Economic Research Unit

Economics Weekly

Bank of Ireland

RICS points to UK housing market activity softening

This morning's RICS survey points to softening UK housing market conditions. The rush of homebuyer activity, ahead of stamp duty threshold changes due April 1st, now appears to be cooling off. A majority of estate agents reported falling new buyer enquiries (-14%), agreed sales (-13%) and 3-month sales expectations (-5%). In contrast, new instructions to sell (+12%) and appraisals (+16%) continued to expand, pointing to a loosening of supply-demand balance. Hence, the recent softening of UK house price inflation signaled by the Halifax (2.9%) and Nationwide (3.9%) indices in February is likely to continue in the coming months. That said, should the March 26th Spring Budget Statement contain sufficient spending cuts and tax rises it could persuade markets the Bank of England will have room to cut rates below 4% in 2025, potentially supporting the housing market.

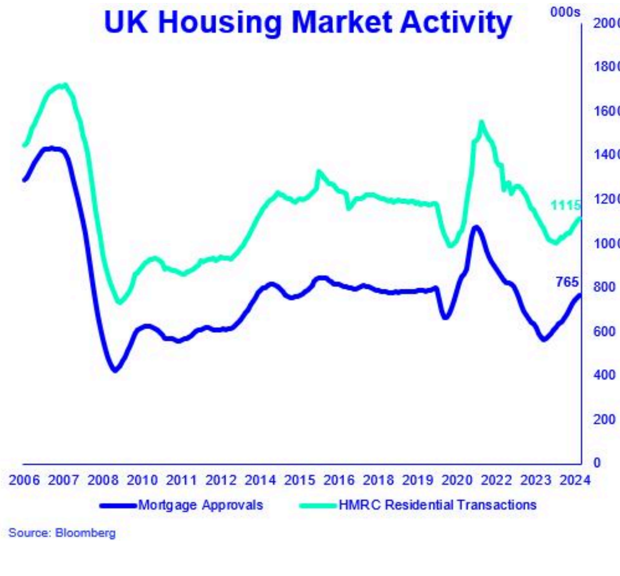
UK housing market activity had recovered to pre-'mini-budget' levels: UK residential property market transactions rose to 1.1 million in the 12-months to January 2025, back close to levels last seen prior to the October 2022 'mini-budget' that saw UK mortgage rates subsequently surge above 6%. Of course, the rebound in activity since then has reflected easier credit conditions. The average quoted 3-year fixed mortgage rate was 4.5% in February. However, there has also been a temporary pick-up in housing demand as buyers rushed to complete purchases before stamp duty rises in April 2025.

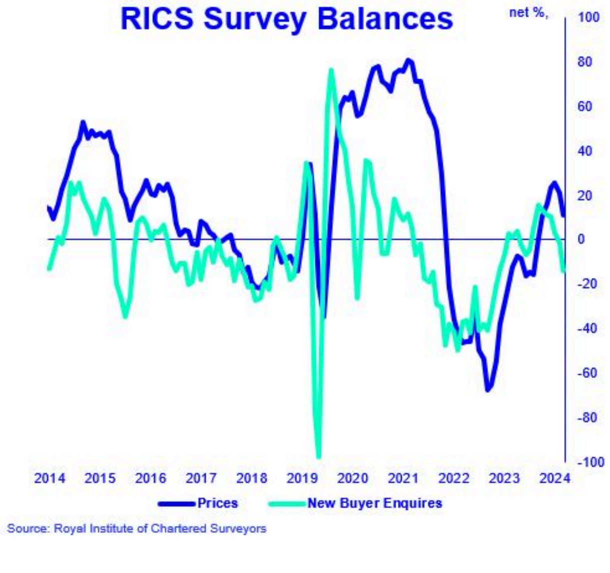
House price inflation has benefitted from the rush of demand: The official ONS measure of UK house price inflation was 4.6% in December 2024. However, more timely measures point to house price inflation moderating in early 2025. The Halifax and Nationwide indices annual measures of house price inflation fell to 2.9% and 3.9% respectively in February. Similarly, Rightmove asking price inflation was just 1.4% last month. So there was already evidence UK house price inflation was starting to wane, after sharp gains in 2024.

RICS survey points to activity softening: This morning's RICS survey suggests the UK housing market is now losing momentum. A net majority of estate agents reported falling new buyer enquiries (-14%), agreed sales (-13%) and sales expectations (-5%), the weakest readings since the autumn of 2023. In contrast, new instructions to sell (+12%) and appraisals (+16%) continued to grow, pointing to some loosening of the supply-demand balance. House prices are still rising (+11%) but 3-month price expectations (-5%) are now in negative territory, albeit positive over the 12-month horizon (+47%).

Stamp duty deadline and uncertainty now weighing on demand: It is tempting to attribute the bulk of decline in the RICS survey balances to a cooling off in demand ahead of the changes in stamp duty. However, the RICS survey pointed to concerns on interest rates, inflation and geo-political uncertainties (e.g. the threat of a global tariff war) also weighing on the demand. That said, RICS acknowledged discerning clear underlying trends in the UK housing market will be difficult in the coming months due to the distortionary impact of the increase in stamp duty thresholds on April 1st.

Bank of England rate cuts will support UK housing market: Options prices are still fully pricing in two 25bps base rate cuts from the Bank of England to 4% by end-2025. However, Sterling 3-year and 5-year swap rates have been relatively stable since early February, close to 4%, pointing to limited additional room for cuts in mortgage interest rates. One catalyst could be the March 26th Spring Budget Statement. Should Chancellor of the Exchequer Rachel Reeves be forced to adopt further spending cuts and tax rises to rein in public borrowing, markets could be persuaded the Bank of England has room to cut its base rate below 4%.





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