

## THE MILLION DOLLAR (MORTGAGE) QUESTION

**When will the Bank of England raise interest rates? This was the question economists were hoping to answer after flurry of data from the central bank last week. Meanwhile average house price growth has eased, yet activity has picked up in the wake of the election.**

### Key facts August 2015

**UK house prices rose by 0.4% in July**, taking the annual increase to 3.5%

**Prime central London prices rose by 0.4% in July**, but annual growth remained flat at 2%

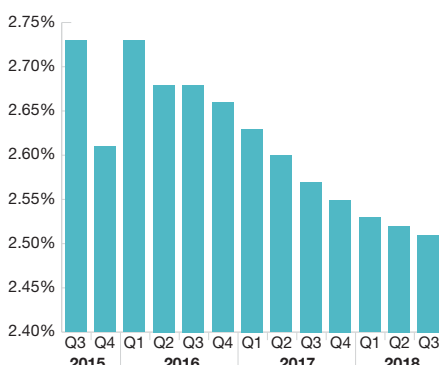
**Rents in prime central London fell by 0.1%**, taking annual growth to 2.9%

**House price sentiment positive in July**, for 28th consecutive month

### UK housing market and economic overview

#### GDP growth forecast\*

Annual rate of growth



Source: Bank of England

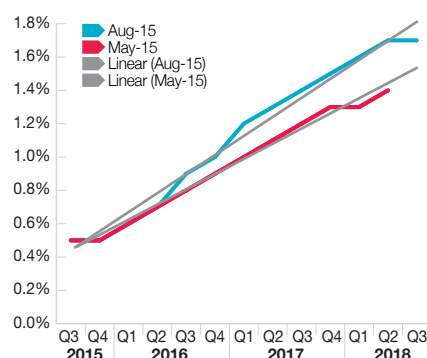
\*based on market interest rate expectations  
Central forecast only (mode)

August 6th may be remembered as 'Super Thursday' for achievements on the cricket pitch rather than because of the flurry of economic data from the central bank.

The Bank now expects 2.8% GDP growth this year, up from 2.5%. The central bank then expects annual growth to ease from next year, although this is in line with previous forecasts.

#### Implied rate rises

Conditioning path for Bank Rate implied by forward market interest rates, early August 2015



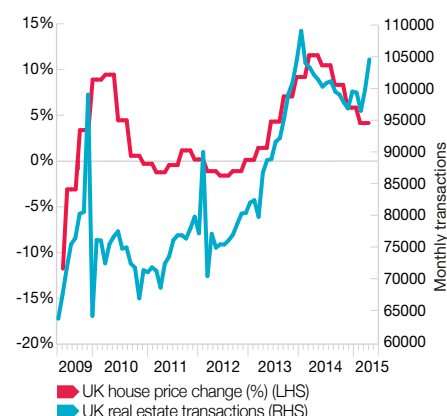
Source: Bank of England

More encouragingly, the data signalled the first rise in productivity since the financial crisis. This is positive news; such an increase is needed to ensure that wages can rise without stoking inflation. Policymakers will be hoping that this "missing piece of the recovery puzzle" will still be evident in months to come.

The big question, however, especially for mortgage borrowers, is **when will rates rise?** In his comments, Mark Carney, the Bank of England governor, was cagey saying that a rate rise was "drawing closer" but that it could not "be predicted in advance". David Miles, another member of the MPC committee has since told the BBC that the longer the MPC leaves rates at 0.5%, the faster they may need to rise in the future.

#### Market trends

Prices and activity



Source: Macrobond

Markets are still broadly pricing in the first rate rise in Q1 or Q2 next year.

While discussing whether to raise interest rates or not, the Bank's MPC touched on the housing market, noting that renewed confidence in the market could help underpin consumer spending. While price growth has slowed in recent months, activity levels have been on a broad upward trajectory since 2012, although political uncertainty affected the market in the run up to May's election.



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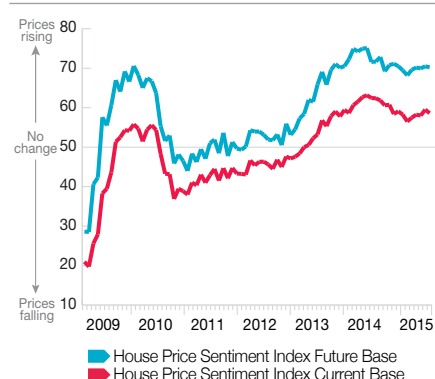
"The news from the Bank of England was perhaps less decisive than the result at Trent Bridge, but was broadly positive."

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## House Price Sentiment index

July 2015



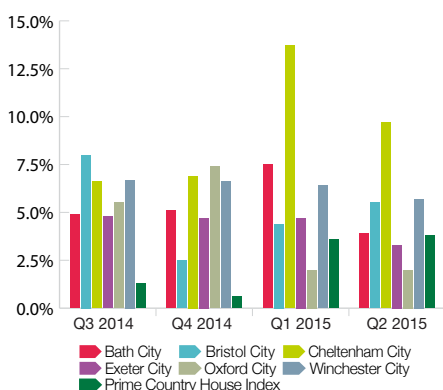
Source: Macrobond

The future house price sentiment index ticked down in July, although it remains firmly in positive territory suggesting that households expect prices to rise over the next 12 months.

## Prime property markets

### Prime Country price

Annual rate of growth %



Source: Macrobond / Knight Frank Research

Prime country house prices rose by 2.3% in the year to the end of Q2, but several city markets have outperformed this rate of growth, most notably in Cheltenham and Bristol where prices are up 9.2% and

5.1% respectively. There is more detail on these and other cities including Bath and Oxford on Global Briefing, the residential research blog.

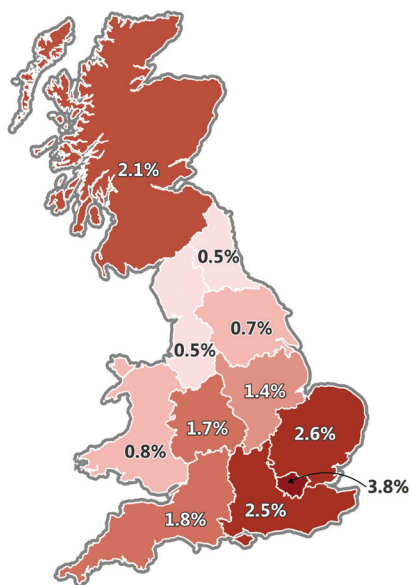
Annual price growth in prime central London remained unchanged at 2% in July, while values slipped by 0.1% on the month, as December's stamp duty changes continued to be felt in the capital.

The weight of the stamp duty burden being borne by London was revealed as Knight Frank research showed that while around 13% of transactions happened in the capital in the first quarter of the year, these made up 47% of stamp duty revenues. You can read more on this on Global Briefing.

## Rental market

### Annual growth in rents

Year to end June 2015 %



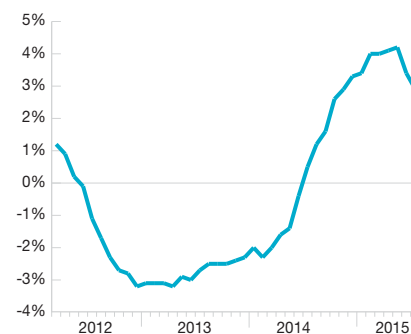
Source: ONS

Average rents rose by 2.5% in the year to July, according to the most recent data from the ONS. This is up from the average

1.5% growth seen in the year to July last year, but remains below the 2.8% growth seen in July 2012. However the pace of growth remains regionalised, as shown in the map below. The latest rental trends are examined in more detail in the latest Private Rented Sector Update.

## Prime Central London rents

Annual rate of change %



Source: Knight Frank Research

Prime central London rents fell by 0.1% in July, taking the rate of growth to 2.9% amid more subdued demand from the financial services sector.

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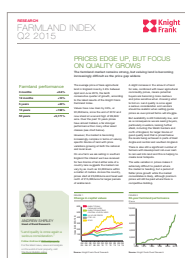
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