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THE SUNDAY TIMES

After the Brexit vote

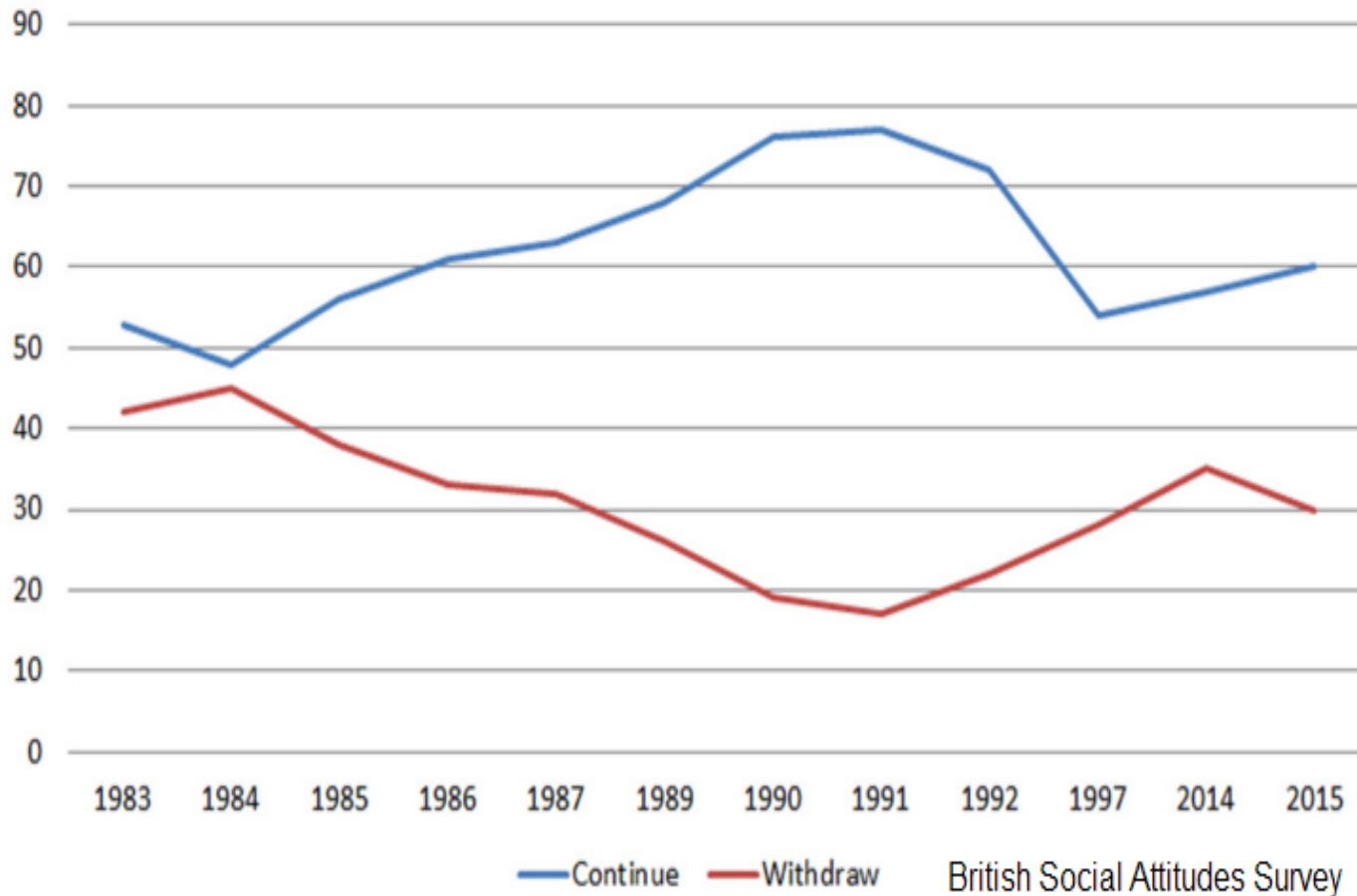
**The economic drivers
of the housing market**

The end of a not always beautiful friendship



Voters had traditionally supported EU membership

UK attitudes to EU membership over the years



But not on June 23

Results in full

Leave

51.9%

17,410,742 VOTES



Remain

48.1%

16,141,241 VOTES

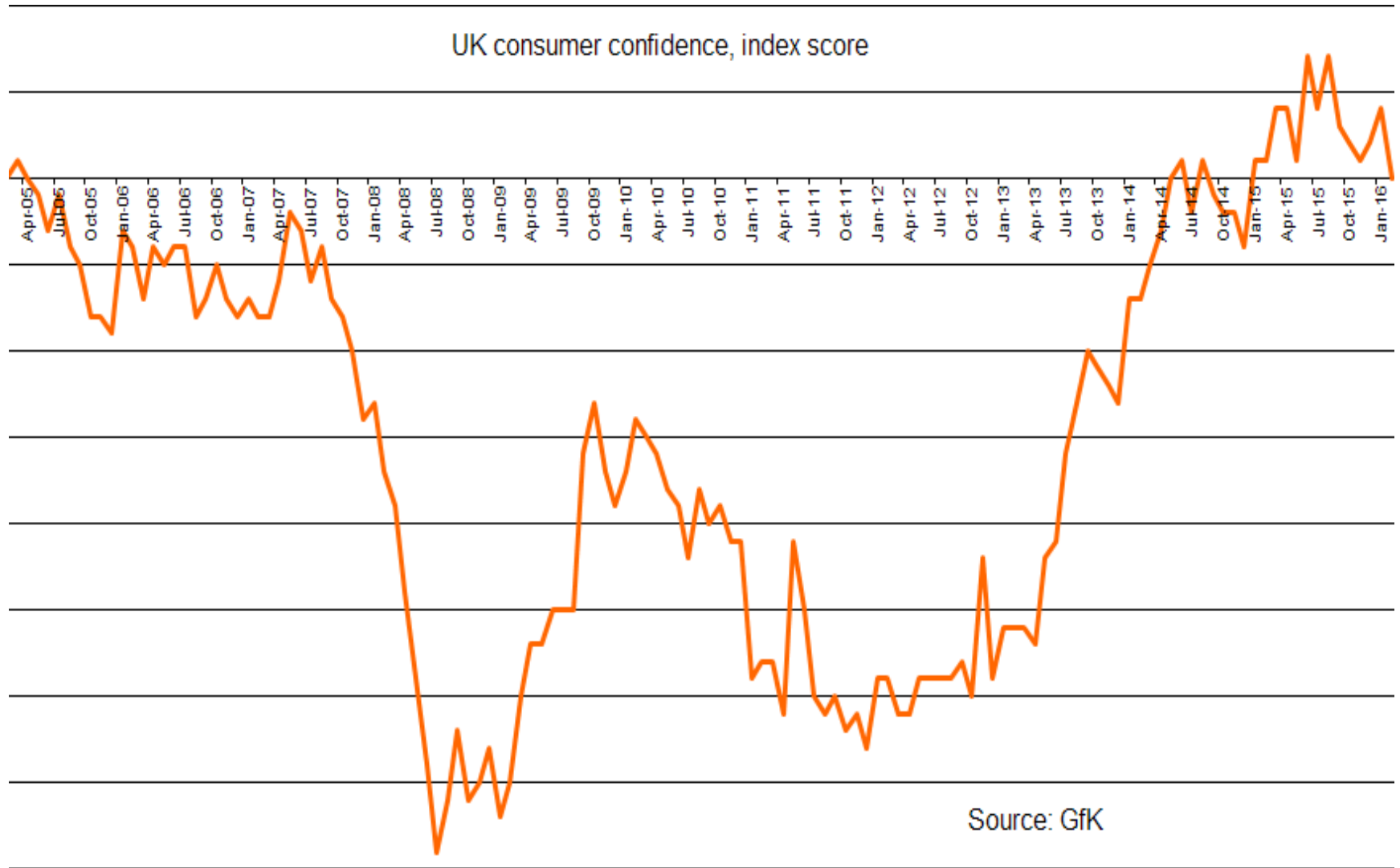
LEAVE

UK votes to **LEAVE** the EU

Greek and migrant crises exposed EU divisions

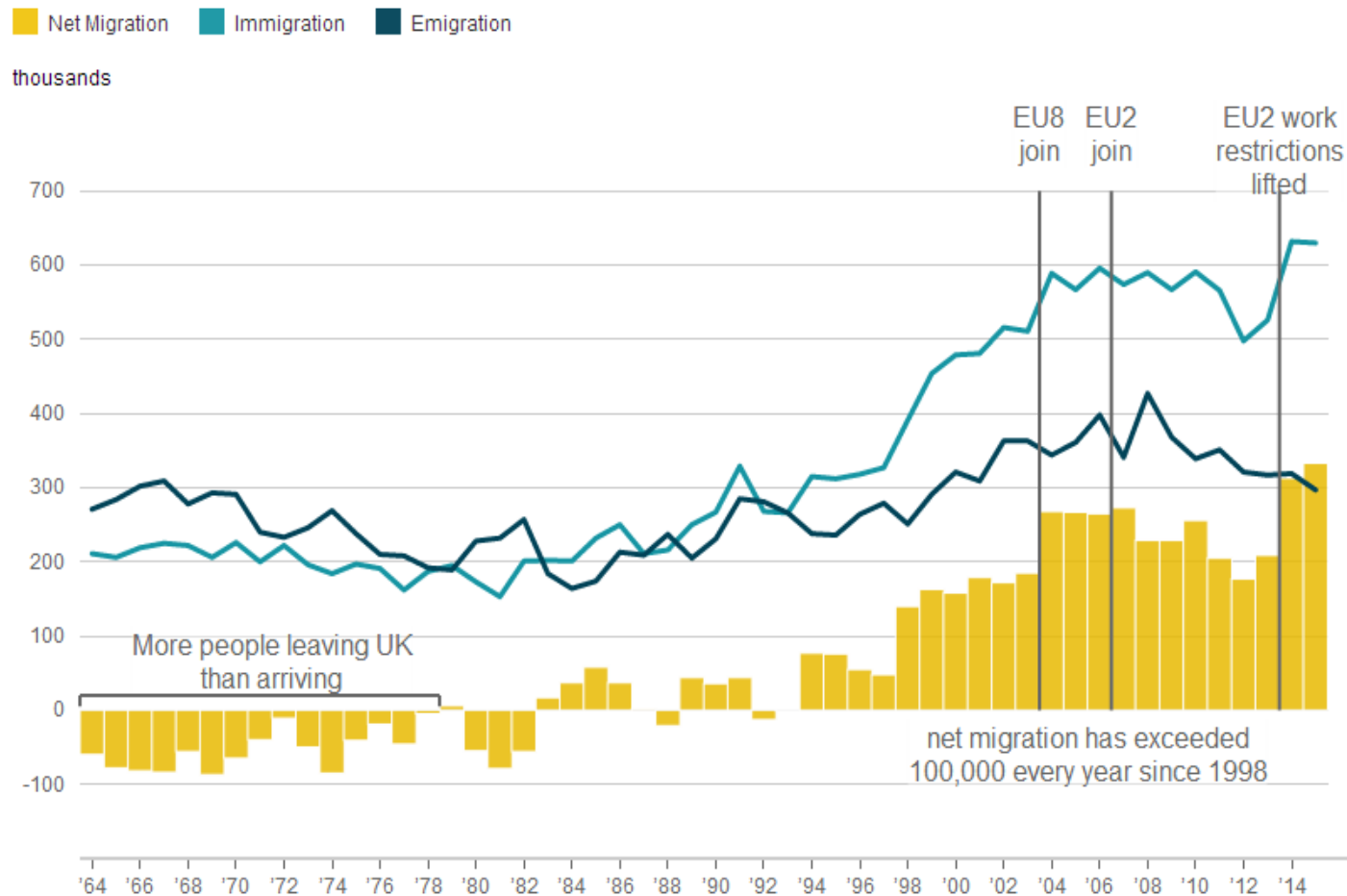


Consumers felt confident enough to risk change

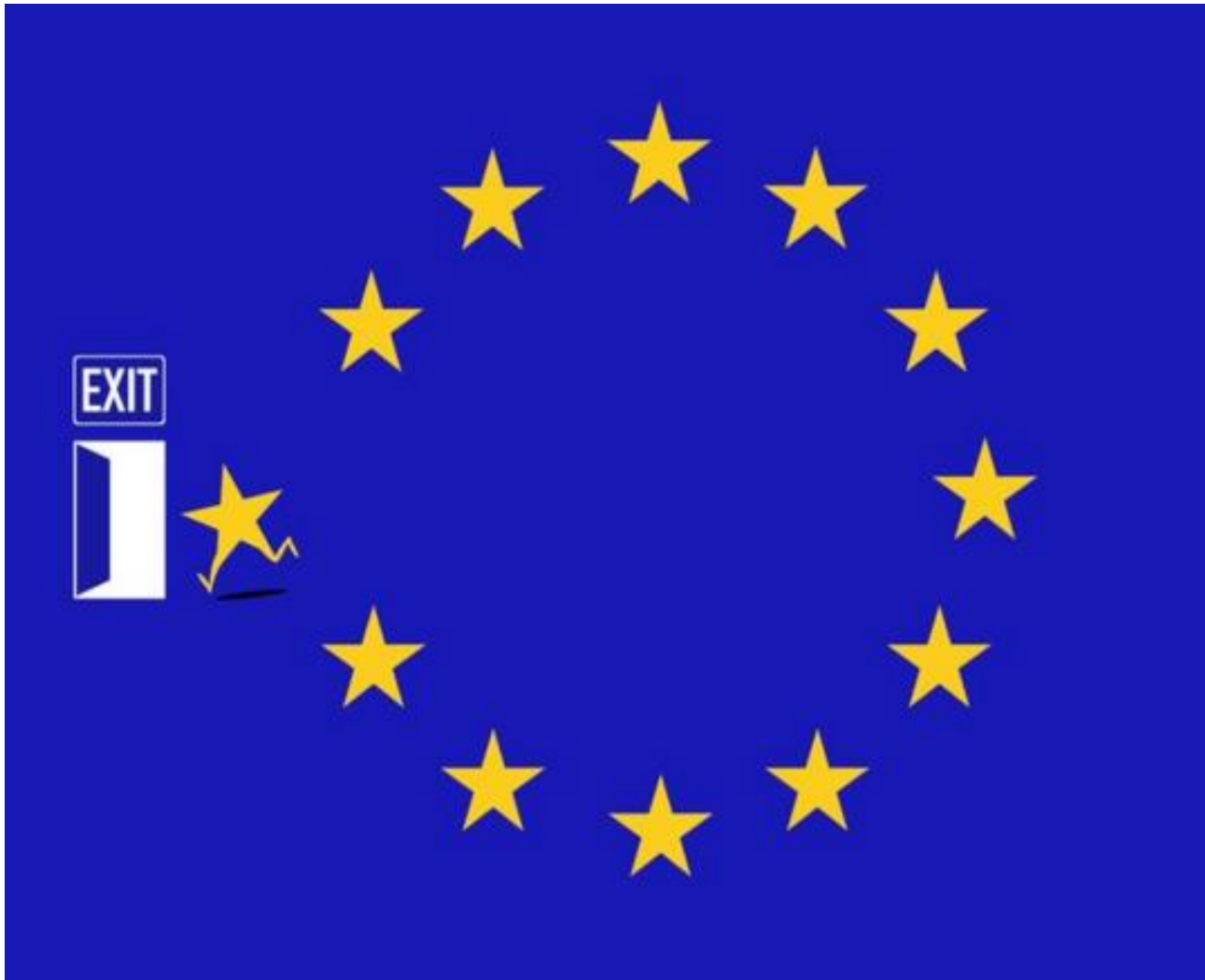


And high migration was the trump card for “Leave”

Long-Term International Migration, UK, 1964 to 2015



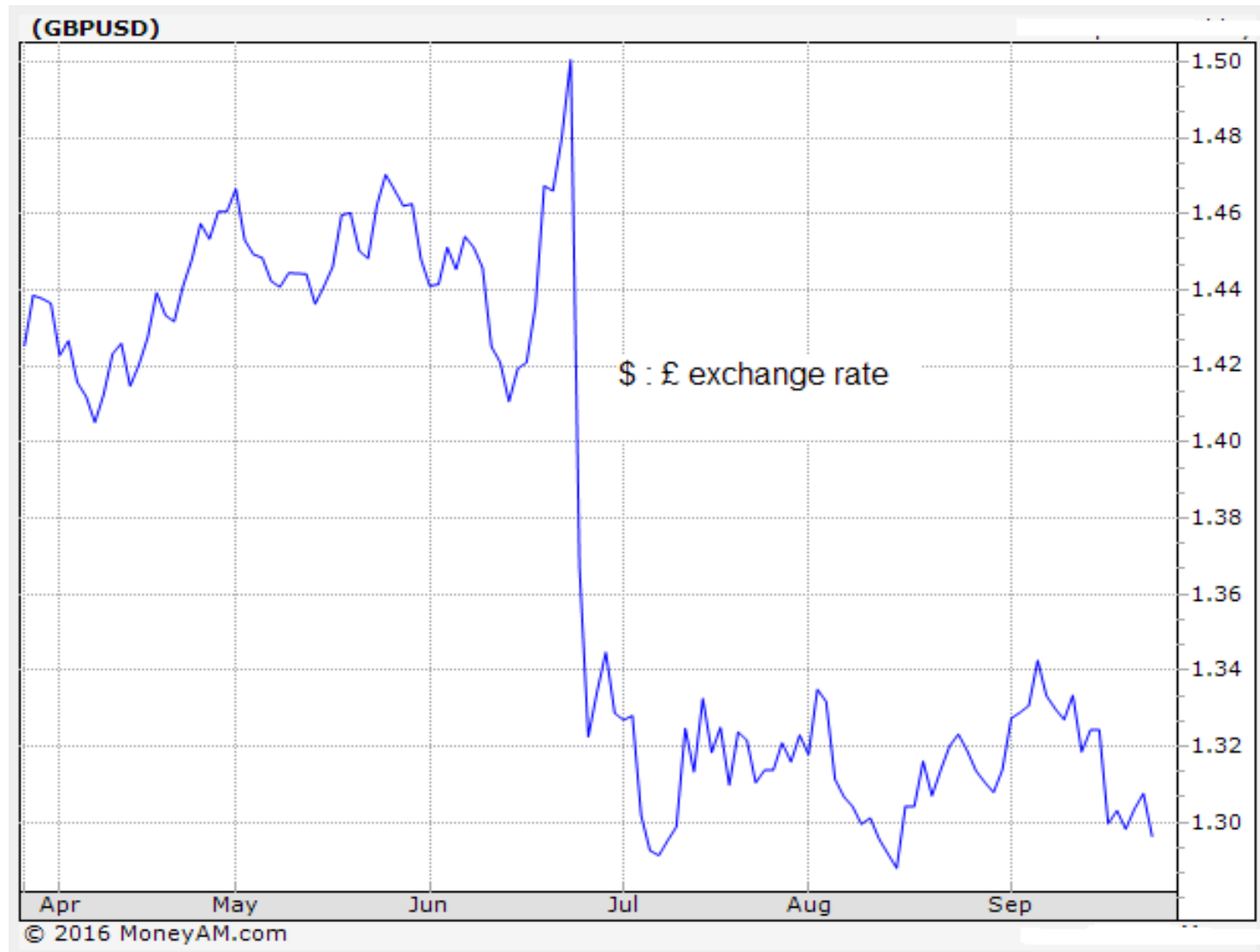
Where do we go from here?



The three stages of Brexit

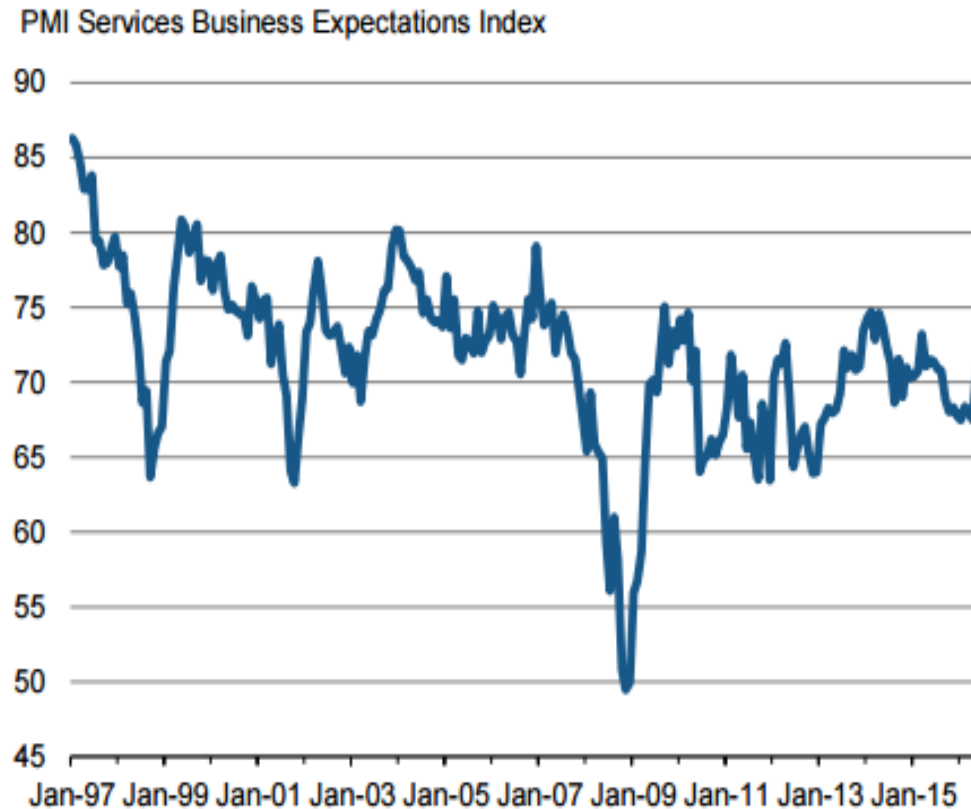
- The initial political, financial and economic shock.
- The invoking of Article 50.
- The post-Brexit settlement, both with the EU and with other countries.

Sterling fell sharply on the referendum result



As did confidence and economic activity

UK Services Business Expectations

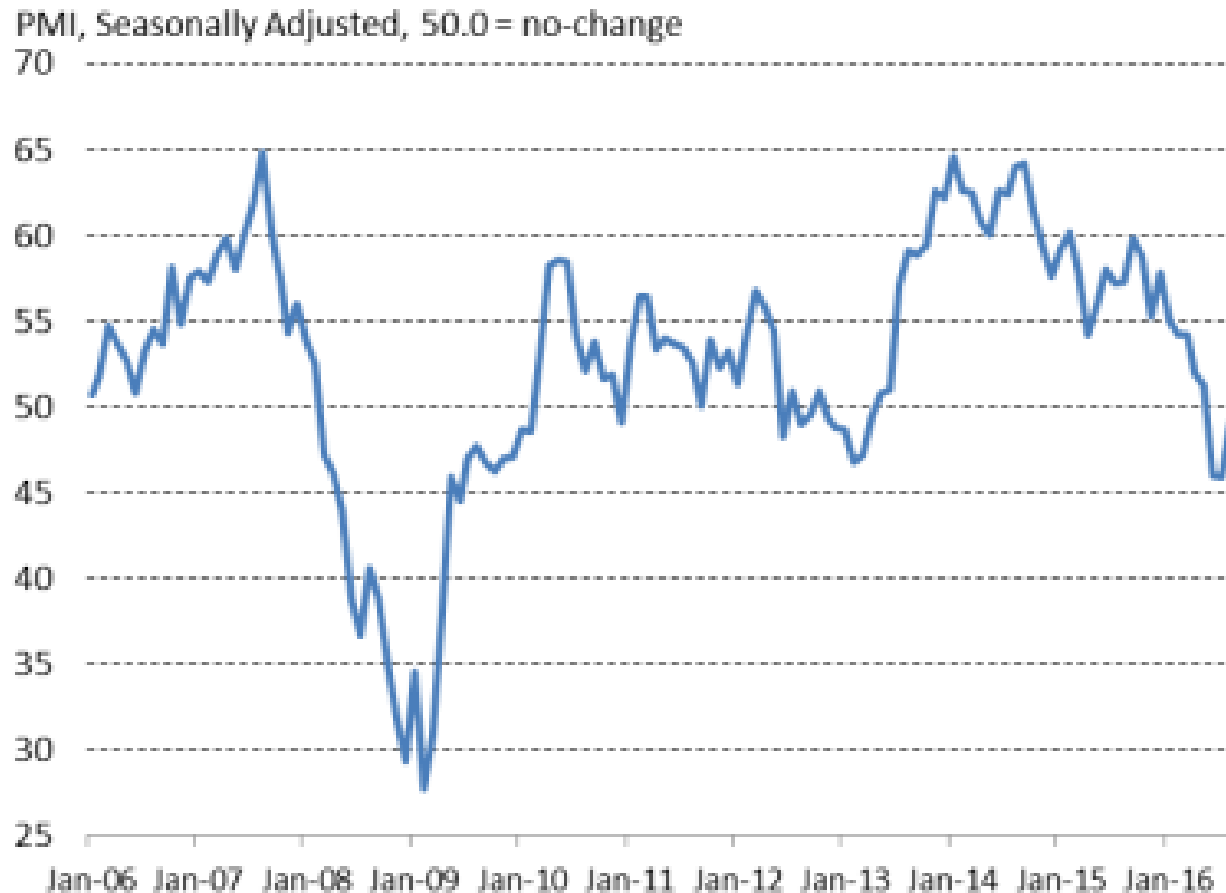


Source: Markit

But activity bounced back in August

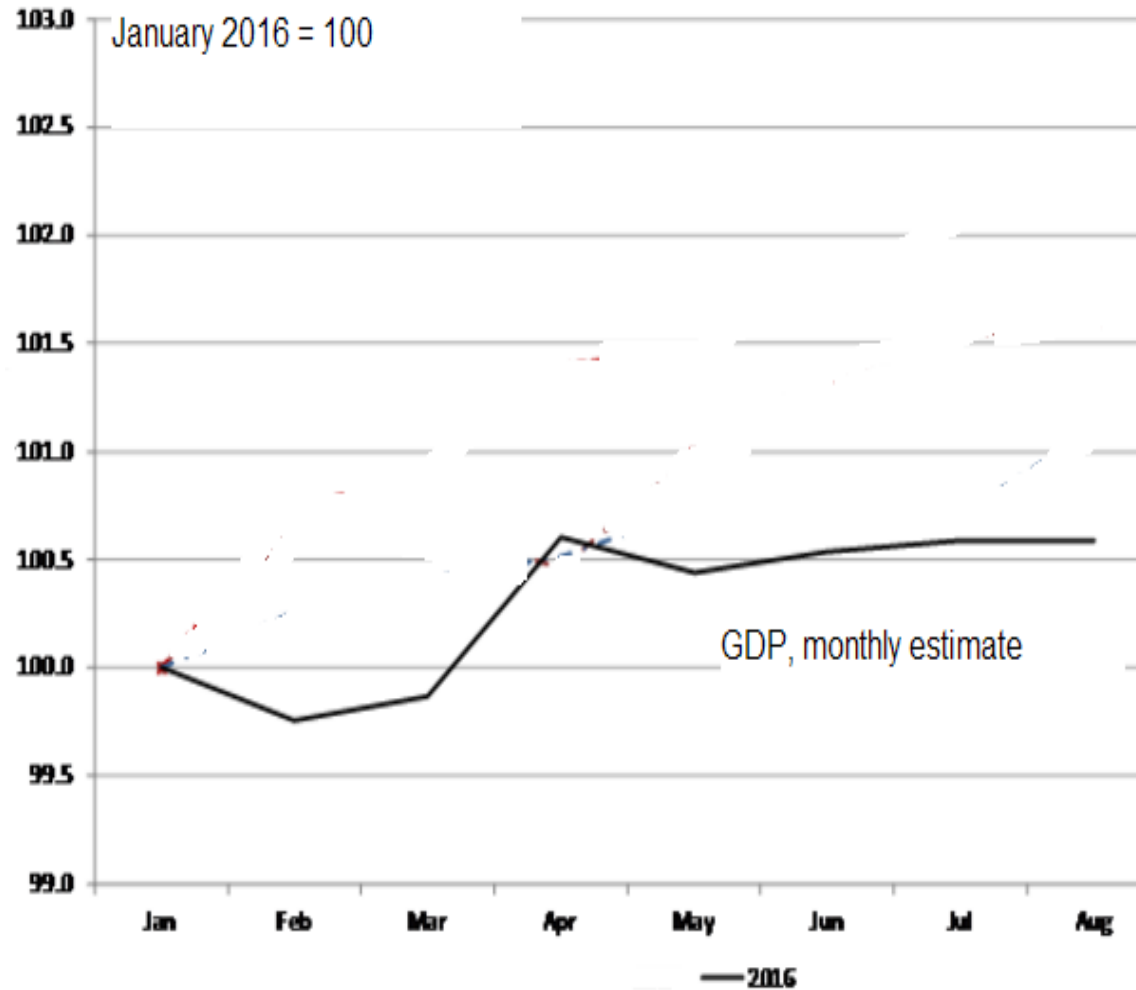


Including in the construction sector



Source: IHS Markit/CIPS

Though GDP looks fairly flat



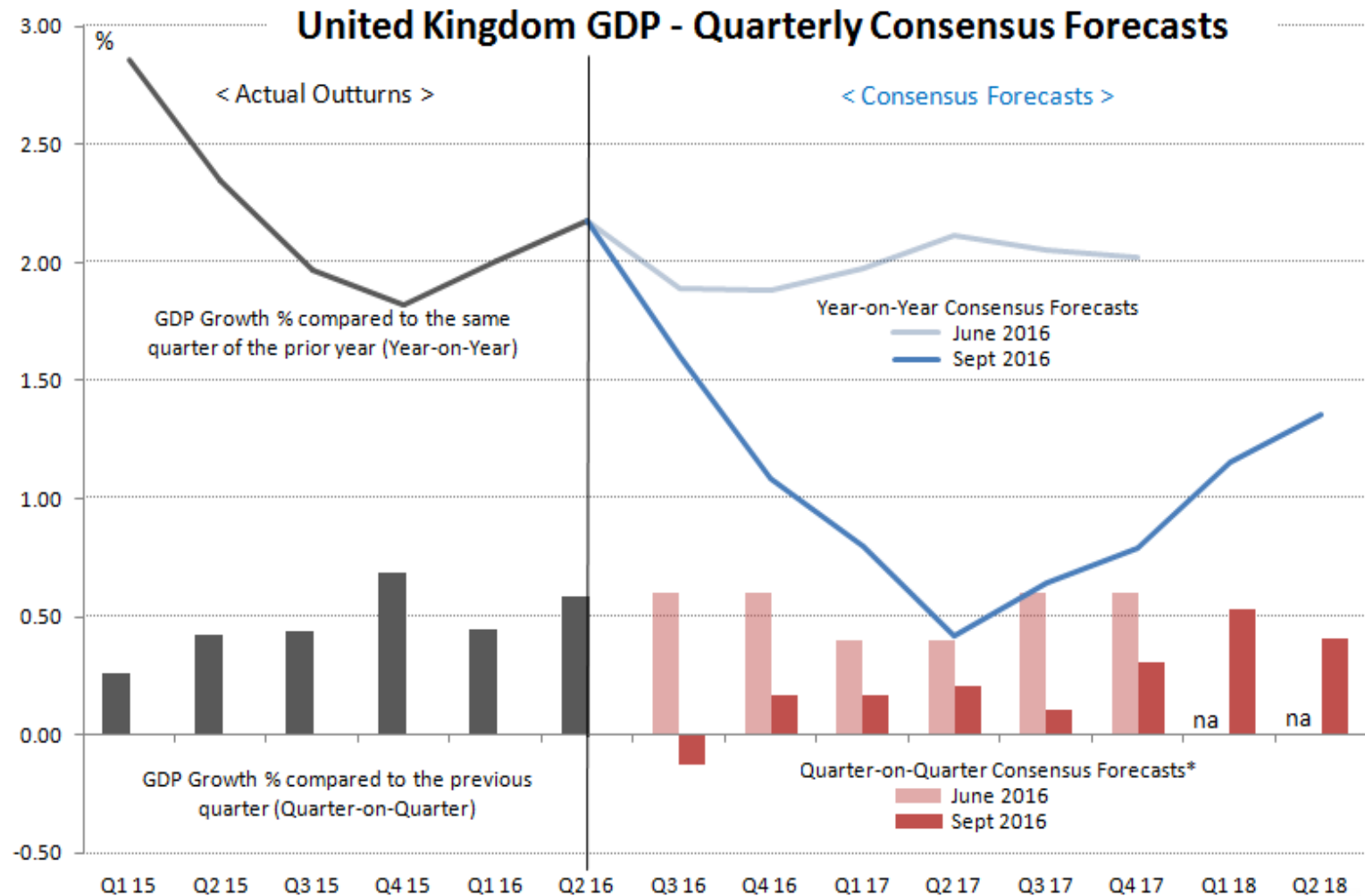
And forecasters see slower growth ahead

Average GDP growth forecasts, post-Brexit compared with pre-Brexit:

- 2016 1.6% (1.9%)
- 2017 0.7% (2.1%)

Source: H M Treasury

Though we should just about avoid recession



* Quarter-on-Quarter forecasts derived from our Year-on-Year surveyed forecasts

www.ConsensusEconomics.com

Why should growth slow?

- Businesses more cautious about investment: projects cancelled or deferred.
- This caution may also extend to recruitment.
- Household incomes will be squeezed by rising inflation.

The Bank is minded to cut again

“News on the near-term momentum of the UK economy had, however, been slightly to the upside relative to the August Inflation Report projections. The Committee would assess that news, along with other forthcoming indicators, during its November forecast round. If, in light of that full updated assessment, the outlook at that time was judged to be broadly consistent with the August Inflation Report projections, a majority of members expected to support a further cut in Bank Rate to its effective lower bound at one of the MPC’s forthcoming meetings during the course of the year. The MPC currently judged this bound to be close to, but a little above, zero.” **Bank of England September minutes.**

Britain's post-Brexit future is up in the air



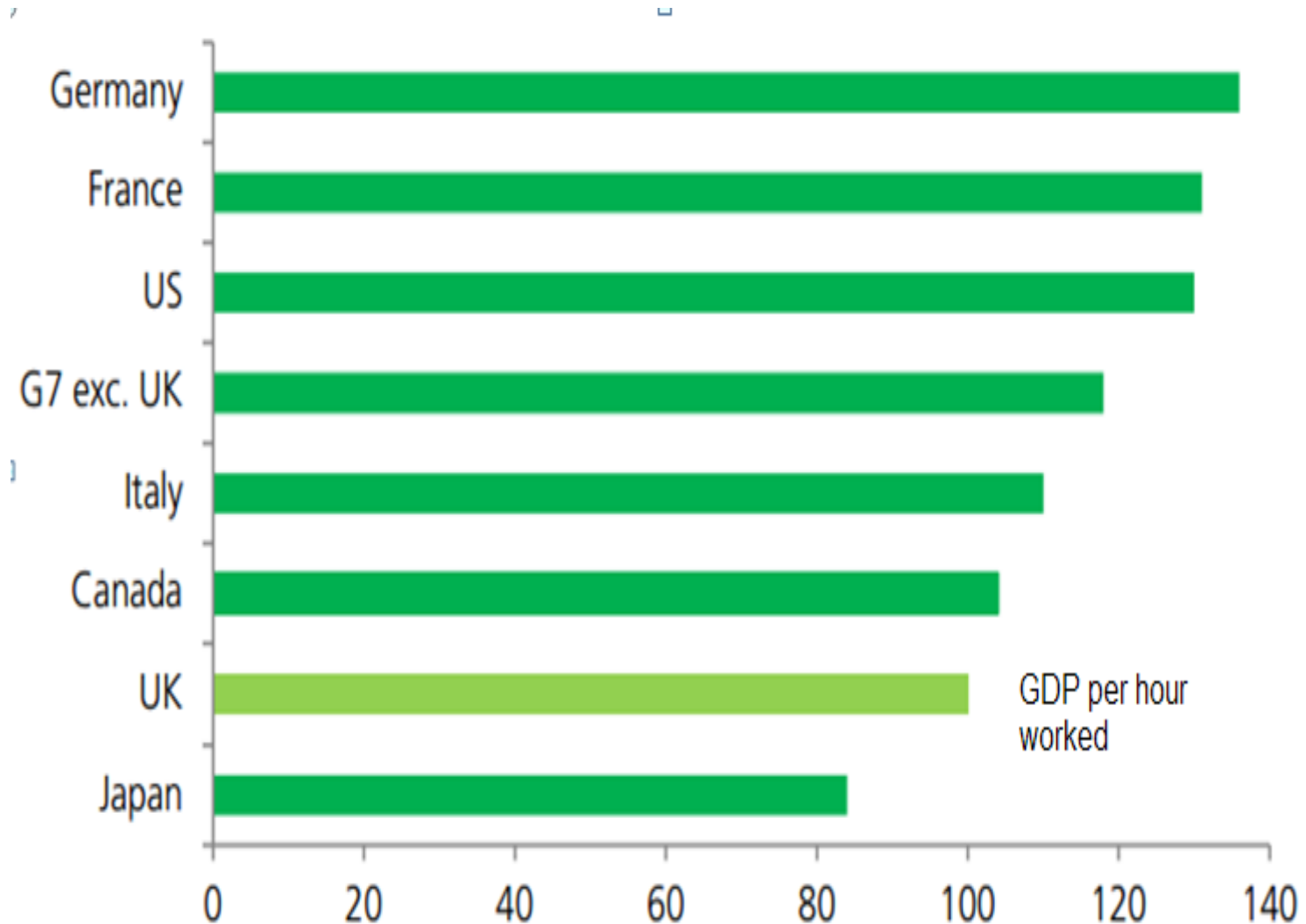
Could Brexit not happen?

- Some months before Article 50 is triggered.
- Economic pain/broken promises could shift the national mood.
- Some parties pledge to campaign in general election to maintain EU membership.
- But a very low probability on Brexit not happening – little sign yet of buyers' remorse. Brexit appears to mean Brexit.

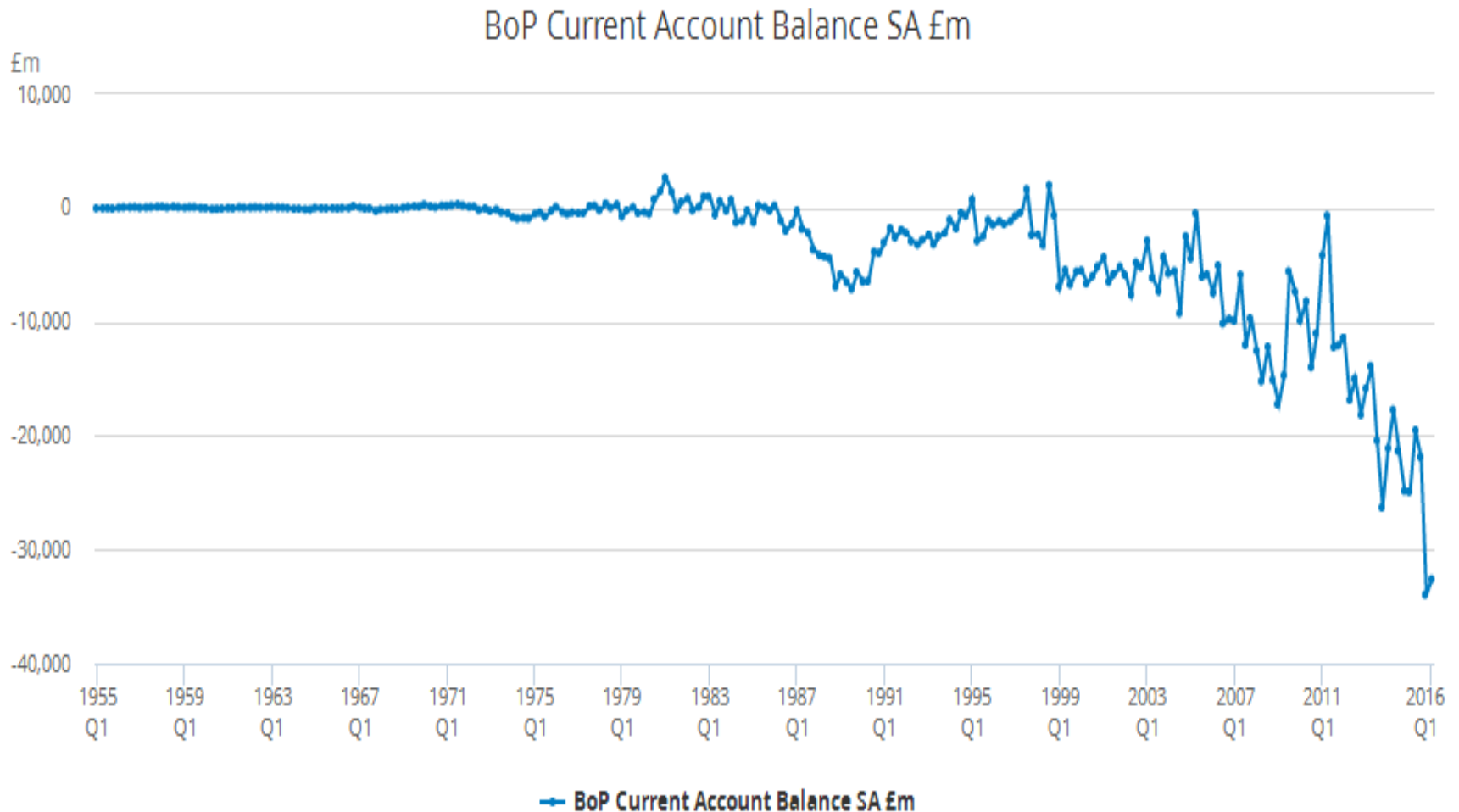
How to achieve a good Brexit outcome

1. Address the economy's underlying weaknesses.
2. Make the Article 50 process clear and transparent & aim for a Brexit which retains as many of the benefits of the single market and free movement as possible.
3. Work now to shorten post-Brexit trade negotiations with other countries.

Tackling low productivity is essential



And a chronic current account deficit



What business wants post-EU

- As close as possible to current membership of the single market.
- As quick a set of non-EU trade deals as is possible.
- Immigration arrangements that are better than current non-EU arrangements.

What business may get

- A prolonged period of uncertainty.
- An eventual deal that is clearly inferior to current membership of the single market.
- Only slow progress on non-EU deals
- A loss of Britain's appeal to foreign direct investors.
- Immigration arrangements that are bureaucratic and inefficient.

The good news for housing

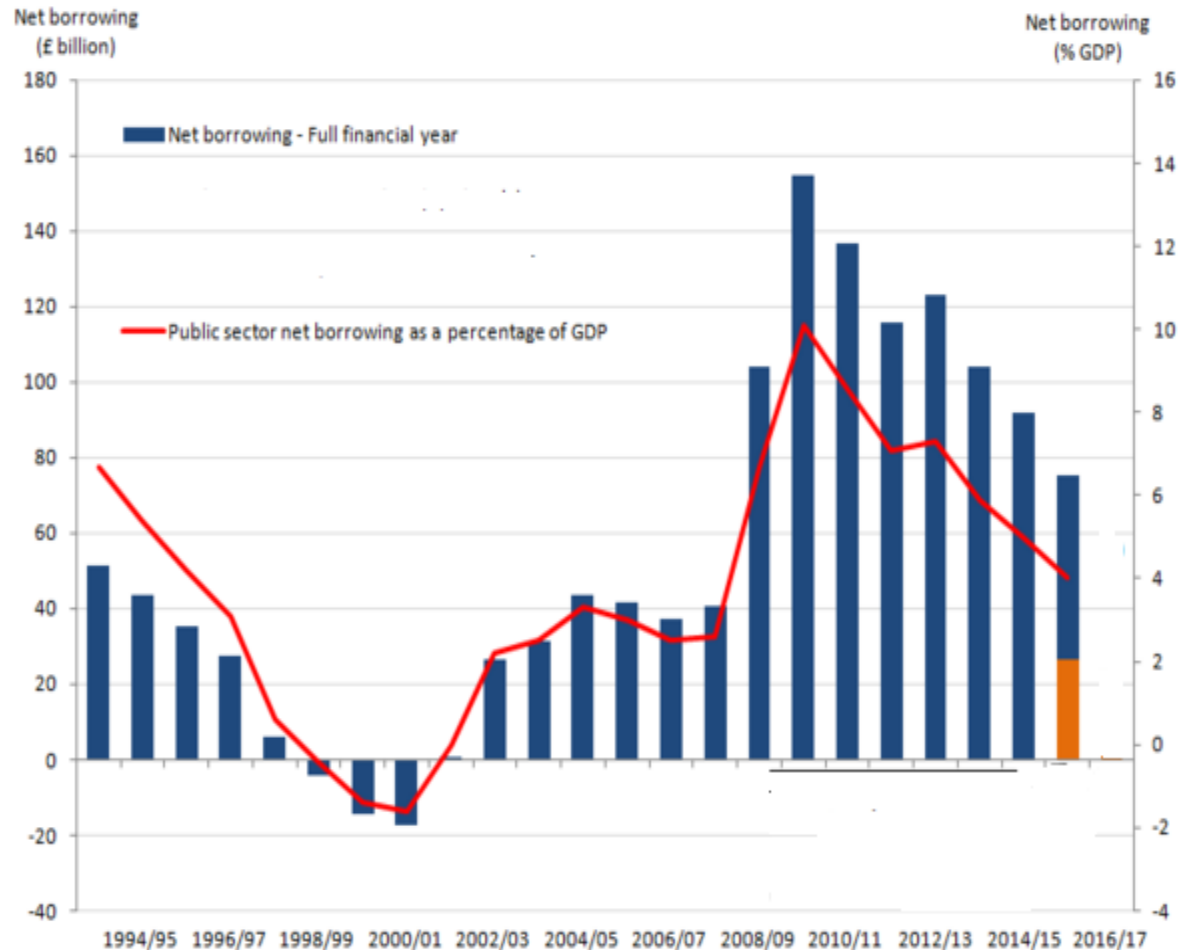
- All-party agreement on the need to prioritize housing in the wake of the Brexit vote.
- It will be surprising if Philip Hammond's Autumn Statements does not feature some housing initiatives.
- Interest rates are set to remain lower for longer.

The bad news for housing

- We've had plenty of promises on housing from government before.
- If “taking back control” means few EU skilled migrants it will pose problems for the industry.
- In a tougher growth environment, the employment backdrop may be less favourable.

There is not much room for fiscal manoeuvre

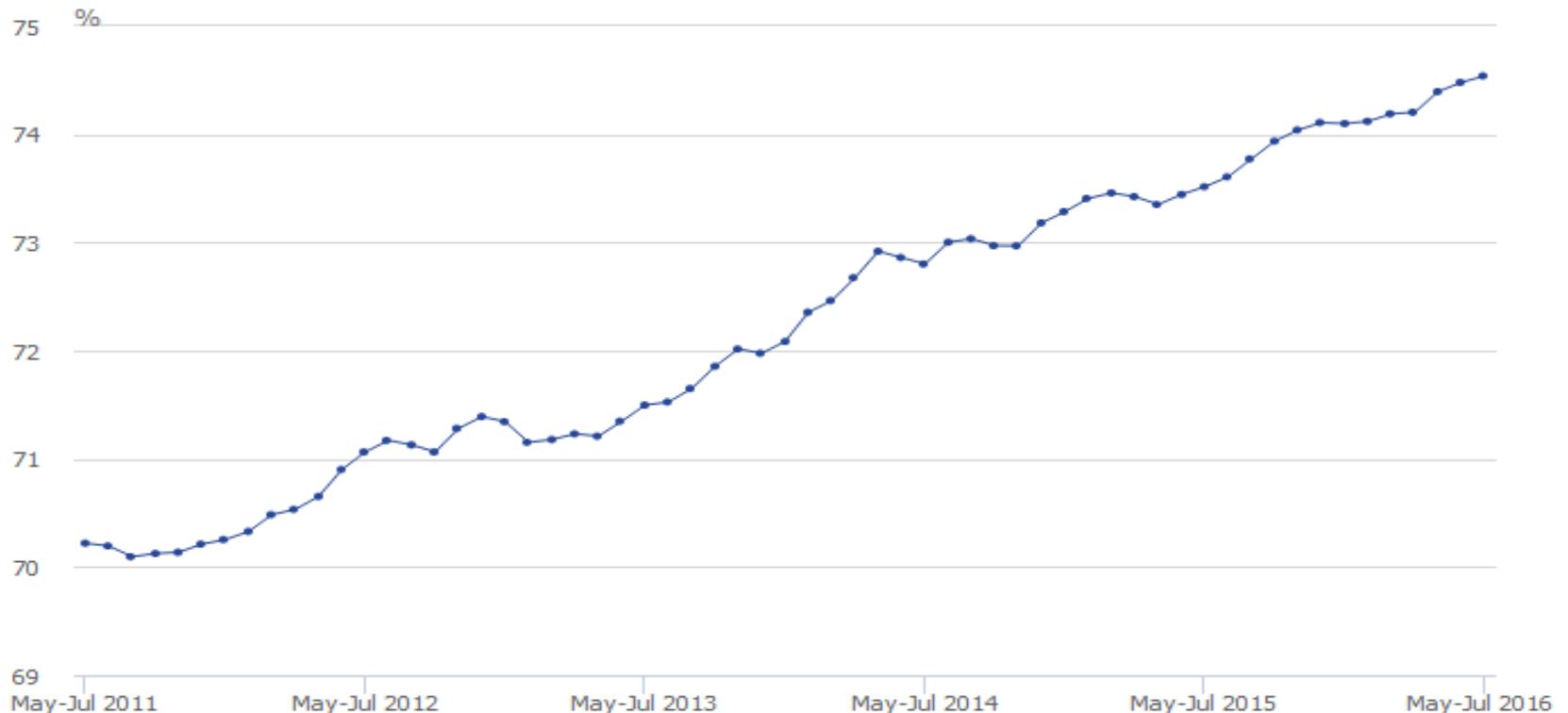
UK public sector borrowing, April 1993 to July 2016



After strong growth, employment may soften

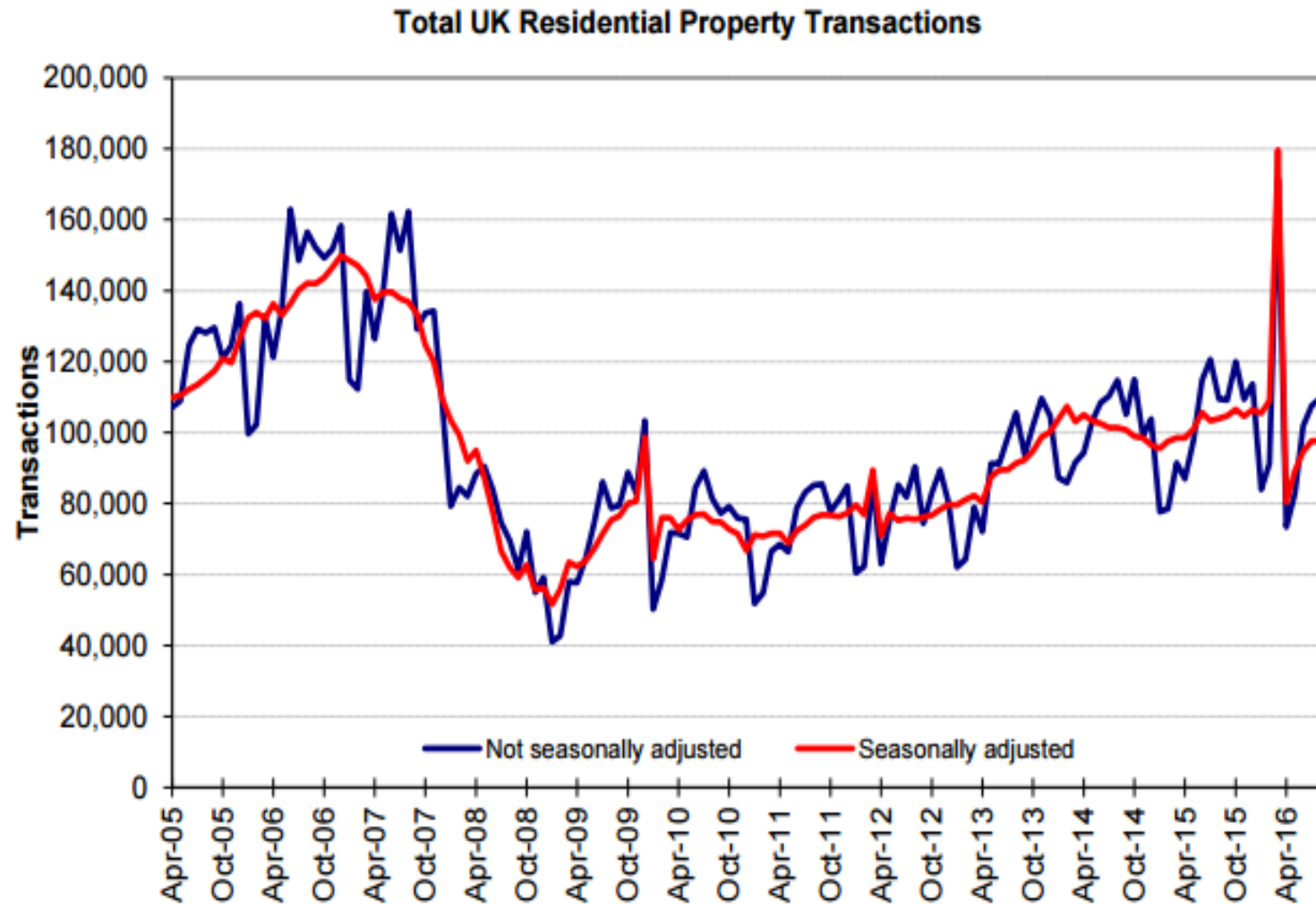
**UK Employment rate (people aged 16 to 64),
seasonally adjusted**

May to July 2011 to May to July 2016



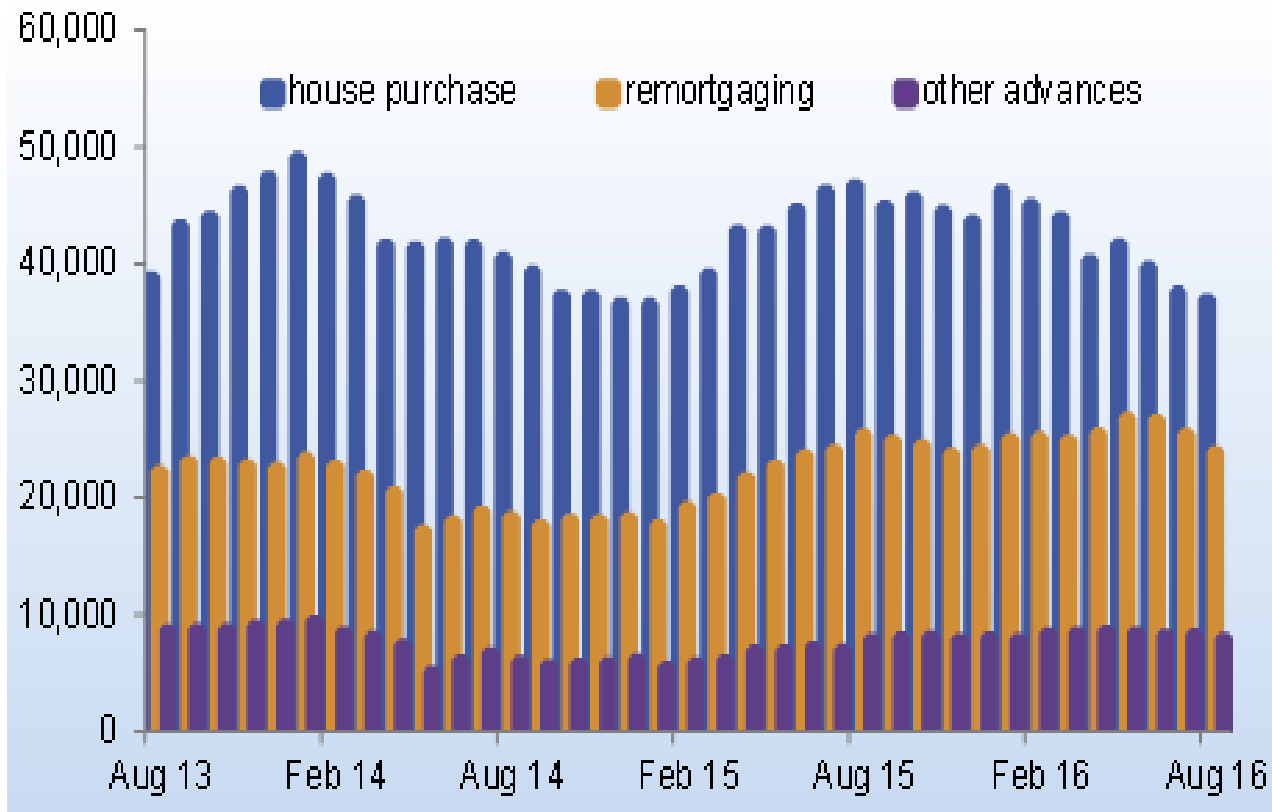
Source: Labour Force Survey: Office for National Statistics

Housing transactions have yet to fully recover

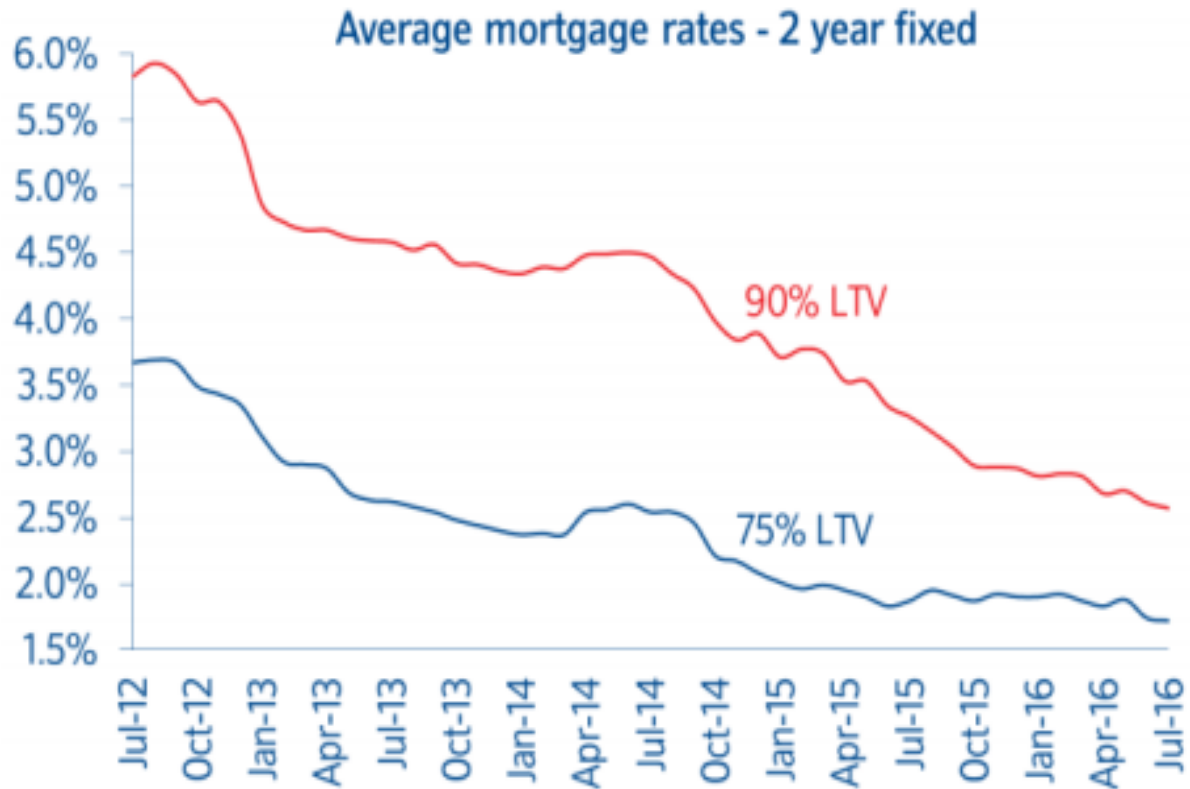


Mortgage approvals are weak

Number of approvals

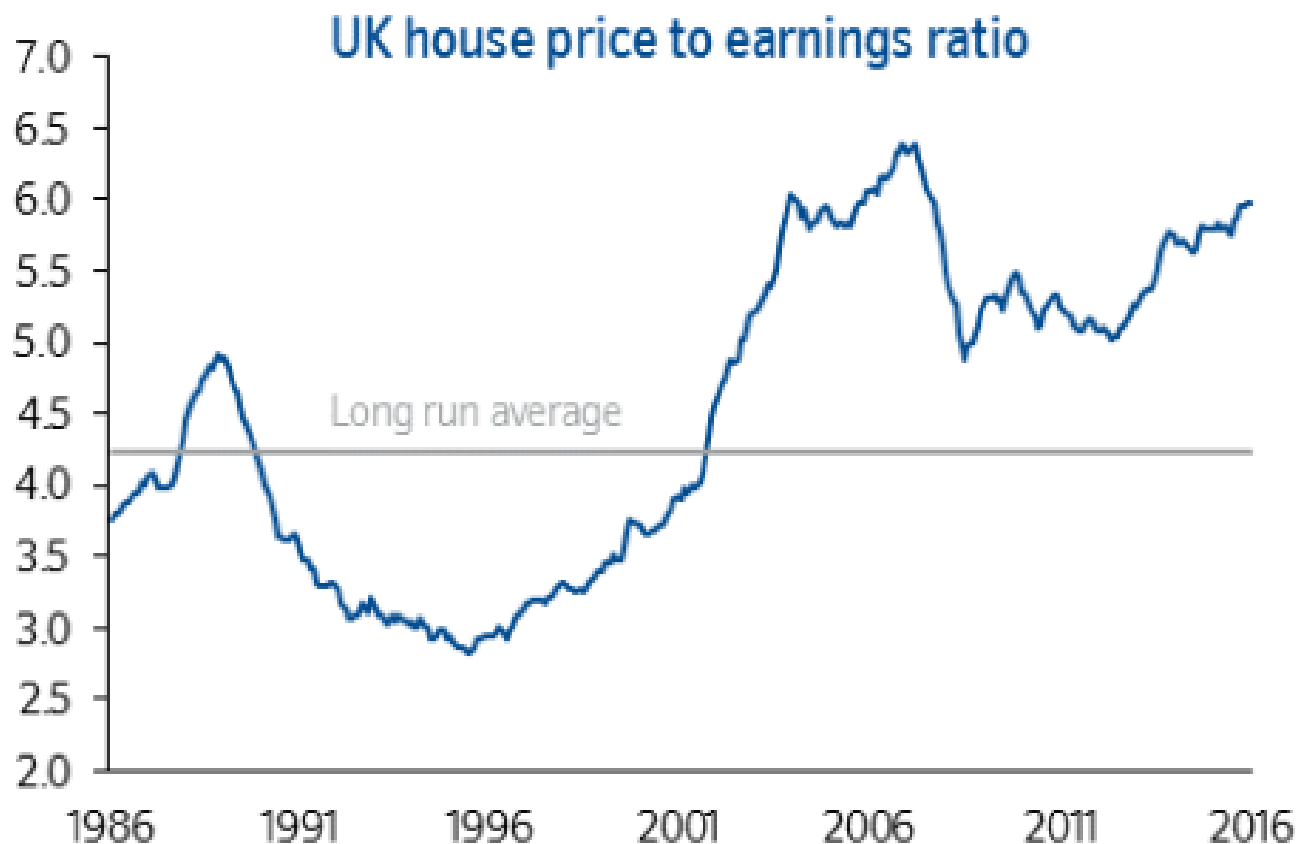


Despite falling mortgage rates



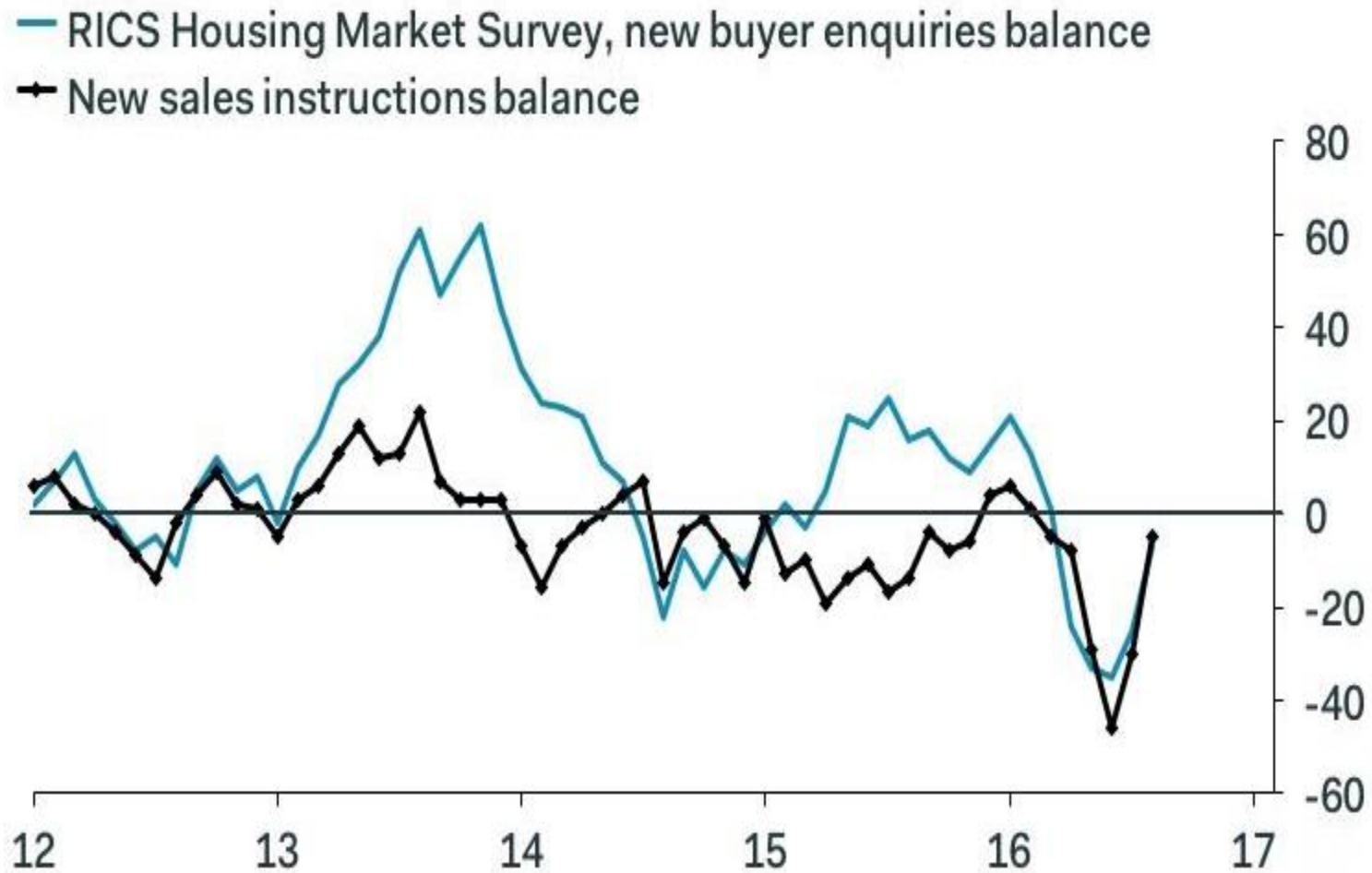
Source: Bank of England

Even at low rates, affordability's an issue



Source: Nationwide, ONS

Cautious buyers, reluctant sellers



So keep counting those skips

