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The *independent* mortgage experts

Market Report News

8th April 2016

Central Bank Rates

- Bank Of England rate - on hold at 0.5% and no increase in QE - (next decision 14th April)
- ECB - Reduced to 0.00% - (next decision 14th April)

The FPC has warned that the outlook for financial stability has deteriorated since November, citing "the most significant near-term domestic risks to financial stability" as being connected to the EU referendum. The FPC refers to risks associated with a period of "heightened and prolonged uncertainty", which is likely to be the period should the vote be to leave the EU. They added that the result of that uncertainty could "affect the cost and availability of financing for a broad range of UK borrowers", with these pressures reinforcing existing vulnerabilities. The UK's current account deficit (trade in goods and services plus some financial transactions) remains high, and needs to be financed by foreign investment. Those flows have contributed to meeting the borrowing needs of the government and business, the statement says. The FPC is also concerned that a decision to leave "could spill over to the euro area", affecting financial markets and economic growth there. They also say that sterling could be forced lower, which could be a double edged sword, as although it could make industry more competitive, & raising the cost of imports, arguably welcome at a time when inflation is well below the Bank's target, however a sharp fall in sterling could put pressure on the MPC to raise the bank rate earlier than planned.

Bank and Building Societies

Nothing this week.

Housing / Mortgage Market

The Bank of England's February figures show that mortgage approvals for purchases rose by 26% year-on-year to 73,871 with the value of those loans rising from £10.3billion to £13billion. Remortgages were also up year-on-year too, with a 24% increase to 40,749 and a 38% surge in value to £7.3billion. However, despite the positive yearly trends, both categories were down in value and volume compared January. Purchases were down 5% from the £13.7billion in January, with case no.'s down 0.2% from 74,085. Remortgages decreased by just over 1,000 cases, & by value, dropped from £7.4billion. Month-on-month gross lending was pretty much unchanged at £21billion, though annually this was an increase of 31% on February 2015.

The Halifax has said that property prices in Q1 were up 10.1% year-on-year, with the average price standing at £214,811, which was up 2.6% on the previous month & 2.9% on the previous quarter. Halifax's housing economist said: "Worsening sentiment regarding the prospects for the UK economy and uncertainty ahead of the European referendum in June could result in some softening in the housing market over the next couple of months. Current market conditions, however, remain very tight with an acute supply/demand imbalance continuing despite an improvement in the number of properties coming on to the market for sale in recent months. This, together with continuing low interest rates and a healthy labour market, indicate that house price growth is set to remain robust." One industry commentator said: "Continued low mortgage rates and the easing of criteria by a number of lenders are attracting buyers who remain confident that interest rates are not going to rise anytime soon. However, affordability remains an issue for some, and with Virgin Money reducing its maximum income multiples this week, it certainly isn't a free-for-all on the lending front. Good advice remains an absolute must for buyers if they want to secure the borrowing they require."

Nationwide has reported that property prices in the north of England are now worth less than half of those in the south. An average home in the North is now worth nearly £163,000 less than its peer in the South. In Q1 property prices in the South rose by 9.9% annually, against just 1.8% in the North. The average value of UK home is now £200,251 a new high. Across the UK as a whole property inflation hit 5.7% in Q1 the fastest rate for more than a year. Nationwide said that one major reason for the increase is likely to have been the rush by landlords to beat the 3% stamp duty surcharge deadline of 31st March. "The pace of house price growth may moderate again once the stamp duty changes take effect in April," said Nationwide's chief economist. "However, it is possible that the recent pattern of strong employment growth, rising real earnings, low borrowing costs and constrained supply will keep the demand/supply balance tilted in favour of sellers, and maintain pressure on price growth in the quarters ahead." Nationwide's figures also suggest prices are rising fastest in the London suburbs.

Where prices are rising fastest		
Region	**Average price**	**% annual change (Q1 2016 v Q1 2015)**
London	£455,984	11.5%
Outer London	£344,371	12.2%
South East	£255,325	8.3%
South West	£221,703	5.8%
East Anglia	£204,948	5.8%
W.Midlands	£168,585	4.1%
E.Midlands	£162,082	2.2%
Yorks & H'side	£144,361	1.9%
N.Ireland	£123,225	1.8%
Wales	£141,525	1.7%
North West	£144,914	0.5%
Scotland	£139,911	-0.2%
North England	£123,864	-1.1%

The Land Registry has said that Crossrail is apparently boosting property prices, over a year before its opening, with Slough having seen a 19% rise in the year to February. Slough's is the biggest increase in the country, ahead of Hillingdon at 17.1%, and Havering at 16.9%. Other areas to benefit are Thurrock with a 17.2% rise, along with Barking and Dagenham up 16%. Crossrail, which will be known as the Elizabeth Line is due to open between Liverpool Street and Shenfield in May 2017. Across England and Wales as a whole, Land Registry showed prices went up by 6.1% in the year to February, bringing the average price to £190,275. They also revealed that prices in England and Wales rose by 6.1% in the year to February, though actual property transactions failed to keep the same pace. The number of property transactions from September to December 2015, was 78,778 a drop of 6.1% on the same period a year earlier, however, the lag in recording data for the past two months meant reported sales were likely to see a steady rise. One estate agent said the decline in property transactions continued to be "a worry". "If people aren't able to move in and out of the market when they want to, there will be an inevitable knock-on effect for the rest of the economy. On the ground we want to see more balance between supply and demand, and while we expect completions to rise in January and February as landlords attempt to beat the Stamp Duty hike from April, there remains a woeful lack of supply, which will push prices higher." Land Registry said that monthly prices eased by 0.2%, meaning their average property price was £190,275. No surprises that London had the largest increase at 13.5% with the average property now £530,368 to the end of February, with the North East the only region to see prices fall from February 2015 to February 2016 leaving the average price to £97,582, down 3.2%. Annually the prices of semi-detached houses and flats were up by 6.4% and 6.2% respectively, higher than the average annual increase of 6.1% across all property types. A typical semi-detached property in England and Wales will now cost £180,191, compared to £183,754 for a flat or maisonette. Once again the lack of supply was highlighted, with surveyors e.surv, warning: "Those moving are facing fewer options, encouraging many to stay put and therefore reducing choice for all in the market. And first-timers are feeling the effect. It's in the North East that first-time buyers are most likely to get value for money – and most likely to get a foot on the property ladder. It a fact that imbalances in the UK's property market are becoming ever starker."

BDRC Continental on behalf of Paragon, has reported that increasing numbers of landlords are considering moving their property investments into limited company vehicles. The survey found that 41% of landlords are considering moving their portfolios into a limited company, 5% have them already established, and of those larger landlords with 20 or more properties, 14% are already operating as limited companies, with 63% considering it. The research also showed that 43% of landlords feel that the surcharge will affect their plans for more Buy To Let's over the next couple of years. For landlords with 20 or more properties this rises to 63%. Paragon, said: "Recent government interventions into the buy-to-let market are now beginning to impact landlord sentiment and plans. The fundamental drivers of the market however – tenant demand and yields –

remain strong so there are competing dynamics at play. It is interesting to see that concern about the impact of changes to Stamp Duty and tax relief is greatest among larger landlords. This concern is likely to grow now that the government has confirmed that landlords with larger portfolios will have to pay the increased rate of Stamp Duty on buy-to-let purchases."

Ratings agency Fitch has said that the Buy To Let market will be supported by tenant demand over the next 12 to 24 months, but warns the impending changes to underwriting standards could dampen this prospect. Fitch said demand for private rental property would outweigh the immediate impact of changes to buy-to-let landlord tax treatment in the near future, however, they say that the Prudential Regulation Authority's plans to implement underwriting guidelines across the sector could change this in the longer term. Fitch said: "The proposal does not set limits on loan-to-value, debt-to-income, or interest coverage ratios. If these were adopted, this could make buy to let less attractive for landlords if rental yields do not rise sufficiently to offset the impact of such affordability rules. This could have a knock-on impact on buy-to-let lending volumes and RMBS [residential mortgage backed securities] prepayment rates." Fitch also said that a fall in migration is another longer-term risk if a Brexit occurred after the EU referendum in June. Fitch went onto say that "fundamental conditions" would support performance in the sector in 2016-2017, & that "Demand will keep rental yields attractive even as property prices rise, and give affected landlords the option of raising rents, rather than forcing them out of the market. If the tax changes discourage new buy-to-let entrants, this could be another constraint on availability that supports higher rents."

UK

March's Markit/CIPS services Purchasing Managers' Index (PMI) has shown that although growth in the services sector picked up, it remained "subdued". The index increased to 53.7 last month, slightly up on the near three-year low of 52.7 in February. A figure above 50 indicates expansion, however, Markit said the growth was "sluggish", with global economic uncertainty, plus the EU referendum both affecting the sector, which meant that the economy had likely slowed in Q1. The service sector remains vitally important as it accounts for more than 75% of the UK economy. Markit's PMI indices for both manufacturing and construction sector also indicated subdued growth last month. "An upturn in the pace of service sector growth in March was insufficient to prevent the PMI surveys from collectively indicating a slowdown in economic growth in the first quarter," Markit's chief economist. "The surveys point to a 0.4% increase in GDP, down from 0.6% in the closing quarter of last year. Business confidence remains in the doldrums as concerns about the global economy continue to be exacerbated by uncertainty at home, with nerves unsettled by issues such as Brexit and the prospect of further government spending cuts announced in the Budget," he added. "It therefore seems unlikely that March's upturn in the pace of growth represents the start of a longer term upswing. In contrast, the survey data suggest growth is more likely to weaken further in the second quarter."

The ONS has revealed that Q4's GDP was better than first thought having increased by 0.6% and the 0.5% previously estimated. The improved growth was dependent on the services sector on the output side as well as on consumer spending on the expenditure side. Q4's services grew 0.8%, while industrial output fell 0.4%. In the first month of this year services have grown 0.2% already. The latest estimate from the Office for Budget Responsibility (OBR) slashed its forecast for GDP in 2016 to 2%, with the British Chambers of Commerce also cutting its growth forecast from 2.5% to 2.2%. Business investment has slumped 2% & exports were almost stagnant, as net trade dropped 0.3% to -0.4%. One economist described the new figures "truly horrible" & warns the sharp widening in the current account deficit is "a particularly uncomfortable development for the UK economy". He added that: "While the markets have so far taken a relatively relaxed view of the UK's elevated current account deficits, it could become an increasing problem if the markets lose confidence in the UK economy for any reason – especially given the size of the fourth quarter 2015 shortfall. This would make it harder for the UK to attract the investment inflows that it needs to finance the current account deficit and could weigh heavily down on sterling."

The ONS has reported that the UK's current account deficit widened to a record high in Q4 last year. Q4's deficit was £32.7billion, which is the equivalent of 7% of GDP in that quarter. Overall last year, the deficit stood at £96.2billion or 5.2% of annual GDP, which is the highest since records began in 1948. The current account deficit means the value of imports of goods, services and investment income exceeds exports. Unlike the budget deficit, which the government has pledged to wipe out by 2020, the current account refers to the country as a whole, private and public. It includes the trade deficit where we buy far more goods and services from other countries than we sell to them, & includes other payments, from the dividends that profitable companies such as Jaguar Land Rover send back to their foreign owners to the money paid to employees abroad by British companies. Therefore the problem is that if more money is flowing out than flowing in, companies and governments have to borrow from abroad to make up the difference, which works as long as confidence in the UK's economic future remains. However, if that confidence takes a hit from, for example, a sterling crisis or other economic shock, then those foreign investors may well think twice to invest in the UK, or demand higher rates of return, which are more than likely to get passed on to the consumer. The concern is that one such shock, or confidence knocker could be the UK voting to leave the EU.

More news from the ONS that UK productivity in Q4 fell at the fastest pace since 2008. Worker output per hour fell 1.2% in Q4 against Q3, with output per hour in manufacturing down 2%, & 0.7% down in the service sector. The poor rates of productivity have been a concern to policymakers for a while now. Q4's fall in productivity comes after the 0.6% rise in Q3. Over 2015 as a whole, output per hour rose by 1%, the strongest increase since 2011. The ONS said that labour productivity overall - covering output per hour, output per worker and output per job - was about 0.5% higher in Q4 compared to Q4 2014. "How productivity develops going forward is critical to the economy's growth potential," said one economist. "The crucial question for the UK economy is, does the fourth quarter of 2015 mark a temporary relapse in productivity. Or is it evidence that the UK has an ongoing serious productivity problem." The British Chambers of Commerce, said: "There are deep-rooted structural problems in our economy that have dampened productivity - from skills shortages, to infrastructure bottlenecks and limited growth finance. Delivering solutions to these critical issues would go a long way to achieving the productivity gains we need."

Europe

March inflation in the Eurozone was down fell for the second month running, mainly due to falling energy prices. Prices were 0.1% lower than a year ago, which was a minor improvement on February, when deflation was -0.2%, however it will keep the pressure on the ECB to act further to boost prices. The figures, from the Eurostat agency, showed energy prices were 8.7% down on a year ago. Core inflation, which excludes energy prices, was running at 0.9% in March, slightly above February's 0.8%, but still well below the ECB's target rate.

US

The Labor Dept has said that the US economy added 215,000 jobs in March, a little less than February's 242,000 jobs. The unemployment rate rose to 5% from 4.9%, which was an eight-year low, & due mainly to more Americans finding jobs, which suggested a sign of confidence in the US economy. The gains were in the service sectors, especially retail, health and education and leisure and hospitality, plus government and construction too. The **figures for January and February** have been revised slightly down to show 1,000 fewer jobs created than previously reported. Markit, said that while the numbers for jobs created last month looked good, a rate rise from the Federal Reserve would not be the right move. "Another good month of hiring in the US will encourage further chatter in some corners of the Fed moving closer to hiking interest rates again, but signs of weakening economic growth mean policymakers are likely to be cautious and hold off until the global economy is showing greater vigour and the US economy more sparkle," they said. "However, while the labour market data shout 'rate hike', signs of a worrying weakness in the pace of economic growth at home and abroad caution against the Fed rushing into any further tightening of policy." Another economist said that while the employment numbers were "solid", not all areas of the economy were performing well. "We are seeing some weakness in some industries like the oil sector. Manufacturing is having another bad month," he said. "Everything is not clicking on all cylinders. Growth is strong enough to support the labour market. We are drawing nearer to full employment. We could see some slowing in the second half." The markets have almost priced out the likelihood of a rate rise at the Fed's June policy meeting. A survey from CME FedWatch suggests a 47% chance of an increase in November, with 57% suggesting it would happen in December.

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Fed chair Janet Yellen has said the Fed should "proceed cautiously" before raising interest rates, saying that global risks were not expected to have a deep impact on the US, but that caution was still appropriate. Global developments and risks had led policymakers to project a slower path of rate rises than initially expected in December, Ms Yellen said. She repeated her earlier message that volatile oil prices and China's slowing growth, along with how soon inflation would reach the Fed's 2% goal, were key factors guiding the Fed towards taking a gradual approach on raising rates.

The Rest Of The World

Nothing this week

Markets, Swaps. Libor, Gold, Sterling

UK Swap Rates

Date	2 Year		3 Year		5 Year		10 Year		20 Year	
Thurs 7th	0. 75	(-0.01)	0.80	(-0.02)	0.93	(-0.03)	1.34	(-0.04)	1.62	(-0.04)
Wed 6th	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Tues 5th	0.76	(-0.04)	0.82	(-0.04)	0.96	(-0.05)	1.38	(-0.04)	1.66	(-0.03)
Mon 4th	0.80	(+0.01)	0.86	(+0.01)	1.01	(same)	1.42	(-0.01)	1.69	(-0.01)
Fri 1st	0.79	(-0.02)	0.85	(-0.04)	1.01	(-0.03)	1.43	(-0.02)	1.70	(same)
Thurs 31st	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Wed 30th	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Tues 29th	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mon 28th	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fri 25th	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

UK Libor Rates

Date	1 Month		3 Months Libor		6 Months Libor		12 month Libor	
Thurs 7th	0.51	(same)	0.59	(same)	0.74	(same)	1.00	(same)
Wed 6th	0.51	(same)	0.59	(same)	0.74	(same)	1.00	(same)
Tues 5th	0.51	(same)	0.59	(same)	0.74	(same)	1.00	(same)
Mon 4th	0.51	(same)	0.59	(same)	0.74	(same)	1.00	(same)
Fri 1st	0.51	(same)	0.59	(same)	0.74	(-0.01)	1.00	(-0.02)
Thurs 31st	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Wed 30th	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Tues 29th	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mon 28th	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fri 25th	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

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Financial Markets – 4th February – 8th April

Index	04/03/2016	This Week	% Change
FTSE 100	6,153.61	6,167.17	+0.22%
Dax	9,767.97	9,593.04	-1.79%
CAC 40	4,424.52	4,268.76	-3.52%

Index	04/03/2016	This Week	% Change
Dow Jones	16,943.90	17,541.96	+3.53%
S&P 500	1,993.40	2,041.91	+2.43%
Nikkei	17,014.78	15,821.52	-7.01%
Hang Seng	20,176.70	20,370.40	+0.96%
Shanghai Composite	2,874.15	2,123.80	-26.10%
Sydney	5,151.10	5,018.00	-2.58%

Gold

	Price	Change	%
Forex Gold Index $/oz	1242.10	-8.15	-0.65

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	1.23890	-0.05240	-4.06	1.43680	1.10650

Sterling v Dollar

	1buys	Change	%	52 Wk-h	52 Wk-l
US Dollar	1.40950	-0.00620	-0.44	1.71520	1.40950