

# RESIDENTIAL BRIEFING NOTE

June 2020

## Market Overview

*It's been a rocky ride over the last ten weeks but if there is any positivity right now it is that throughout May and the these first few weeks of June many economic indicators began to slowly rise again, following the lifting of some COVID-related lockdown restrictions. April therefore appears to be the low point and will likely be the trough of the downturn across many of our regularly reported metrics.*

## Executive Summary

- *April's monthly GDP declined by a record-breaking 20.4%, but this is not unexpected as the grip of COVID and lockdown was in full effect during the month.*
- *Although all three Purchasing Managers Indices during May were still technically in 'contraction' territory, they were all much higher than they had been the month before, indicating a gradual easing of lockdown and some industries regaining a little momentum.*
- *Consumer confidence is still in the doldrums at -36 as consumers remain pessimistic about the economy and their own financial situations.*
- *Inflation continues to sink downwards at just 0.5% during May as the lockdown exerts a lack of demand on many products and fuel prices were particularly low.*
- *Retail sales partially bounced back during May, increasing 12.0% in the month buoyed by non-food store retailing and household goods as consumers spend more time at home and carry out home improvements.*
- *Although both the unemployment and employment rates remained virtually unchanged in the three months to April, this is partly due to the longer reporting period the furlough scheme keeping people in work. More timely measures of payroll and claimant counts during May showed dramatic changes that are more reflective of an economic downturn.*

- *Nationwide and Halifax continued to show annual house price rises during April, albeit the pace of growth has slowed in both cases. On a monthly basis however both indices showed price falls over April's data. Meanwhile the ONS has suspended their April index data due to too few transactions.*
- *The latest RICS Residential Market Survey for May was markedly more positive than during April with newly agreed sales, enquiries and instruction levels all rising compared with the previous month, albeit from a very low base.*

## UK economic backdrop

- **April's dramatic GDP decline of 20.4%** was not entirely unexpected, although consensus forecasts suggested a -18% fall so it was a little worse than anticipated. Of course, only a fraction of the economy was able to operate during the month in some sectors (accommodation and food services firms reported a fall of nearly 92% output compared with pre-coronavirus levels) so the overall contraction is understandable. With parts of the lockdown easing during May **April will mark the trough in GDP**, although the pace and rate of recovery remains to be seen.
- **Encouraging figures from retail sales in May as volumes partly rebounded, increasing by 12.0%** compared with the record falls seen during April. Non-food stores provided the largest contribution to the increase in volumes (+23.7%), with household good stores alone witnessing

a rise of 42.0% over April, as some stores began to reopen during the month. Unsurprisingly, online sales volumes are still at record-highs accounting for 33.4% of all retail sales in May, compare this with an average of around 19% during 2019.

- GfK's **Consumer Confidence Index decreased two points to -36 during another flash report with data collected the last week of May.** Consumer confidence is clearly still exceptionally poor, despite the gradual loosening of the lockdown restrictions. Four measures decreased, with the General Economic Situation (both backward and forward looking) showing the most 'negativity' while just the Major Purchase Index showed an increase moving from -47 to -41.
- The IHS Markit / CIPS **Manufacturing Purchasing Managers Index (PMI) rose to 40.7 in May**, up from April's record low of 32.6. Nevertheless, the figure points to a contracting sector with output, new orders and export sales continuing to fall at strong rates, although less sharply than was seen during April. On a slightly more positive note, business confidence looking ahead rose to its highest level in three months, albeit from a very low base.
- **Reflecting a gradual restart on construction sites during May, the UK construction sector PMI (CIPS / HIS Markit) rose to 28.9**, up from an all-time low of 8.2 last month. Although it is still the second-lowest reading in history, we anticipate it will continue to gradually rise over the coming months.
- The UK **Services PMI came in at 29.0 in May**, double April's record low of 13.4, although still the second-lowest reading since the survey began. New business continued to fall at a sharp rate with new export work falling rapidly despite some reports of rising demand, particularly in the Asia-Pacific region. Employment in the sector also decreased at the second-steepest rate on record.
- **May's inflation rate fell again, down to 0.5% from 0.8% last month and marking the lowest rate in over four years.** Most of the downward pressure on inflation came from the transport sector as fuel prices continued to decline during the month but this will also reflect the low demand in this sector during the lockdown. Recreation and culture, and restaurants and hotels also saw a decline in price inflation, while the largest upward contribution came from food and beverages; in all cases these are very reflective of demand, or lack thereof, during lockdown. The recent decline in economic activity due to the COVID crisis will likely continue to put downward pressure on inflation going forward, and indeed Treasury consensus forecasts put inflation at just 0.7% by the end of this year.
- The latest Labour Force Survey reports an unemployment rate of just 3.9% in the three months to April, and an employment rate of 76.4% which actually indicates a rise in employment by 6,000. These figures of course will be partly because of the furlough scheme, as furloughed workers are still classed as employed, and partly due to the reporting period being February to April. However, a more timely measure of payrolls to May suggest that **the number of employees on payrolls fell by 612,000 compared with March, while claimant count of unemployment rose by 527,000 in May with a cumulative increase since March of 1.6 million, indicating a rise of 126% since March.**
- Employees' **average pay growth slowed noticeably in the three months to April, to an average of 1.7%**, down from 2.7% last month. This will largely be due to declining pay amongst industries where furloughing was prominent, and of all the business sectors the construction industry saw pay fall by an annual average of 1.8%, while the manufacturing sector and accommodation, food services and retailing sector saw virtually no growth compared with the public sector at the top, at growth of 3.2% annually.
- Bank of England announced no change in interest rates at their latest Monetary Policy Committee meeting, holding rates at 0.10% where they have been for almost three months now. Instead however they pumped another £100 billion of quantitative easing into the UK economy to help the economy recover from the effects of the coronavirus crisis.

*\*Click to see the [latest market indicators](#) at the end of document*

## Residential property market

### Sales Prices and Rents

- According to **Nationwide, annual house price growth slowed substantially during May, to 1.8%** down from April's 3.7% growth figure. They further report that month-on-month prices fell by 1.7%, perhaps a more accurate indication of the effects of the government lockdown measures imposed in March. Since they began to relax these measures in the housing market on 13th May, activity has gradually resumed. Indeed, Nationwide has said that their sample size remains adequate and sufficient to create 'robust results' in their index.
- **Halifax's May house price index showed prices declined during the month but only by a surprisingly small 0.2%, while annual prices were 2.6% higher than the same period last year.** Halifax data shows that this is the third month in a row to show a fall

in prices, although the pace of that decline appears to be slowing. The report goes on to say that in their case, there was a limited number of transactions which made calculating the index challenging and that volatility should be expected.

- **The ONS took the decision to temporarily suspend the UK House Price Index publication from April 2020 (which had been due for release on 17 June).** The number of transactions was greatly reduced during April, given the COVID-19 crisis and restrictions on buying and selling homes. The ONS felt it too difficult to produce an accurate measure of UK house prices that would be representative of true transaction activity.
- **May's RICS Residential Market Survey was still unsurprisingly gloomy but less so than during April.** The report found that the headline price balance moved further into negative territory to -32% from -22% in April (this is a backward-looking measure). Looking ahead and the short-term net price balance was less downbeat as it moved from -72% in April to -42% this month, as was the longer term price prospects with -16% of respondents anticipating that prices will fall over the next 12 months (compared with -26% last month).
- Encouraging news from Rightmove's June House Price Index, which found that **since the reopening of the housing market from 13th May, average asking prices in England were up 1.9%** compared with March (no data during April and May due to lack of transactions). This is for England only however as Scotland, Wales and Northern Ireland still have a freeze on their housing market.
- Across the rental market, **average UK rents rose by 2.7% annually during May according to HomeLet's latest research in the private rented sector.** Despite the annual rise, rents fell by around 1% on a monthly basis, to an average of £959 per calendar month. Turning back to annual rates and HomeLet reports that rents rose the highest across the North West at 7.5%, followed by Wales at 5.7% and the South West at 5.1%. At the other end of the spectrum, rents in Northern Ireland declined by 2.1% (although this follows some very strong rental growth seen earlier this year) while rents in London indicate an annual decline of 0.2%, and a rather formidable monthly fall of a 4.2%.
- According to RICS' latest Residential Market Survey, letting agent respondents suggest that rents will continue to fall over the coming three months, although less so than during April with a net balance moving from -39% to -11% during May.

## Activity

- Halting the housing market due to the imposed government regulations between March and 13th May meant that transactions plummeted during the month of April. Data provided by HMRC shows that transaction **activity declined by nearly 50% in April compared with March** showing 46,440 transactions (seasonally adjusted) compared with over 86,000 in March and over 101,000 in the same month one year ago.
- Meanwhile Bank of England **mortgage approvals data for April showed an even larger decline, with mortgage approvals falling to just under 16,000 during April, a fall of 71% compared with March and 76% below April 2019.** Now that government has allowed the buying and selling of homes to return to (nearly) normal, we expect that April data will be the trough of the market, with activity and mortgage levels rapidly returning to higher levels throughout May and beyond.
- The **RICS May Residential Market Survey painted a more positive picture of the residential market during the month, with new buyer enquiries, newly agreed sales and new instructions all improving markedly over April's** all-time lows. In the near term, sales expectations came in at -4%, up from -58% previously while looking further ahead the 12-month horizon turned positive as a net balance of +10% of contributors believe that sales will pick up.
- Rightmove's latest house price index points to a slightly unexpected resilience in the English housing market since its reopening with **40,000 newly agreed sales since 13th May, down just 3% compared with the same period last year.** Rightmove further reported their ten busiest-ever days in May and June (visits to their site) as pent-up demand begins to rush back to the market.
- Experian reports that residential mortgage enquiries in May jumped by 57% compared with April, following two months of declines of nearly 20% during both March and April. This means that enquiries are now back to the same levels seen during January 2020.
- Turning to the lettings market and the RICS Residential Market Survey for May showed that **tenant demand was down during the month,** with a net balance of -12%, although this is up from -48% during April. On the supply side, **new landlord instructions continued to fall sharply** (a trend that had been happening long before the impact of the virus).

## HM Treasury Forecasts for the UK Economy

|  | 2020 | 2021 | 2022 | 2023 | 2024 |
|--|------|------|------|------|------|
| Official Bank Rate (%)                 | 0.10 | 0.3  | 0.99 | 1.34 | 1.55 |
| House Price Growth (annual, %)         | -2.8 | 3.2  | 3.6  | 3.1  | 3.2  |
| CPI inflation rate (annual average, %) | 0.7  | 1.6  | 1.9  | 2.0  | 2.0  |
| Unemployment rate (%)                  | 7.9  | 6.6  | 4.1  | 4.1  | 4.1  |
| GDP (annual, %)                        | -9.2 | 6.5  | 1.7  | 1.8  | 1.7  |
| Average earnings growth (annual, %)    | 1.0  | 2.1  | 3.2  | 3.2  | 3.3  |

Sources: HM Treasury Consensus Forecasts (June 2020)

## Select Market Indicators, latest versus previous data

|  | Current    | Previous   | Direction of change |
|--|------------|------------|---------------------|
| GDP monthly (April, month-on-month)                          | -20.4%     | -5.8%      | ↓                   |
| Retail sales volumes (monthly % change)                      | +12.0%     | -18.1%     | ↑                   |
| GfK Consumer Confidence Index (end-May v mid-May)            | -36        | -34        | ↓                   |
| IHS Markit / CIPS Manufacturing PMI                          | 40.7       | 32.6       | ↑                   |
| IHS Markit / CIPS Construction PMI                           | 28.9       | 8.20       | ↑                   |
| IHS Markit / CIPS Services PMI                               | 29.0       | 13.4       | ↑                   |
| Inflation rate   | 0.5%       | 0.8%       | ↓                   |
| Interest rate  | 0.10%      | 0.10%      | ↔                   |
| Employment rate (to April 2020)                              | 76.4%      | 76.6%      | ↓                   |
| Unemployment rate (to April 2020)                            | 3.9%       | 3.9%       | ↔                   |
| Weekly earnings growth, regular pay (excl bonuses)           | 1.7%       | 2.7%       | ↓                   |
| Nationwide annual house price inflation                      | 1.8%       | 3.7%       | ↓                   |
| Halifax annual house price inflation                         | 2.6%       | 2.7%       | ↓                   |
| Official UK House Price inflation (annual, HM Land Registry) | n/a        | 2.1%       | n/a                 |
| HomeLet Rental Index (annual growth, UK)                     | 2.7%       | 3.4%       | ↓                   |
| £ Sterling: \$ USD   | \$1.26     | \$1.23     | ↑                   |
| £ Sterling: € Euro   | €1.12      | €1.12      | ↔                   |
| Brent Crude (USD)  | \$41.38    | \$35.02    | ↑                   |
| Gold (USD)   | \$1,723.44 | \$1,750.53 | ↓                   |
| FTSE 100   | 6,306.00   | 5,996.63   | ↑                   |
| UK 5 Year Gilt Yield   | 0.013      | 0.050      | ↓                   |

Sources: ONS (unless otherwise indicated) (final six indicators retrieved 17 June)

## HomeLet Rental Index, May 2020

Source: HomeLet Rental Index

| Region                               | Rent (£pcm) | Monthly change (%) | Annual change (%) |
|--------------------------------------|-------------|--------------------|-------------------|
| North West                           | £758        | 1.9%               | 7.5%              |
| Wales                                | £648        | 0.3%               | 5.7%              |
| South West                           | £870        | -1.0%              | 5.1%              |
| Scotland                             | £682        | 2.6%               | 4.4%              |
| West Midlands                        | £721        | -0.8%              | 4.0%              |
| Yorkshire & Humberside               | £652        | 0.8%               | 4.0%              |
| <b>UK (excluding Greater London)</b> | <b>£803</b> | <b>0.0%</b>        | <b>3.5%</b>       |
| East Midlands                        | £659        | 0.5%               | 3.0%              |
| <b>UK Average</b>                    | <b>£959</b> | <b>-0.9%</b>       | <b>2.7%</b>       |
| North East                           | £527        | 1.2%               | 1.0%              |
| South East                           | £1,037      | -0.6%              | 0.8%              |
| East of England                      | £923        | -0.6%              | 0.8%              |
| Greater London                       | £1,598      | -4.2%              | -0.2%             |
| Northern Ireland                     | £651        | -1.8%              | -2.1%             |

### ABOUT CARTER JONAS

Carter Jonas LLP is a leading UK property consultancy working across commercial property, residential sales and lettings, rural, planning, development and national infrastructure. Supported by a national network of 33 offices and 700 property professionals, our commercial team is renowned for their quality of service, expertise and the **simply better advice** they offer their clients.

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