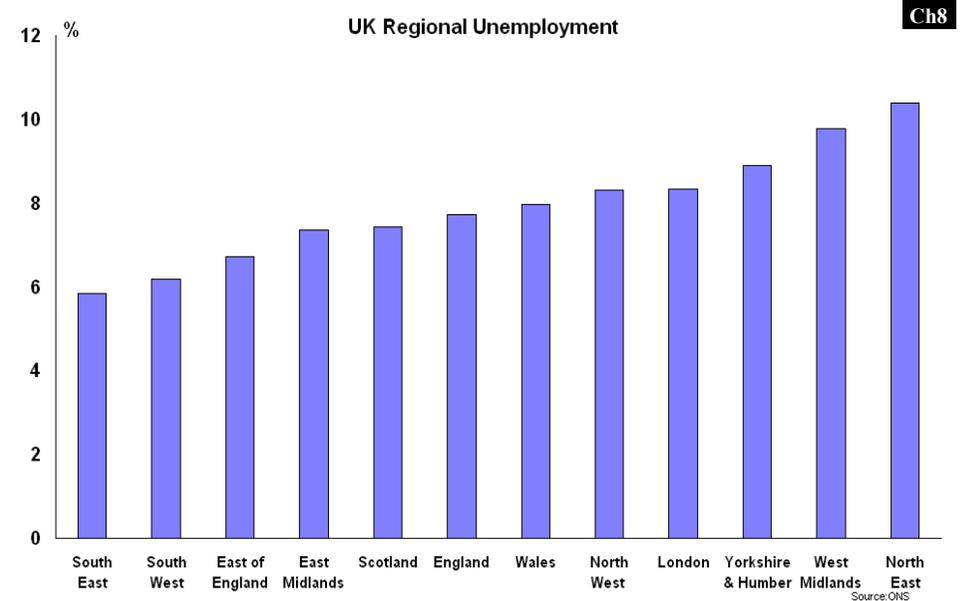
And economic sentiment has reached a multi-year high



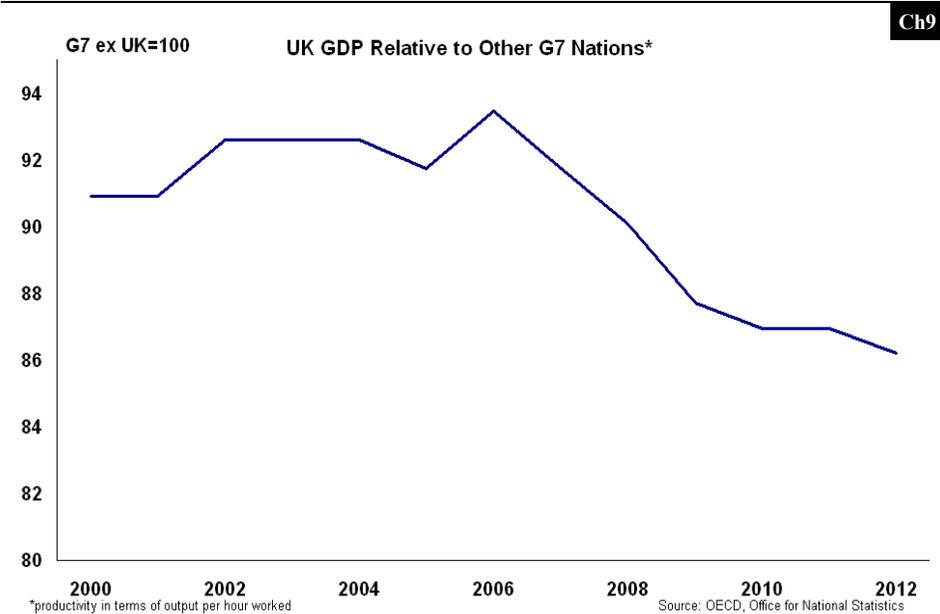
But unemployment remains relatively high compared to pre-crisis levels



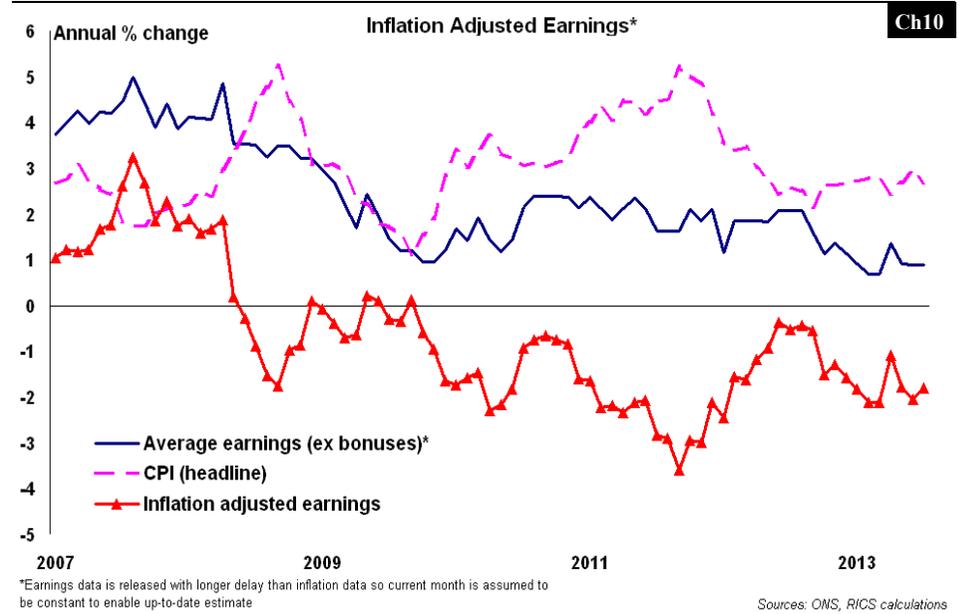
And a regional divide remains



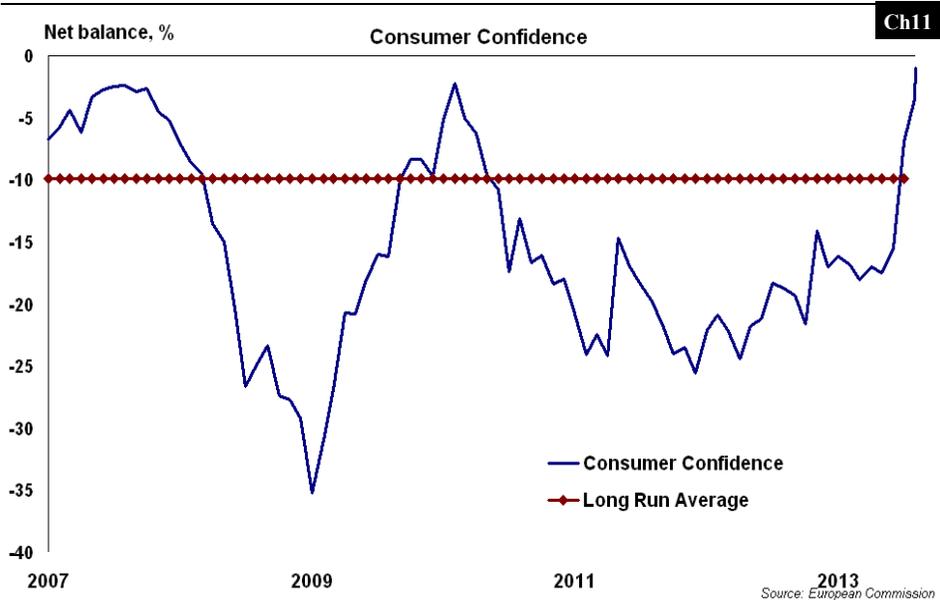
UK productivity performance has been disappointing in recent years



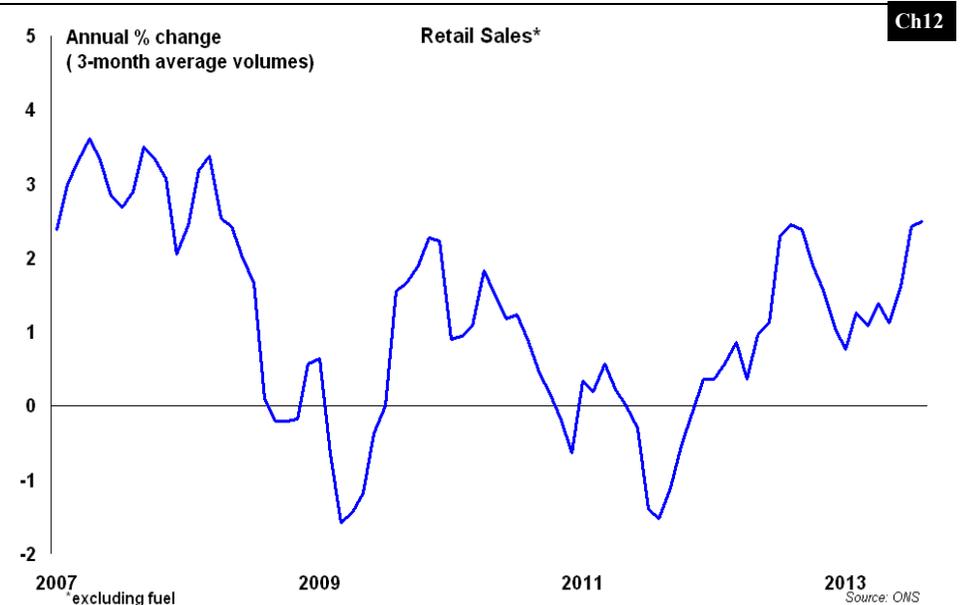
And earnings are still decreasing in real terms



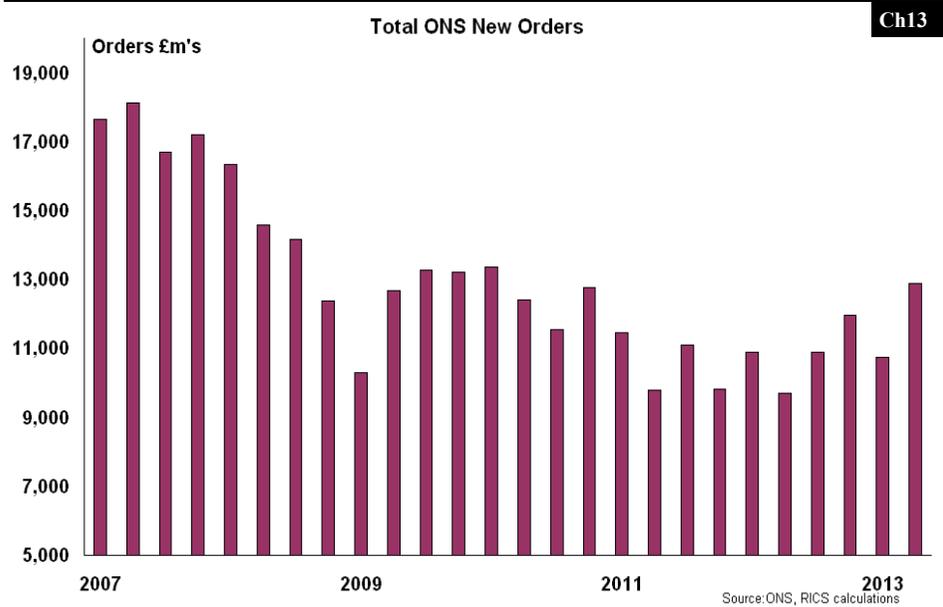
But consumer confidence has improved markedly in recent months



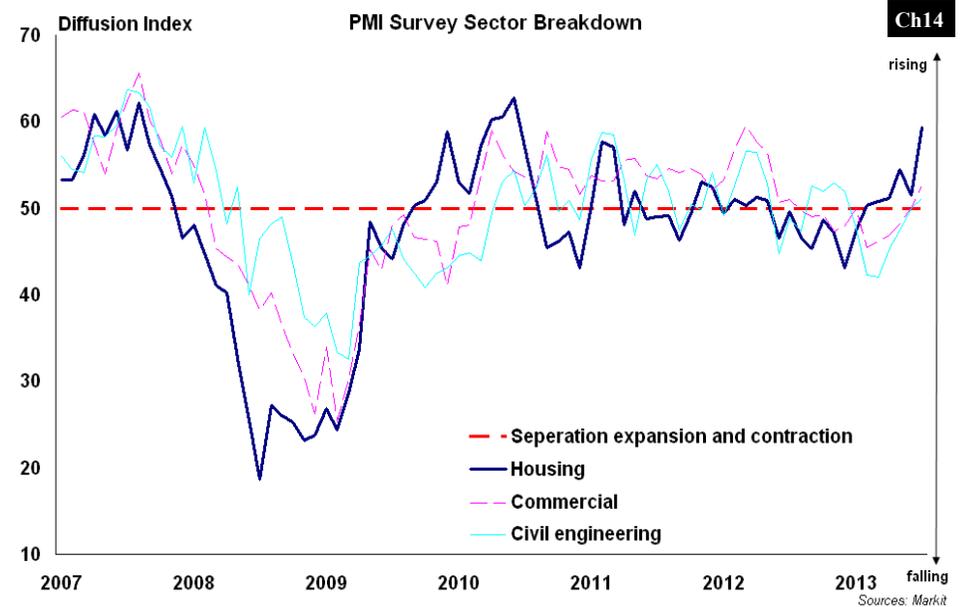
And retail sales maintain a positive trend despite August's slight dip



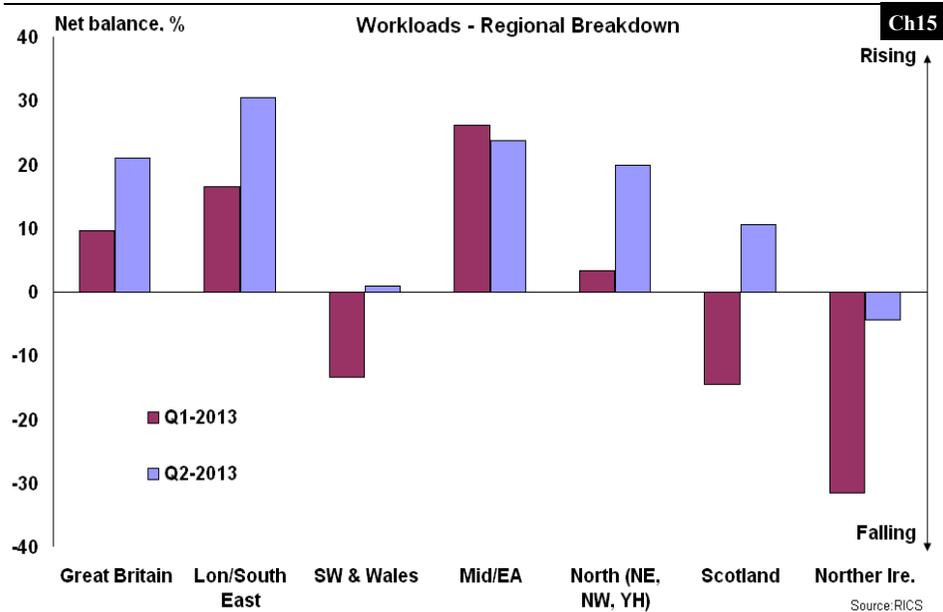
New construction orders grew by around 20% in Q2



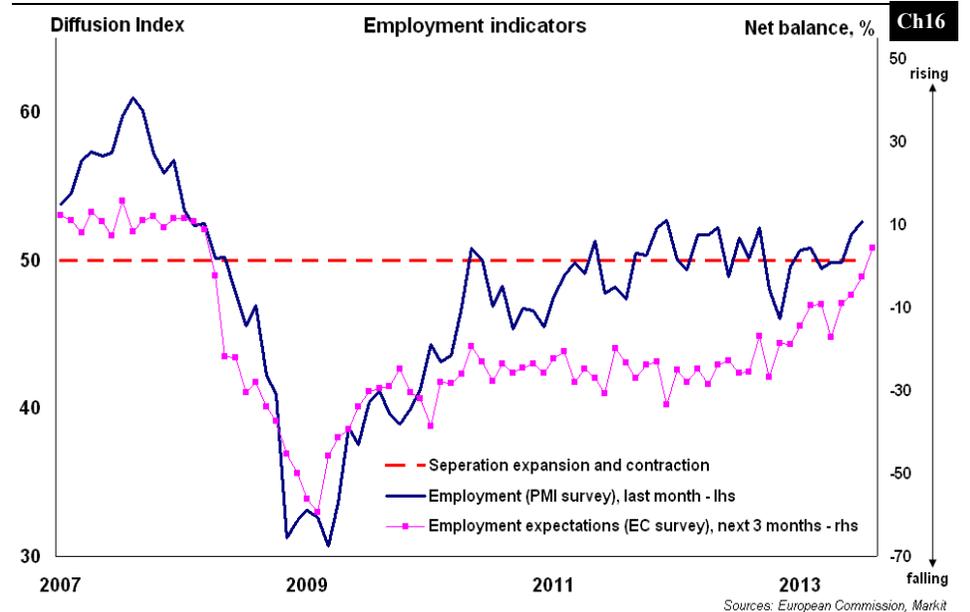
Housing construction is the strongest element of the PMI survey



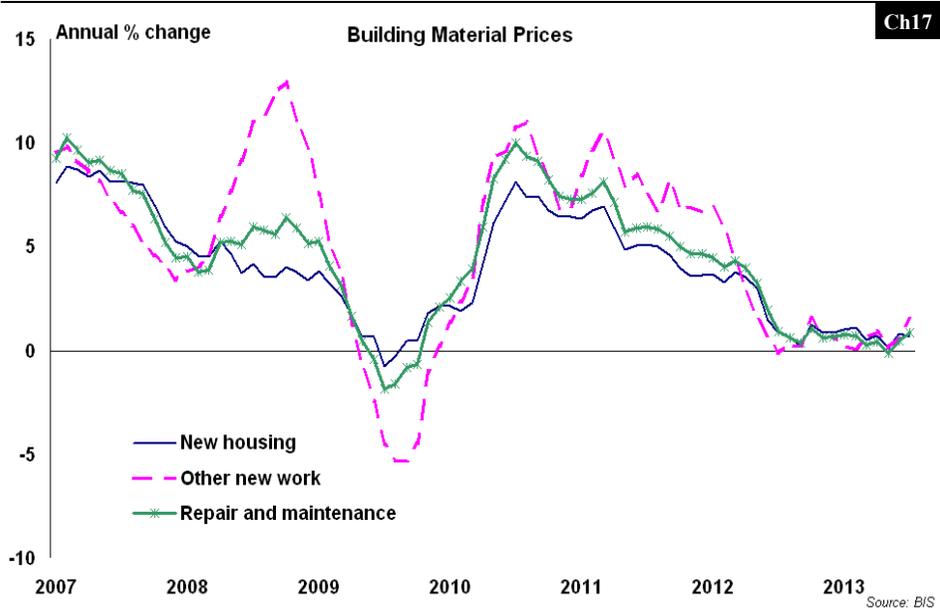
Activity appears to be increasing across the majority of UK regions



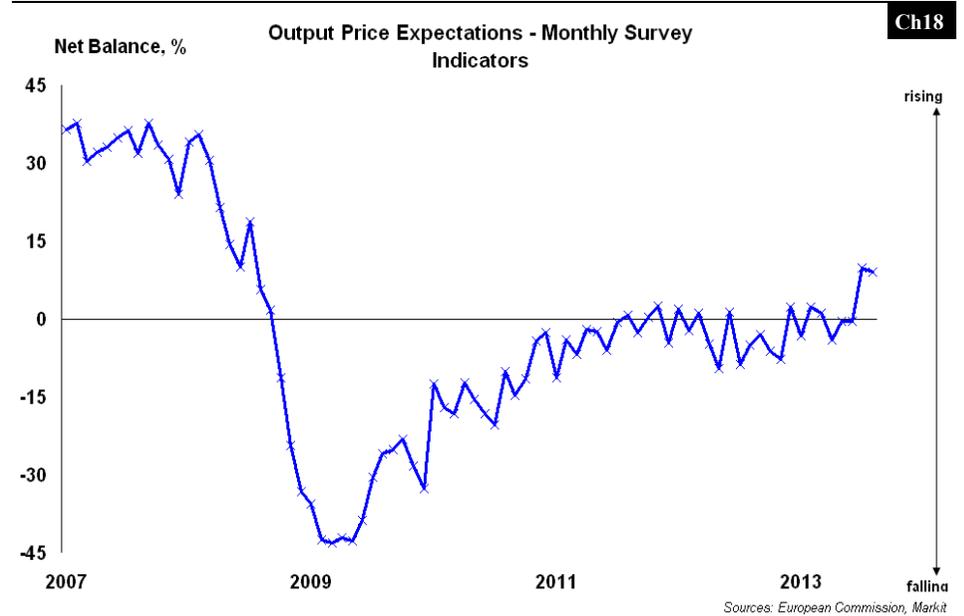
Survey evidence suggests an improved employment outlook



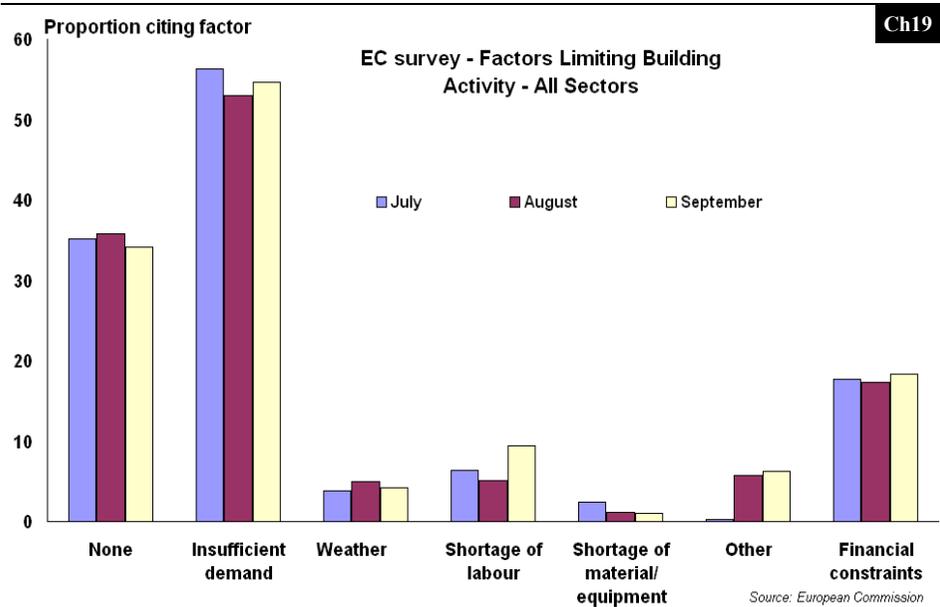
Input price pressures have remained subdued throughout the year



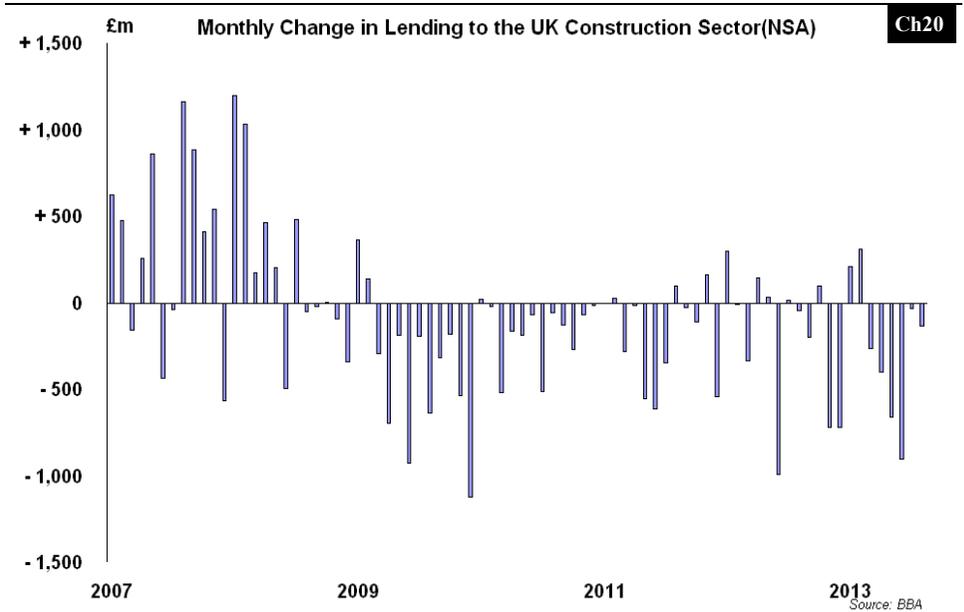
While output price expectations have recently turned more positive



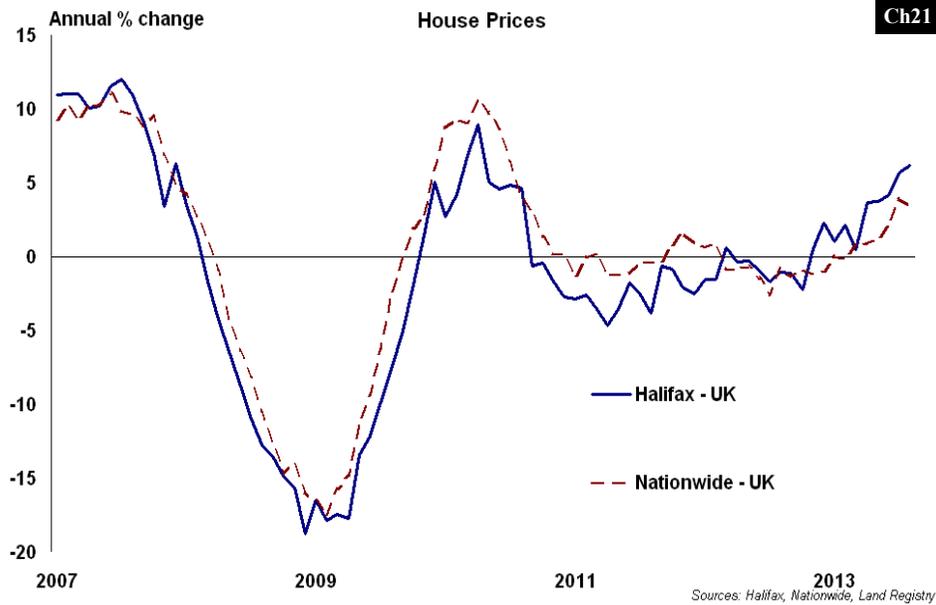
But a lack of demand still remains a constraint on output growth



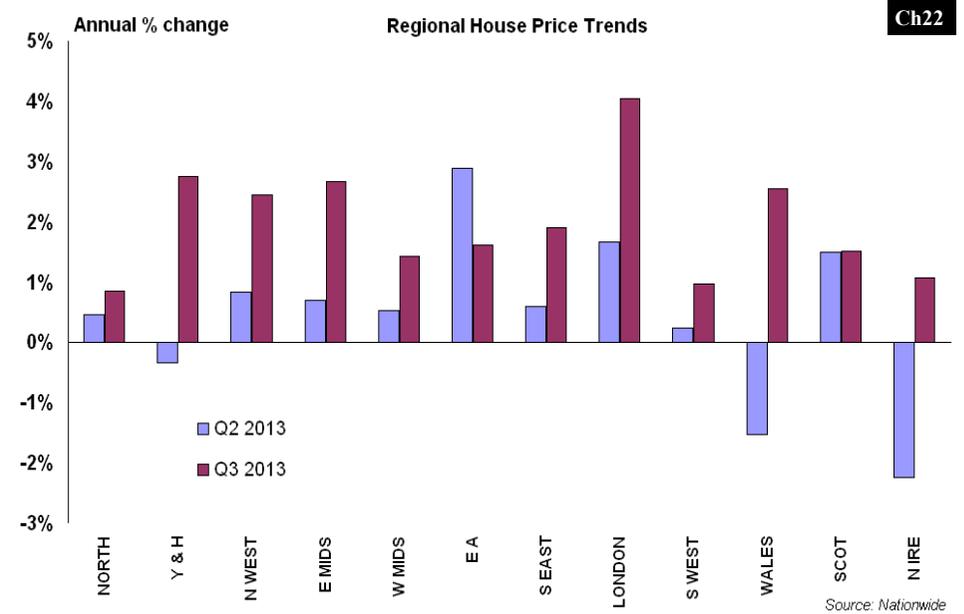
And lending to the sector is still in decline despite government incentives



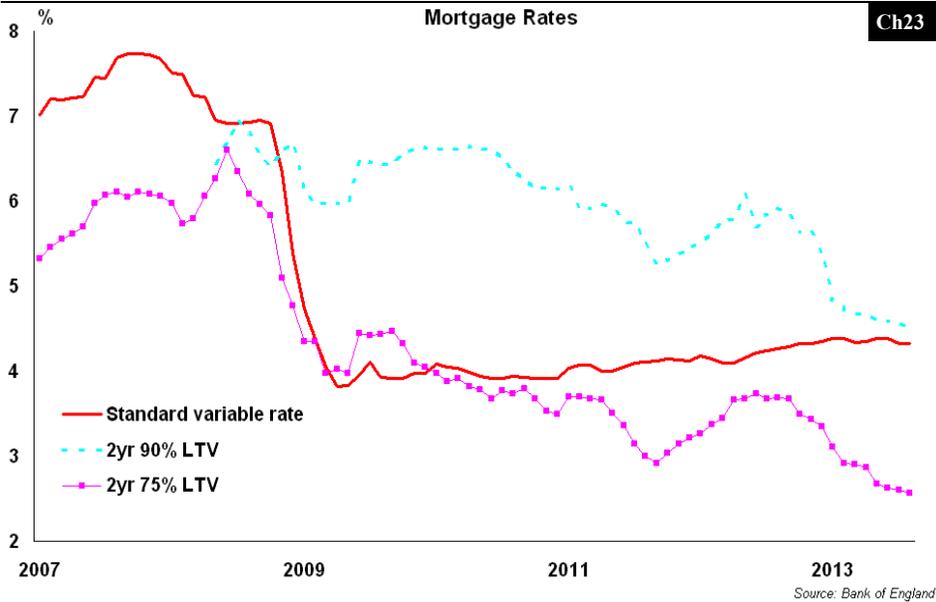
House prices are continuing to increase



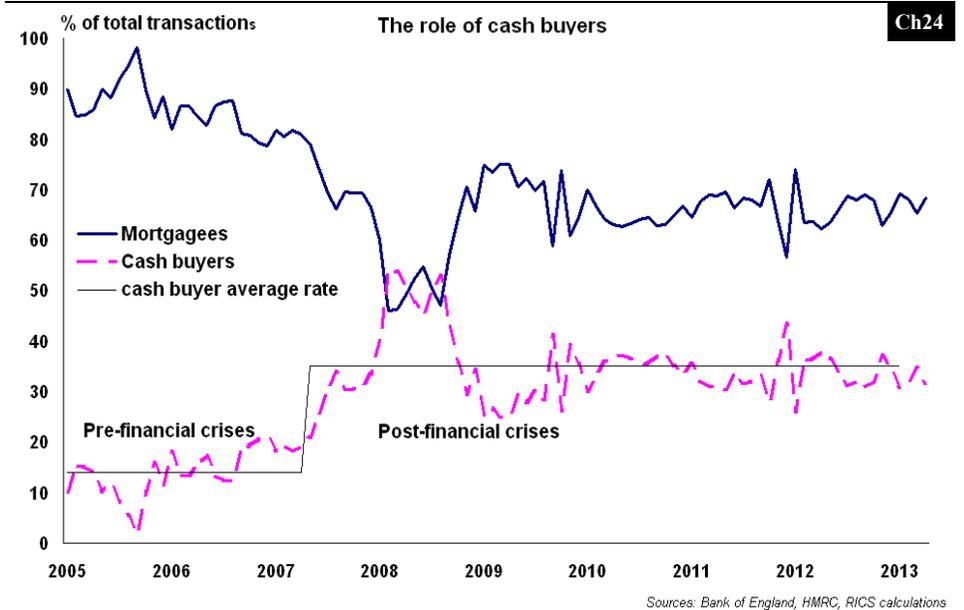
With price growth now more broad-based across the UK



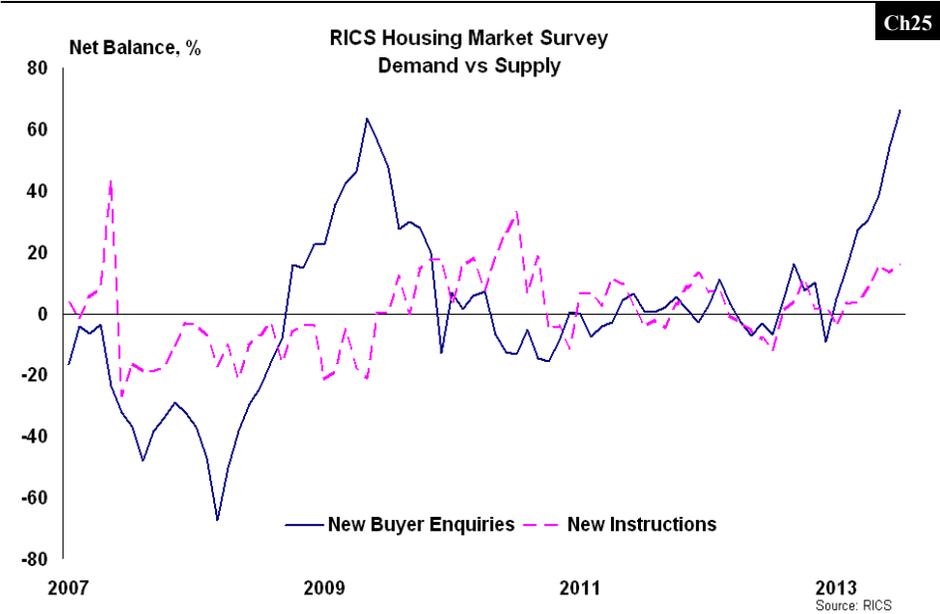
Interest rates on high LTV mortgages remain near record lows



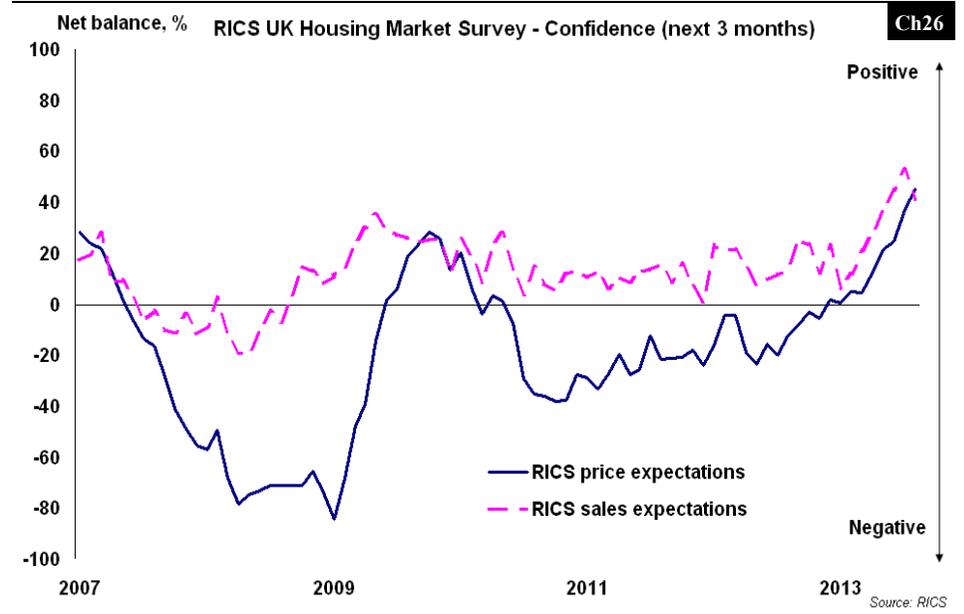
But cash buyers still play a bigger role in the market than pre-crisis



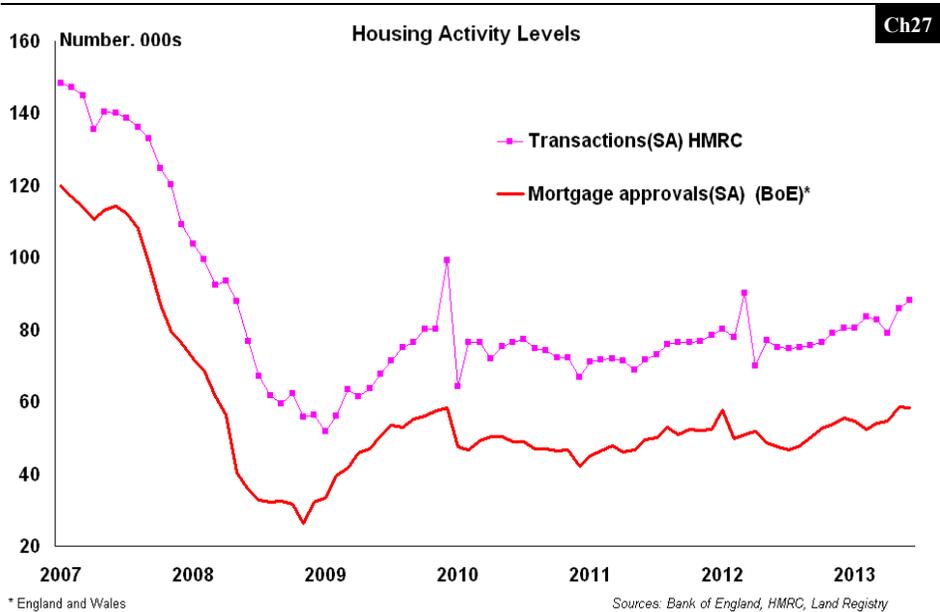
New buyer enquiries have picked up markedly in recent months



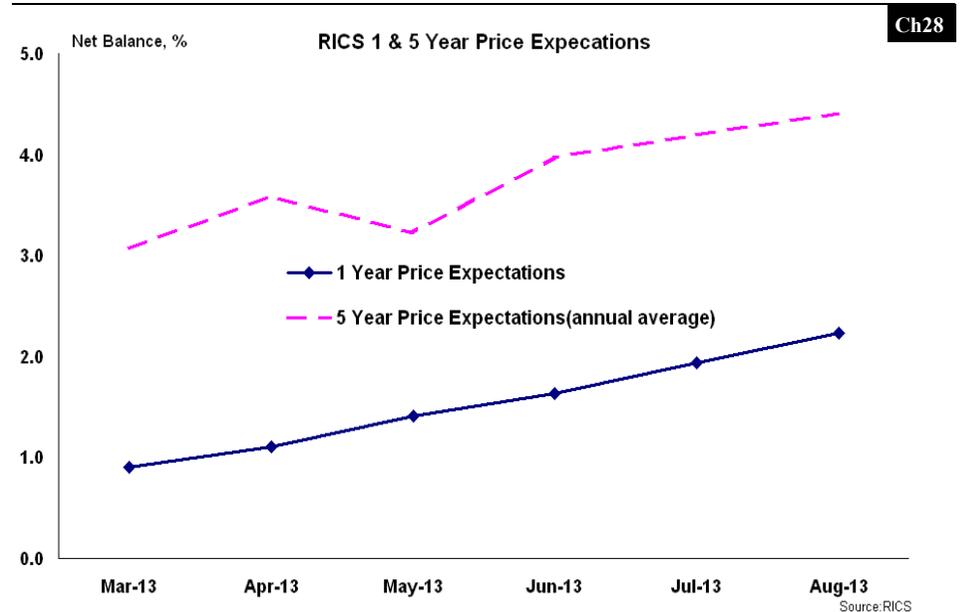
Feeding into higher price and sales expectations



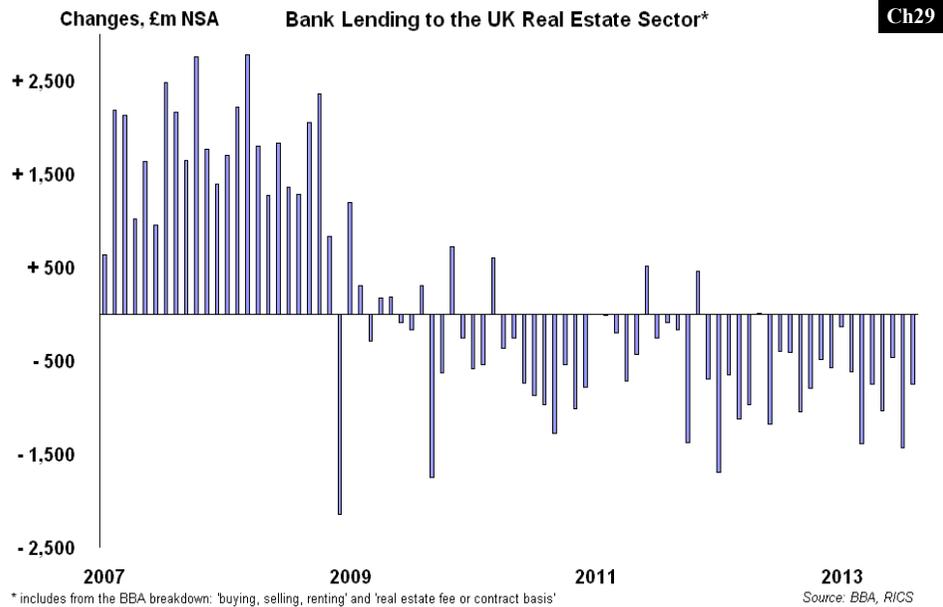
And sales volumes and mortgage approvals have begun to increase



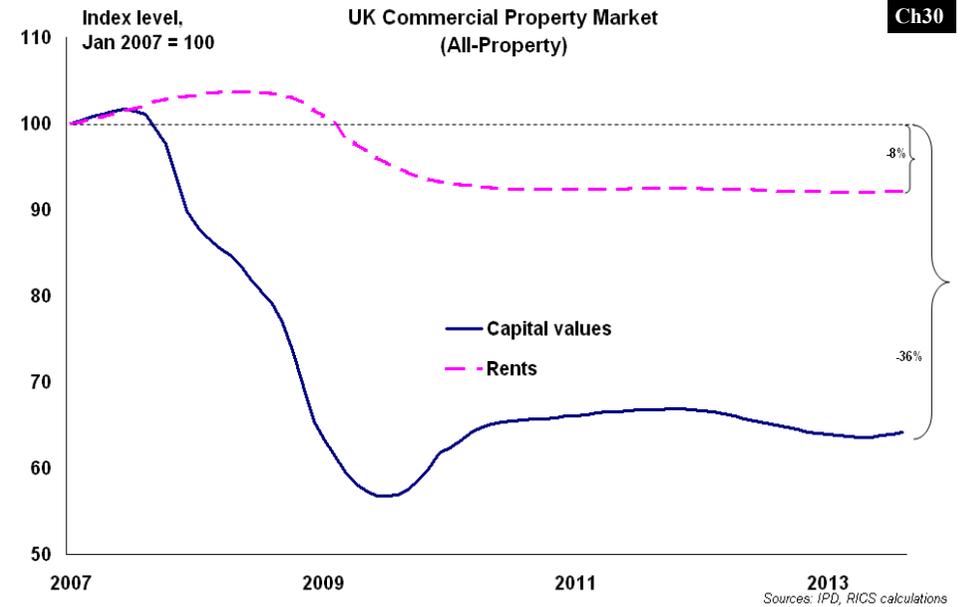
With longer term price expectations also strengthening



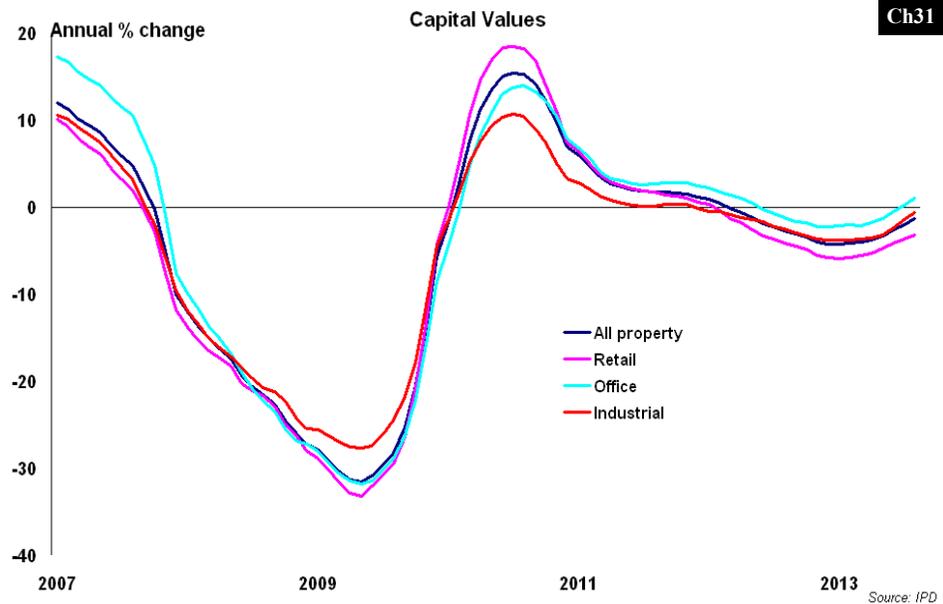
Lending to the sector has fallen by £26bn since 2009



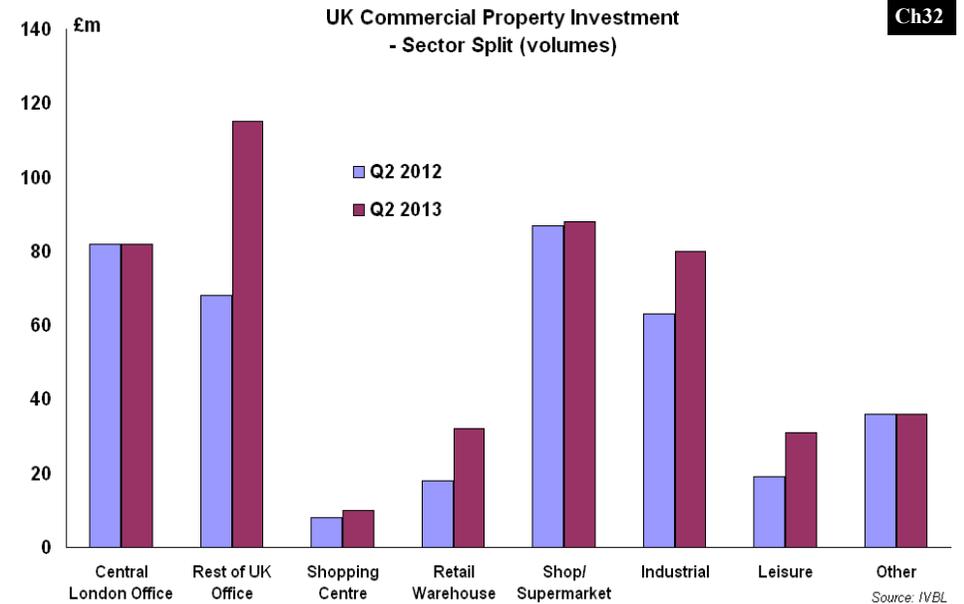
And capital values remain substantially lower than pre-crisis levels



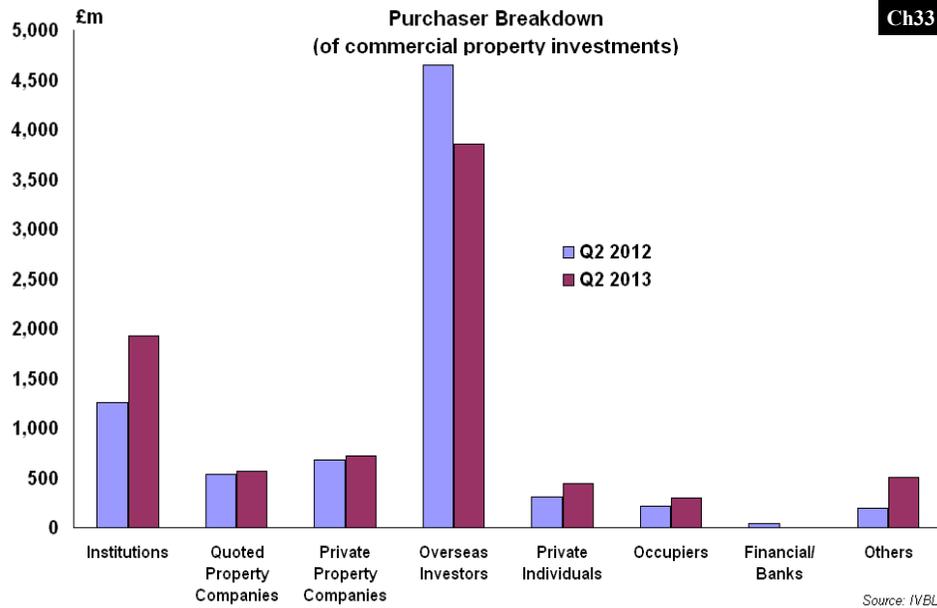
With only the office sector appreciating in value over the year to August



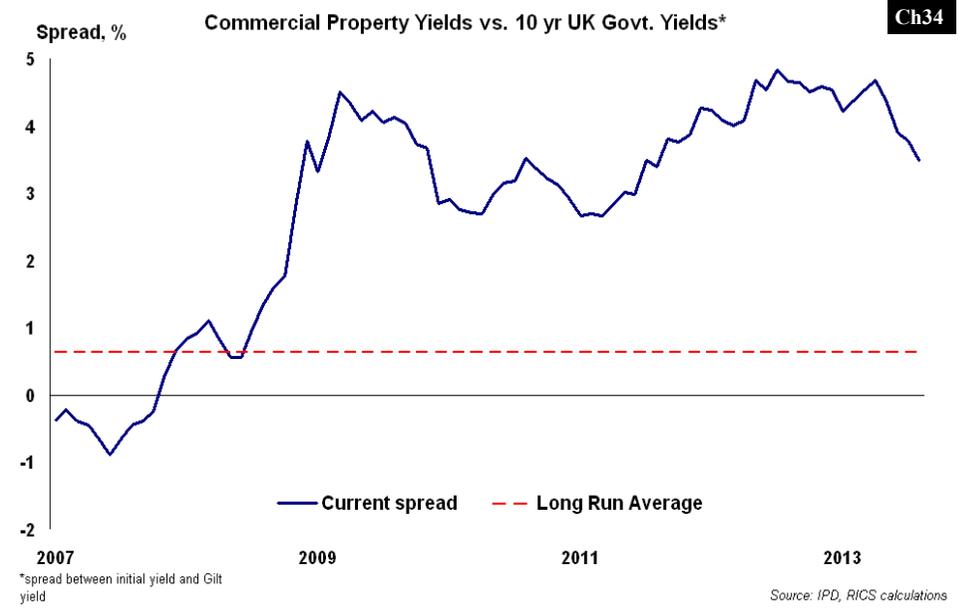
More interest is now being shown in offices outside of London



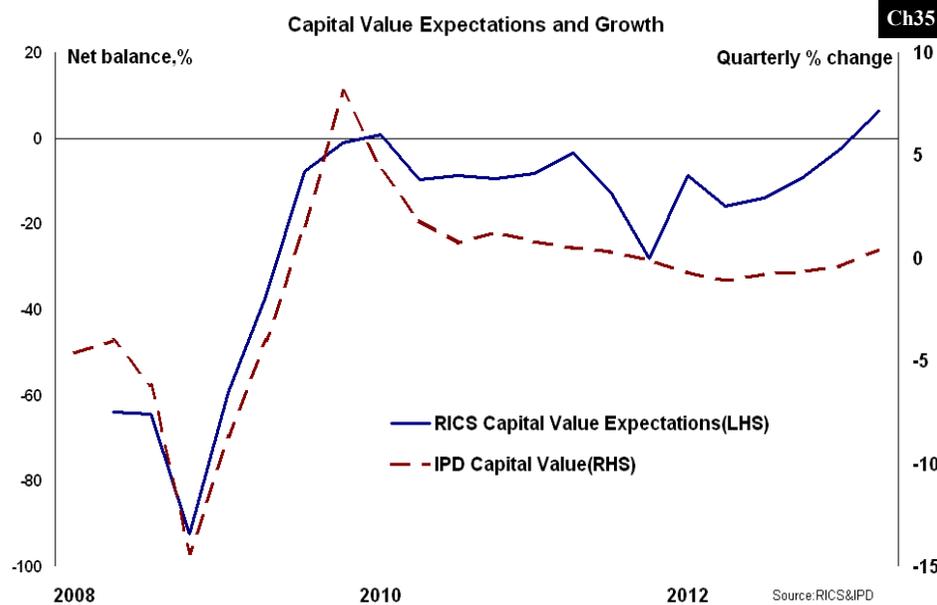
Overseas investors remain the main purchasers



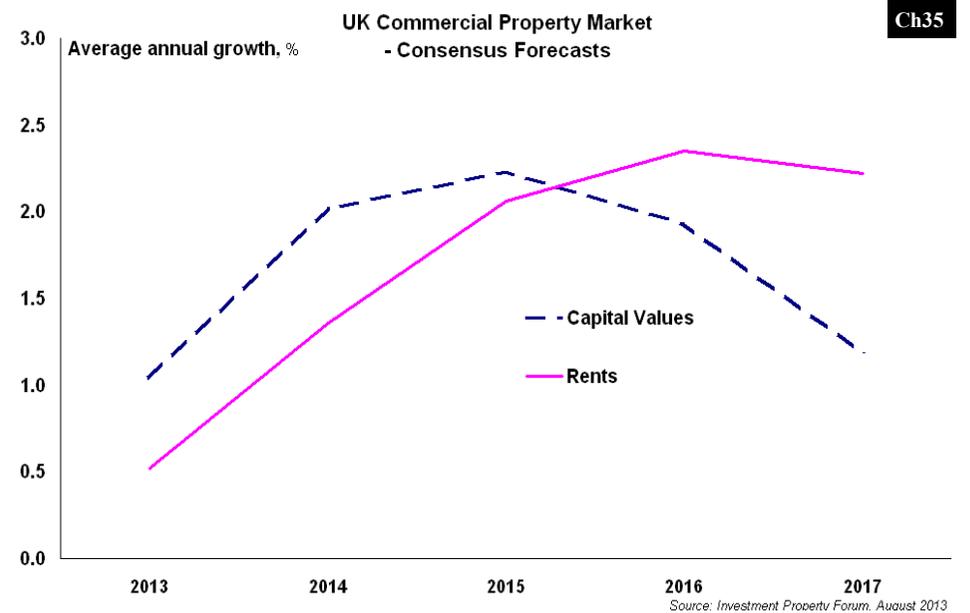
Commercial property values arguably still look relatively attractive



And RICS sentiment indicators suggest price rises may lie ahead



With the investor consensus also expecting a near term pick up



Key property data release dates

Frequency	Body	Period covering	Release date
M	BERR Monthly Statistics of Building Materials and Components	September	02-October-13
Q	Housing Equity Withdrawal	Q2	02-October-13
M	Halifax House price index	September	04-October-13
M	RICS Housing Market Survey	September	08-October-13
M	BoE Monetary Policy Committee Meeting and Announcement	October	10-October-13
M	Output in the Construction industry	August	11-October-13
M	ONS House Price Index	September	15-October-13
M	ONS Consumer Price Index	September	15-October-13
M	ONS Labour Market Statistics	September	16-October-13
M	Retail sales	September	17-October-13
M	CML Gross lending	September	18-October-13
M	Bank of England Trends in Lending	September	18-October-13
M	HMRC Property Transactions	September	23-October-13
M	BoE Minutes of the Monetary Policy Committee Meeting	October	23-October-13
M	BBA Lending	September	23-October-13
Q	ONS Gross Domestic Product:Preliminary Estimate	Q3	25-October-13
M	Land Registry House Price Index	September	27-October-13
M	BOE Monetary and Financial Statistics	September	29-October-13
M	BOE Money and Credit	September	29-October-13
M	BSA Lending Statistics	September	29-October-13
M	Nationwide House Price Index	September	31-October-13

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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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