

UK housing market

Record rise in Construction PMI Housing Index in May points to turning point in housing market

New housing starts have troughed...

Housing starts in England were 44% down on a year ago in Q1 (Scottish and Welsh data are only available to mid-2008); an improvement on the 58% decline seen in Q4 of last year but still signalling a rate of deterioration not seen in the 18-years of data availability prior to the current downturn.

The steep decline in housing starts had been anticipated by the Housing Activity Index of the CIPS/Markit Construction PMI survey, which slumped to a record low last July. But in recent months the PMI's Housing Index has risen sharply. Although remaining just below the neutral level of 50.0, therefore signalling a further modest contraction of house building, the index surged in May by a record 14.8 points to its highest level since the current period of contraction began in December 2007. The PMI data therefore suggest the official data on new housing starts will pick-up in Q2 (though probably remain below levels of a year ago – see Chart 1).

...meaning good news for house prices.

The improvement in the Construction PMI Housing Index is also consistent with an easing in the rate of decline of house prices – and even raises the possibility of a year-on-year increase in house prices before the end of the year. This is illustrated by Chart 2, which plots a smoothed series of Halifax's UK new house price index against the PMI Housing Index with a six-month lead applied.

A comparison of the same PMI index against prices of all houses also suggests that the worst is over for the housing market in terms of falling prices (see chart 3).

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Chart 1: House building

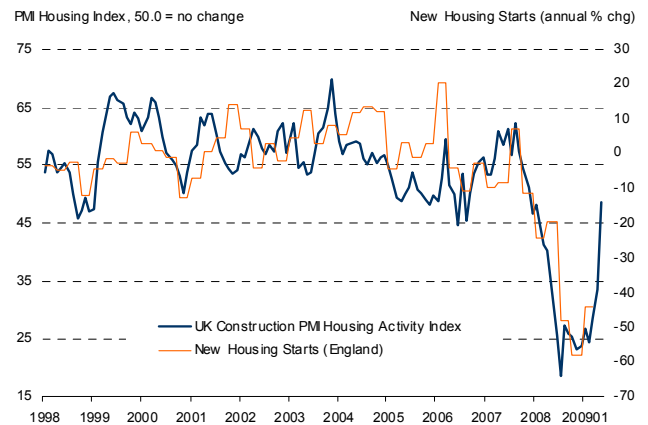


Chart 2: New house prices

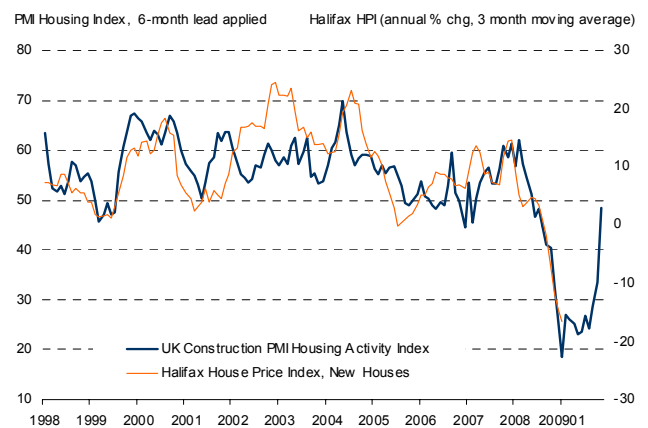
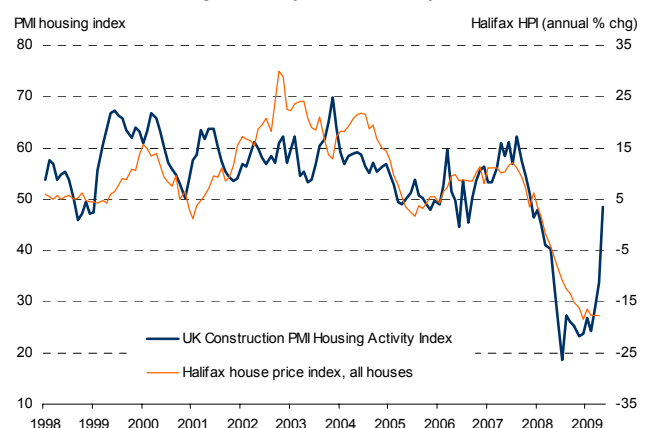


Chart 3: House prices (all houses)



Sources: Markit, Halifax (HBOS), ONS

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