

UK economy

Housing market starts 2011 on downward trend

- **PMI data showed a slump in house building in December.**
- **Data signal further fall in house prices.**

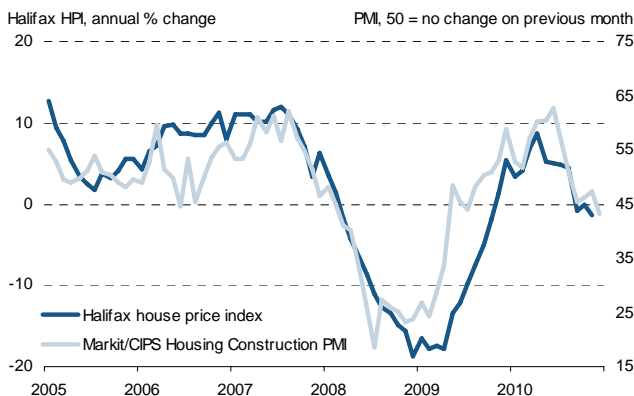
The Markit/CIPS construction PMI showed a fall in housing sector activity for the fourth consecutive month in December. The rate of decline gathered pace to hit a 20-month high. The data suggest that the weakening in recent house price data has further to run.

House building slumps

Purchasing executives in the construction sector reported a sharp fall in housing sector activity in December. Although bad weather undoubtedly hit activity, the latest number continues a weakening trend that has been evident since last spring.

The PMI survey had shown that housing activity had risen throughout the 12 months to August. Growth surged in the spring, but has since gone into reverse with the rate of decline in December sliding to the fastest since April 2009.

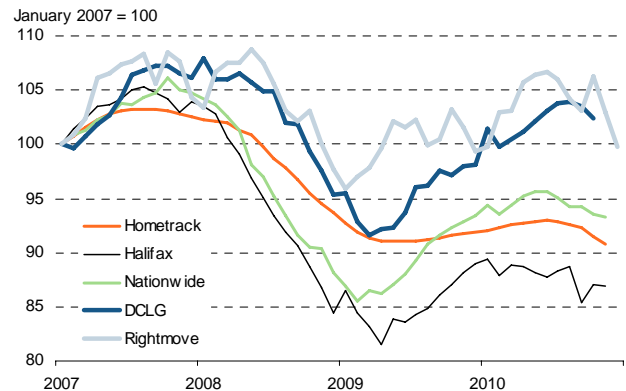
Housing construction activity



The PMI provided an early insight into the revival of house prices in early-2010, as well as the subsequent easing in prices which is becoming increasingly evident from the variety of house price indices that are published. The most recently available house price data were published by the Halifax, which showed a 1.4% drop in prices in the year to November. The

decline was the largest since October 2009. House price data should be treated with some caution, as selling volumes have been thin since the recession, but a weakening trend in prices is also becoming apparent in data from Hometrack, the Department of Communities and Local Government, the Nationwide and Rightmove.

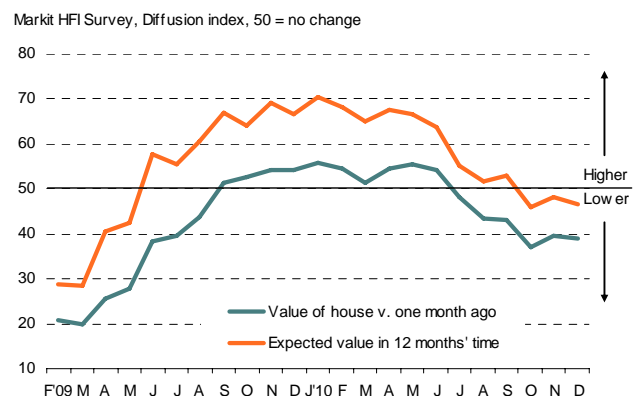
House price indices compared



House prices set to fall in 2011

The deteriorating trend in house building therefore signals a sluggish property market as we move into 2011, something which is corroborated by Markit's Household Finance Index survey. This showed that households considered the value of their properties to have fallen for the sixth month running in December and that prices were expected to fall in 2011.

House prices perceptions



Households in all major English regions and Scotland and Wales expect the value of their properties to fall in 2011 with the exceptions of Scotland and London. This is a huge contrast to late 2009, when all regions expected prices to rise.

Households in the East Midlands are the most pessimistic about house prices in 2011, followed by the the South West and East of England (see table at end of note).

Markit Household Finance Index: Households' expectations of the value of their property in 12 months' time

50 = no change. Readings above 50 signal an expected increase while sub-50 readings signal an expected decrease

Regions ranked from most to least pessimistic in December 2010.

	Dec 2009	Dec 2010
East Midlands	66.3	40.7
South West	66.7	41.4
East of England	65.5	41.4
Wales	67.2	43.3
West Midlands	68.8	44.0
Yorkshire and Humber	67.1	44.7
North West	61.8	46.6
South East	68.3	47.3
North East	66.4	48.3
London	66.0	52.4
Scotland	69.9	56.9

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