

# UK housing market

Construction industry PMI data add to housing market recovery hopes, but also highlight fragility of market

## Construction PMI Housing Index dips in June but remains well above recent lows

The Housing Index from the CIPS/Markit Construction PMI survey fell slightly in June, but the fall represented only a slight step back from the surprisingly strong record rise seen in May, which had taken the Index to an 18-month high. Importantly, the average index reading for Q2 was the highest since the first quarter of last year and well above the levels seen throughout much of last year and Q1 of this year.

Although signalling a further drop in house building activity in both June and Q2 as a whole, the PMI data provide a clear indication of turning points in both official data on new housing starts and house prices. An increase in the latter is supported by findings from the new Markit/YouGov Household Finance Index (HFI) survey, which showed a strong improvement in June in households' views about both recent house price movements and the likely trend over the next 12 months.

### House building to rise again in Q2 ...

Official data showed that 18.3k new houses were started in Q1, up from the all-time low of 16.3k seen in Q4 of last year, but still well below the average of 36.8k recorded over the 19-year history of the series.

The recent low in the official series was signalled in advance by the record low for the PMI Housing Index, registered last July. The index remained at near-record lows throughout the second half of last year, but rose sharply in April and May before losing some of this gained ground in June. Nevertheless, the sharply slower rate of contraction signalled by the PMI index in Q2 as a whole is consistent with the quarterly official data on housing starts also continuing to recover at a robust pace from the record low of Q4.

To attempt to quantify this comparison, a simple linear regression indicates that the PMI data are equivalent to approximately 27k new house starts in Q2, taking

Chart 1: House building

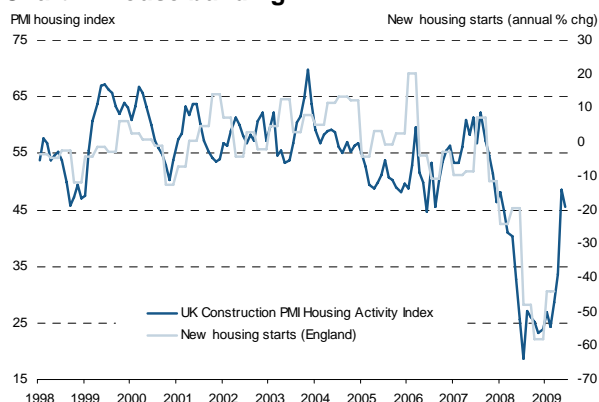


Chart 2: House prices

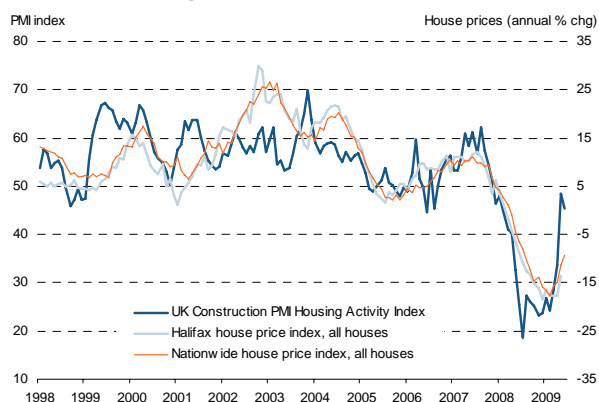
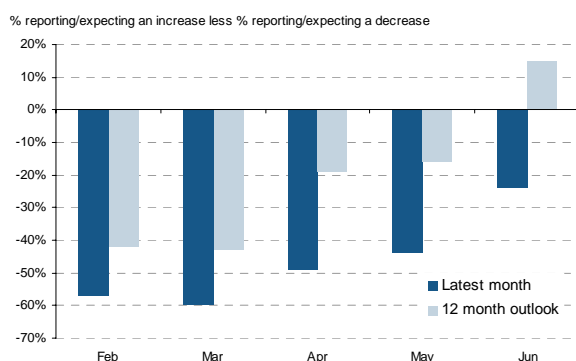


Chart 3: Markit/YouGov house price survey



Sources: Markit, Halifax (HBOS), Nationwide, ONS, Markit/YouGov, EcoWin.

the annual rate of decline from -44% in Q1 to -17%. However, this would still leave the number of starts at only three-quarters of its long-run average, and well down on the averages of over 40k seen before the financial crisis.

### ... alongside rising house prices

The improved readings of the PMI Housing Index are also consistent with a turning point in UK house prices, and the upturn in the PMI in Q2 has been followed by better data from two of the country's main mortgage lenders. According to the Halifax's house price index, the annual rate of decline slowed from April's peak of 17.8% to 13.7% in May, while the Nationwide's index signalled a further easing from February's 17.6% peak to 9.3% in June (see chart 2).

Meanwhile, the Markit/YouGov HFI survey showed that the balance of those households considering the value of their property to have risen in the past month against those perceiving a fall improved from -44% in May to -24% in June, suggesting a much reduced rate of decline. When asked about the expected price change over the next year, the net balance rose from -16% to +15% (see chart 3).

While this survey only has a very short history, the jump in its house price indicators in June at least suggests that better news on the economy and housing market are filtering through to household optimism regarding the property market, which may itself create a basis for further improvements in coming months.

However, recent data from the Bank of England showed that mortgage lending in May was the weakest since records began in 1993. This serves to highlight the thinness of the property market in recent months, meaning the recent improvements in lenders' house price indices need to be treated with caution.

Furthermore, the recent dip in the PMI Housing Index in June should also be seen as a reminder that the UK housing market remains in a fragile state, and that a swift recovery is likely to be bumpy and is by no means assured.

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