JohnCharcol

The *independent* mortgage experts

Market Report News

4th March 2016

Central Bank Rates

- Bank Of England rate - on hold at 0.5% and no increase in QE - (next decision 17th March)
- ECB - Maintained at to 0.05% - (next decision 10th March)

Bank and Building Societies

Nothing this week.

Housing / Mortgage Market

January's Bank of England figures have shown the number of approvals for purchases were up 4.5% to 74,581. There were 42,228 remortgage approvals in the first month of the year, compared to the six-monthly average of 40,306. Lending for other purposes was 11,900, only a slight change on the 12,136 average over the previous quarter. Gross lending on property was £21.3billion for the month, with of £17.7billion. The Intermediary Mortgage Lenders Association says: "The value of remortgaging rose 45% over the previous year, despite the growing speculation that a base rate rise will be pushed back as far as 2019. "The threat of a rate rise is no longer driving the remortgaging uplift, instead it is being supported by homeowners looking to improve their financial situation through cheaper monthly repayments." The Bank of England also said consumers borrowed a further £1.6billion in January, the second-highest level in over a decade. Year-on-year unsecured credit rose by 9.1%, though some experts claimed one reason was shoppers taking advantage of bargains in January's clearance sales. "January's spike back up in unsecured consumer credit may fuel concern that consumers are borrowing more and saving less to finance their spending," said one economist.

The CML has revealed that purchase lending last year in London was down on 2014, but remortgaging increased. The number of London's mortgage transactions dropped to 81,600 though the £24.5billion value was still a 1% increase on 2014. Remortgages rose 14% to 48,600 loans, with a 25% increase in value at £13.7billion. First-time buyer loans dropped 6% over the year, to 45,600 worth £11.6billion. The CML, said: "House purchase lending in London fell in 2015 due mainly to a slow start: later months of the year saw activity pick up again. Persisting supply and affordability issues, alongside the introduction of the Help to Buy London scheme, means there will be some uncertainty around how the market will perform going into 2016. By contrast, remortgage activity, which has been consistently flat for the past few years, appears to be on an upward trend. Competitive mortgage rates appear to have sparked this activity and we have not seen quarterly volumes at this level since 2009." Wales - homeowner purchase was up 4% at 27,300 loans, with the £3.4billion value an increase of 10% on 2014. Purchase and remortgage increased in Q4, with homeowner and home mover loans up 20% year-on-year and first-time buyer loans up 16% by volume and 21% by value. Northern Ireland – Lead by remortgaging totalling 6,800 loans, up 45% on 2014. The value increased 57% year-on-year to £690million. Scotland - Purchase lending rose 17% year-on-year to the end of Q4. Overall in 2015, annual home-owner house purchase lending reached 64,800 loans, up 9% on 2014. The value was £8.5billion, again, up 14%. Remortgages hit £3.1billion, up 18% on 2014, with volume of 26,200 loans, up 12%.

Halifax has reported that property prices are continuing their rise at a "robust pace", up 9.7% year-on-year in February. Once again demand is outstripping supply of property on the market and is pushing up house prices. Halifax said prices in the three months to the end of February were up 3% compared to the previous three months. The annual rate of change of 9.7% was unchanged, with the average home now valued at £209,495. Halifax added that property prices were down 1.4% in February compared with January. "Prices continue to rise at a robust pace driven by a significant imbalance between supply and demand. Whilst this position is likely to continue over the coming months, there are some tentative signs that the supply situation may be beginning to improve," said Halifax. "Further ahead, increasing affordability issues, as house price increases continue to exceed wage growth, are likely to curb housing demand and cause price growth to ease." One economist commented that an overview of the various housing surveys indicated prices would rise by 6% in 2016, "amid reasonably healthy buyer interest". However, there was a warning that the referendum on EU membership on 23rd June posed a "potential major downside risk to housing market activity and prices. A vote for Brexit would be liable to see a marked hit to UK economic activity over the rest of this year and in 2017 amid heightened uncertainties, which would likely weigh down heavily on the housing market."

Nationwide's February property survey, showed that average prices increased by 0.3% last month to leave the average property worth £196,930. Annually property price inflation was up slightly to 4.8%, with the number of approvals in January almost 75,000, up on December's 71,000 and the highest since January 2014. However, Nationwide's chief economist, said: "…much of the increase is likely to be related to the impending increase in Stamp Duty on second homes which is due to take effect in April 2016. This is likely to have brought forward a significant number of purchases, which in turn will probably result in a fall back in approvals during the spring/summer." Home ownership rates are now stabilising, at 63.6% in 2014/15, having declined over the past 12 years, though this is still well under 2003's peak of 70.9%. Nationwide said: "If we look at the shift in tenure patterns by age over the past decade, we see a particularly marked decline in home ownership rates among the younger age groups, especially among 25-34 year olds, traditionally the segment containing most first-time buyers." In the same period, the proportion tenants (private / local authority / housing association) increased from 43% to 63%, whilst for 16-24 year olds, the proportion renting increased from 73% to 92%.

The ONS has said that completions of new-build homes reached pre-crisis figures in 2015. However, difficulties in securing planning applications is causing growth in new build homes to move at 'a snail's pace'. Over 143,500 new build homes were started last year, up 6% year-on-year and 91% higher than 2009's low point. Completions were also up 21% year-on-year at 142,890. One housing analyst said that London urgently needed to tackle the housing crisis to meet the needs of young people struggling to get a foot on the housing ladder. "Any snail-speed improvement won't be enough to shift along the UK economy, or make a serious difference for young people scouring the market for a home," he said. "London is the rest of England on fast forward, the razor edge in so many ways – but also a warning. The capital needs some urgency in tackling the housing crisis." He added that: "the capital's running at a 22% housing deficit from 2015 even before the difficulties of actually building anything. This year's mayoral candidates need to wake up and smell the house prices." The figures also showed the number of new homes completed by private housebuilders rose 20% year-on-year, while those completed by housing associations were up 27% on the same period.

UK

The ONS has confirmed that GDP in Q4 of last year was 0.5%. The second estimate left growth unrevised, with overall figure for 2015 also unchanged at 2.2%, to stay at the slowest annual pace since 2012. Although the Q4 figure marked the 12th consecutive quarter of growth, the ONS is still concerned that: "Once again, the buoyancy of the services sector has offset the relative sluggishness of the rest of the UK economy." Output in the services sector grew 0.7% in Q4, while household spending slowed slightly in the quarter, but was still up 0.7%. Overall, the production sector and net trade dragged on growth in Q4. Production output, including heavy industry, energy and manufacturing, contracted by 0.5% in Q4, compared to Q3. Once again Capital Economics, warned "the recovery remains entirely dependent on consumer spending". Markit commented that the ONS data painted "a picture of an unbalanced economy that is once again reliant on consumer spending to drive growth as business shows increased signs of risk aversion. Growth is being supported by firms increasing the wages paid to workers alongside low inflation, which is clearly good for household incomes in the short term. But for a sustainable recovery, which involves improvements in productivity and profits, we also need to see business investment revive, something which will only happen when business confidence lifts higher again."

The dominant services sector took a hit last month, with the latest Markit/CIPS services Purchasing Managers' Index (PMI) falling to its slowest rate of growth for nearly three years. The index fell to 52.7 last month, down from January's reading of 55.6. Although any figure above 50 shows expansion, the rise was the weakest since March 2013. This is crucial for the economy, as the service sector accounts for more than 75% of UK GDP. The other PMI's from Markit for manufacturing & construction showed figures of 50.8 & 54.2 respectively. Markit's chief economist said: "Survey responses reveal that firms are worried about signs of faltering demand, but boardrooms have also become unsettled by concerns regarding the increased risk of 'Brexit', financial market volatility and weak economic growth at home and abroad." Markit added that the extent of the slowdown would come as a "shock" to policymakers and would put an end to talk of a possible interest rate rise. They described February's three PMI readings as "a triple whammy of disappointing survey news". The chief economist at World First, commented: "The May Bank of England meeting had previously been seen as a possible time for a rate hike. The volatility of global markets and the self-inflicted wound of the EU referendum put paid to that months ago. We still believe, however, that some measures that foresee the Bank of England holding rates at 0.5% until 2020 are little short of absurd." The EY Item Club, said the PMI readings would provide "plenty of food for thought" for the Bank of England's rate-setting MPC." Markit's final composite PMI, which is generally held as a good guide to GDP, fell to 53 in February from January's 53.6 which is its lowest reading since the start of 2015.

The ONS has said that the typical level of disposable income (spending power) available to households in 2014-15 was £25,700. The median average is £1,500 higher than the low of 2012-13 & marks some recovery in incomes which have been hammered by the financial crisis. Retired households, where state pensions have been protected, have had a much smoother ride, seeing their incomes up 7.7% (£1,500) between 2007-08 and 2014-15. However, non-retired households (includes working families) are still yet to see a full recovery of income compared to pre-financial crisis. Disposable income was still 3.1%, or £900, below the 2007-08's level. One economist said: "Strong jobs growth and ultra-low inflation have finally pushed living standards back above where they were before the financial crisis. But the downturn has been felt very differently between generations, and across the UK. This generational divide opened up well before the financial crisis landed. As a result, typical working age families are no better off today than they were a decade ago, while typical pensioner incomes are 15% higher. By 2020, pensioner incomes are set to be over a third higher than they were at the turn of the century - more than double the increase experienced by working-age households." However, the ONS pointed out that the most recent increase in disposable incomes across UK households had been driven largely by average earnings rising faster than inflation and continued growth in employment rates.

Europe

The ECB has said that the eurozone fell sharply back into deflation last month -0.2%. The figure was a big reversion on January's 0.3% & will put more pressure on the ECB to look at fresh stimulus. Energy prices were the prime driver behind the fall with prices down 8% last month against a 5.4% drop in January. The figures dented hopes that the ECB's efforts to boost prices were working. One economist said: "Deflation would be a disaster for the euro area as the burden of high debt would increase. Therefore, the ECB will continue easing monetary policy significantly. But no matter what the ECB decides to do on 10 March, inflation is likely to hover around zero during the next few months before it picks up - if oil prices behave well."

Eurostat has reported that January's eurozone unemployment fell for the third consecutive month, to reach the lowest level since August 2011. The Eurozone jobless rate declined to 10.3% in January from 10.4% in December, whilst in the overall 28 member EU the unemployment rate fell to 8.9% from December's 9% to record the lowest rate recorded since May 2009. The country with the lowest unemployment rate was Germany at 4.3%, while the highest rates were Spain (20.5%), and Greece (24.6%).

The latest Markit purchasing managers index (PMI) for eurozone manufacturers showed activity expanding at its weakest pace for a year as deep price cuts failed to boost slowing order growth. The index dropped to 51.2 from January's 52.3. Markit's chief economist said: "Concerns are growing that the region is facing yet another year of sluggish growth in 2016, or even another downturn. Lacklustre domestic demand is being compounded by a worsening global picture." This could impact the improving employment situation as businesses become more cautious about taking on new staff.

German business confidence suffered its steepest drop since 2008, and the third fall in a row, to leave the business climate index at 105.7 down from 107.3 in January. The drop was worse than economists forecast of 106.8 and is being blamed on a drop in demand for German exports in the emerging markets. The survey encompasses 7,000 firms in Germany, and suggests that companies are concerned about the economic outlook for the next six months. One economist said the figures were a "wake up call", adding that "global events have finally reached German companies' boardrooms".

JohnCharcol
The *independent* mortgage experts

US

US GDP for Q4 of 2015 has been revised upwards, at an annualised rate of 1% in the quarter, against the initial estimate of 0.7%. The upwards revision beat most economists' expectations of a downwards one, however businesses had bought more stock than previously estimated, which meant inventory levels were $13billion higher. The downside to the good news is that Q1's GDP figures may be lower than expected if businesses get round to cutting back on inventory spending. Some forecasters are putting GDP for Q1 as high as 2.5%. The chief economist at research firm Markit disagreed though, saying: "Unfortunately, the cause of the upward revision bodes ill for the first quarter. The GDP number was revised higher in part due to a bigger than previously thought contribution from inventories, something which often happens due to weaker than expected demand, meaning inventories could act as a drag in the first quarter as excess stocks levels are wound down again." Consumer spending, which accounts for more than 2/3rds of GDP, was up 2% in Q4, down from the 2.2% rate previously estimated. Markit added: "Companies cite a number of worries that are dragging on customer spending and causing business to become more risk averse. These include uncertainty about the forthcoming election, financial market volatility, the global economic environment and the possibility of higher interest rates."

The Rest Of The World

Ratings agency Moody's has cut its outlook for China from "stable" to "negative", saying that reforms were needed to avoid a credit downgrade. Moody's blamed the change in outlook was based on expectations that Beijing's fiscal strength would continue to decline. The agency also said it was concerned over China's incomplete implementation of much needed reforms. "Without credible and efficient reforms, China's GDP growth would slow more markedly as a high debt burden dampens business investment and demographics turn increasingly unfavourable," Moody's said, "Government debt would increase more sharply than we currently expect." They confirmed the current Aa3 rating, adding that there was still time to address the current economic imbalances and implement reforms.

The IMF has warned that the global economy has weakened further, saying it is "highly vulnerable to adverse shocks". The group added that the weakening had come "amid increasing financial turbulence and falling asset prices". "Growth in advanced economies is modest already under the baseline, as low demand in some countries and a broad-based weakening of potential growth continue to hold back the recovery," the IMF said. "Adding to these headwinds are concerns about the global impact of China's transition to more balanced growth, along with signs of distress in other large emerging markets, including from falling commodity prices." The report also warned that future prospects for global growth "could be derailed by market turbulence, the oil price crash and geopolitical conflicts".

Markets, Swaps. Libor, Gold, Sterling

UK Swap Rates

Date	2 Year		3 Year		5 Year		10 Year		20 Year	
Thurs 3rd	0.78	(same)	0.83	(-0.01)	0.98	(same)	1.40	(-0.01)	1.65	(-0.02)
Wed 2nd	0.78	(+0.05)	0.84	(+0.06)	0.98	(+0.07)	1.41	(+0.06)	1.67	(+0.06)
Tues 1st	0.73	(same)	0.78	(+0.02)	0.91	(+0.03)	1.35	(+0.05)	1.61	(+0.04)
Mon 29th	0.73	(-0.01)	0.76	(-0.02)	0.88	(-0.04)	1.30	(-0.05)	1.57	(-0.04)
Fri 26th	0.74	(+0.02)	0.78	(+0.02)	0.92	(+0.03)	1.35	(+0.03)	1.61	(+0.02)
Thurs 25th	0.72	(-0.03)	0.76	(-0.03)	0.89	(-0.05)	1.32	(-0.05)	1.59	(-0.05)
Wed 24th	0. 75	(-0.03)	0.79	(-0.05)	0.94	(-0.07)	1.37	(-0.05)	1.64	(-0.06)
Tues 23rd	0.78	(same)	0.84	(-0.01)	1.01	(+0.02)	1.42	(same)	1.70	(+0.01)
Mon 22nd	0.78	(+0.02)	0.85	(+0.02)	0.99	(same)	1.42	(-0.02)	1.68	(-0.01)
Fri 19th	0.76	(-0.02)	0.83	(-0.03)	0.99	(-0.03)	1.41	(-0.04)	1.69	(-0.02)

JohnCharcol
The *independent* mortgage experts

UK Libor Rates

Date	1 Month		3 Months Libor		6 Months Libor		12 month Libor	
Thurs 3rd	0.51	(same)	0.59	(same)	0.73	(same)	1.00	(same)
Wed 2nd	0.51	(same)	0.59	(same)	0.73	(-0.01)	1.00	(same)
Tues 1st	0.51	(same)	0.59	(same)	0.74	(+0.01)	1.00	(same)
Mon 29th	0.51	(same)	0.59	(same)	0.73	(same)	1.00	(same)
Fri 26th	0.51	(same)	0.59	(same)	0.73	(-0.01)	1.00	(same)
Thurs 25th	0.51	(same)	0.59	(same)	0.73	(-0.01)	1.00	(-0.01)
Wed 24th	0.51	(same)	0.59	(same)	0.74	(same)	1.01	(same)
Tues 23rd	0.51	(same)	0.59	(same)	0.74	(same)	1.01	(+0.01)
Mon 22nd	0.51	(same)	0.59	(same)	0.74	(same)	1.00	(same)
Fri 19th	0.51	(same)	0.59	(same)	0.74	(same)	1.00	(same)

Financial Markets – 19th February – 4th March

Index	12/02/2016	This Week	% Change
FTSE 100	5,940.19	6,153.61	**+3.59%**
Dax	9,364.75	9,767.97	**+4.30%**
CAC 40	4,198.50	4,424.52	**+5.38%**

Index	19/02/2016	This Week	% Change
Dow Jones	16,413.43	16,943.90	**+3.23%**
S&P 500	1,926.82	1,993.40	**+3.45%**
Nikkei	15,967.17	17,014.78	**+6.56%**
Hang Seng	19,285.50	20,176.70	**+4.62%**
Shanghai Composite	2,860.02	2,874.15	**+0.49%**
Sydney	5,008.30	5,151.10	**+2.85%**

Gold

	Price	Change	%
Forex Gold Index $/oz	1250.25	+28.75	+2.35

Gold is measured and sold in troy ounces. One troy ounce equals 31.1035 grams or 480 grains. One troy ounce is equal to 1.09711 avoirdupois ounce - widely used to measure weights in the US and UK.

Pound vs US Dollar and Pound vs Euro

Sterling v Euro

	1buys	Change	%	52 Wk-h	52 Wk-l
Euro	1.29130	+0.00480	+0.37	1.43680	1.10650

Sterling v Dollar

	1buys	Change	%	52 Wk-h	52 Wk-l
US Dollar	1.41570	-0.01240	-0.86	1.71520	1.41570