State of Play

22 April 2021

Our Investment Specialist, Simon Durling, shares his thoughts in our latest update.

Housing market: Will bust follow the decade long boom?

Ever since Margaret Thatcher embarked on a mission to turn us from a nation of renters to homeowners, Britain's housing market is often seen as the barometer for economic health. Along that 40-year journey there have been housing market booms and busts - normally linked to unemployment, bank interest rates or whether the economy is in recession. The financial crash in 2008 (which prompted banks to become risk averse by tightening their lending criteria) led to interest rates being lowered and the creation of schemes to support first time buyers and house builders – all of which instigated an uninterrupted decade of price rises according to the Office of National Statistics (ONS).

When the pandemic struck Chancellor of the Exchequer Rishi Sunak implemented several financial support measures to protect jobs, support businesses and importantly announced a discount on stamp duty costs for buyers (initially intended to finish 31 March this year). Given the extended lockdown and that over 100,000 transactions were under threat of not completing by this deadline, the Chancellor extended this to 30 June. Many housing market commentators complained that the incentive was unnecessary in the first place, creating additional demand when prices were yet to fall and due to the decade of rises, a small fall in prices wouldn't be all bad news by helping more first time buyers in the short-term to find a property they can afford. The UK Government chose to act though, perhaps recognising how important the link between the housing market and economic feelgood factor is.

Since April last year the incentive, worth up to £15,000 in individual saved stamp duty costs, has stimulated a buying frenzy that has pushed price rises close to the highest in 15 years. The latest data from Rightmove shows that house prices rose by 2.1% in March, which is only the second time in the last five years that the increase has breached 2%. The number of sales agreed rose by 55% compared to the same period two years ago, reducing the stock of properties that are available to buy to the lowest proportion ever recorded. March also saw time spent on Rightmove surpass two billion minutes in one month, again another first-time record. The property website concluded 'this is now the fastest-selling market that Rightmove has measured since our records began'.

So, the question some potential buyers are asking themselves – what will happen when the stamp duty incentive finishes? Will property prices then slump? Am I better to wait despite the current incentive? Clearly it is impossible to be certain how the second half of 2021 will unfold but there are indicators that may shed some light on the possible market conditions after 30 June. Firstly, whilst the incentive for buyers has been a great help in making buying costs lower, the additional demand has prompted many sellers to increase their selling price, often by more than the savings available to buyers. Like any asset, prices of houses are dictated by the balance between supply and demand. Currently, even though last month saw 145,000 newly listed properties put up for sale, this is not nearly enough to meet the current demand. In the first two weeks of April, homes on Rightmove were being marked as sold an average of 45 days after being put on the market - the lowest average ever recorded. Whilst the furlough scheme will end this September, this week saw the launch of a new UK Government guarantee allowing buyers to apply for a 95% loan-to-value mortgage on a purchase price up to £600,000 as the Chancellor promised to 'turn generation rent into generation buy'. Rightmove concluded in their latest report 'although some of the froth is likely to come off the market later in the year once some government economic measures end, we expect activity to remain robust for the rest of 2021'. Only time will tell how it all unfolds, but given that the demand for homes far outweighs the supply, and has done for most of the 40 years since Mrs Thatcher's housing revolution, even if prices do indeed fall in the short-term, it is hard to see how a significant bust, such as the one seen in the early 1990's, is about to happen.

Record Chinese growth data hides uncertainty

China was the first to tackle COVID-19 back in January and February last year, instigating a severe lockdown in the Province of Wuhan, restricting travel and shutting down the economy. China was also the first economy to emerge from restrictions and the only major economy in 2020 to register any growth, albeit much lower than the average when compared to the last 40 years. The first quarter of 2021 saw the Chinese economy grow by 18.3%, fuelled by stronger demand at home and abroad and continued government support for smaller firms, the strongest in any quarter since records began in 1992. However, when compared to the final quarter of last year, growth has slowed to a much more sedate 0.6% according to the National Bureau of Statistics. The figures have raised concerns about the sustainability of the world's second largest economy and the engine room for emerging markets which manufacture a large portion of the world's goods.

Retail sales in China increased 34.2% year-on-year in March, beating a 28.0% gain expected by analysts and stronger than the 33.8% jump seen in the first two months of the year (Reuters). 'The upshot is that with the economy already above its pre-virus trend and policy support being withdrawn, China's post-COVID rebound is levelling off', said Julian Evans-Pritchard, Senior China Economist at Capital Economics. He went on to say they 'expect quarter-on-quarter growth to remain modest during the rest of this year as the recent boom in construction and exports unwinds, pulling activity back towards trend'. China has set the goal to grow the economy by at least 6% this year, although economists believe that the growth rate will exceed 8%.

Market update

Stock markets took a breather at the start of the trading week as investors await a busy round of earnings announcements, especially in the US. This week Netflix is the first to report from the FAANG group (the five major US technology companies) with Facebook, Apple, Amazon and Alphabet (formerly known as Google) due to report next week, as well as Microsoft. Most indices enjoyed a positive return last week as the vast majority of the economic data being released indicates a stronger recovery than first thought backing up the revised forecasts we have recently seen from the International Monetary Fund (IMF) predicting much better outcomes than first feared for all major economies in 2021 and 2022. Consumers around the world have accumulated an additional $5.4tn in savings since the COVID-19 pandemic began and are becoming increasingly confident about the economic outlook. Analysis by credit rating agency Moody's has suggested that these findings pave the way for a strong rebound in spending as businesses reopen.

Britain's unemployment rate fell unexpectedly for the second month in a row during the December to February period, according to the ONS. Many businesses have started to hire more staff especially in the hospitality and tourism sector in preparation for continued easing of restrictions whilst furlough continues to support employment. This data combined with the strength of the vaccine roll-out has seen the pound sterling strengthen against most major currencies which will be a drag for the FTSE 100 as most of the constituent's earnings and profits are in other currencies. The pound sterling has risen against the US dollar by 11.83% over the last 12 months but still some way below the level seen just before the referendum in June 2016. In contrast, the pound sterling against the euro is a much more modest 5% rise since October last year and is only 1% higher than a year ago.

Tune in!

Listen to our UK Head of Multi-Asset Solutions, Stefano Amato, discuss whether inflation concerns are temporary and how portfolios are being positioned amidst unlocking in our latest **Market Views** here.

Note: Data as at 20 April 2021.

Important Information

This material is for information only and does not constitute an offer or solicitation to buy or sell any securities or other financial instruments, or to provide investment advice or services.

Opinions expressed within this document, if any, are current opinions as of the date stated and do not constitute investment or any other advice; the views are subject to change and do not necessarily reflect the views of Santander Asset Management as a whole or any part thereof.

Santander Asset Management UK Limited (Company Registration No. SC106669) is registered in Scotland at 287 St Vincent Street, Glasgow G2 5NB, United Kingdom. Authorised and regulated by the Financial Conduct Authority (FCA). FCA registered number 122491. You can check this on the Financial Services Register by visiting the FCA's website www.fca.org.uk/register.