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Buyer numbers are no longer falling, while the Halifax and Nationwide house price indices picked up in July.

Timelier indicators, however, show mortgage demand declining and price growth still slowing.

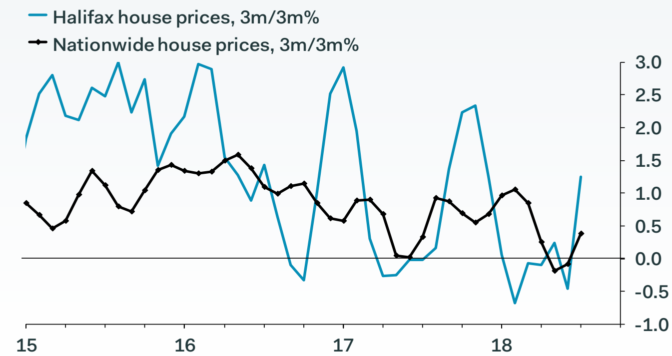
A slowdown in employment growth and further rises in mortgage rates will keep demand subdued.

The Housing Market Still has a Faint Pulse

Surveys released over the last week have suggested that the housing market might be past the worst. The new buyer enquiries balance of the RICS Residential Market Survey increased to +2 in July—the first positive reading since March 2017—from zero in June. In addition, three-month-on-three-month growth in the Nationwide and Halifax measures of house prices picked up in July, to 0.4% and 1.3% respectively, from -0.1% and -0.5% in June.

For now, though, we'd advise against reading much into these developments. The Nationwide and Halifax indices are volatile, as our second chart shows. Year-over-year growth in Rightmove's measure of asking prices—which leads these lending-based price indices—slowed to 1.4% in July, from 1.7% in June.

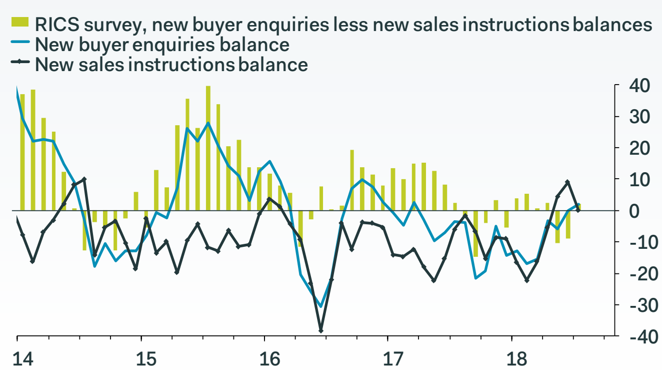
HALIFAX AND NATIONWIDE DATA POINT TO A PICK UP IN HOUSE PRICES



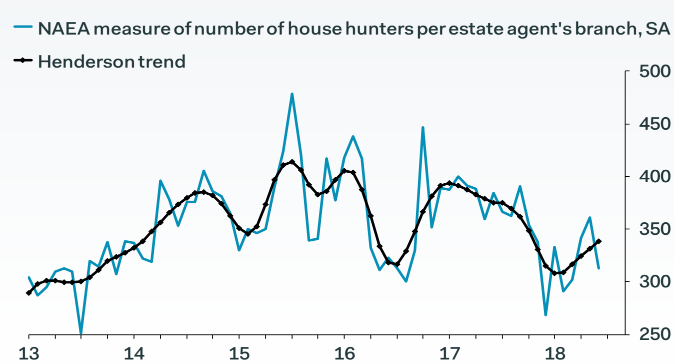
Any recovery in demand also is coming from a very low base. Data from the National Association of Estate Agents indicates that house-hunter numbers bottomed out in Q1 and recovered in Q2, but are still down about 10% in year-over-year terms, as our next chart shows. And other indicators of demand have yet to improve. The number of people typing "mortgage" into Google fell by nearly 4% year-over-year in July.

Meanwhile, the RICS survey excludes the new-build sector, which still appears to be struggling. A net balance of -24 builders reported in June that site visits were lower than in the same month a year ago, according to trade body HBF; this balance has been consistently negative since October. Builders have responded by cranking up sale incentives.

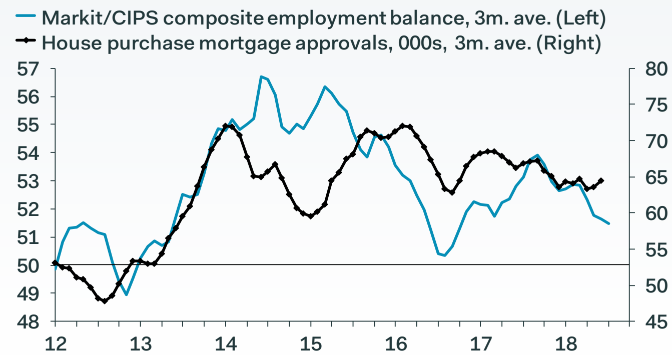
BUYER ENQUIRIES ROSE IN JULY FOR THE FIRST TIME SINCE MARCH 2017



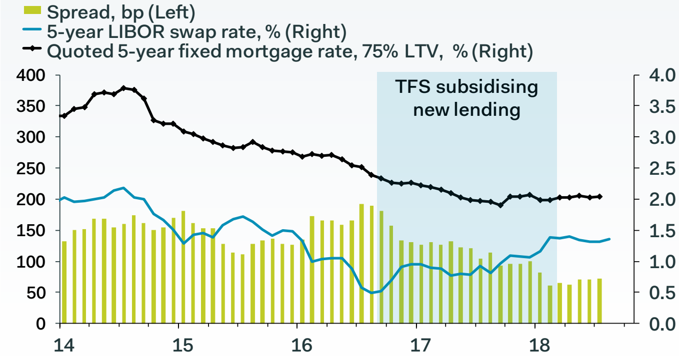
DEMAND, HOWEVER, IS RECOVERING FROM A LOW BASE



SLOWING EMPLOYMENT GROWTH WILL HIT MORTGAGE APPROVALS



RISK-FREE RATES HAVEN'T RISEN, BUT OTHER FUNDING COSTS HAVE

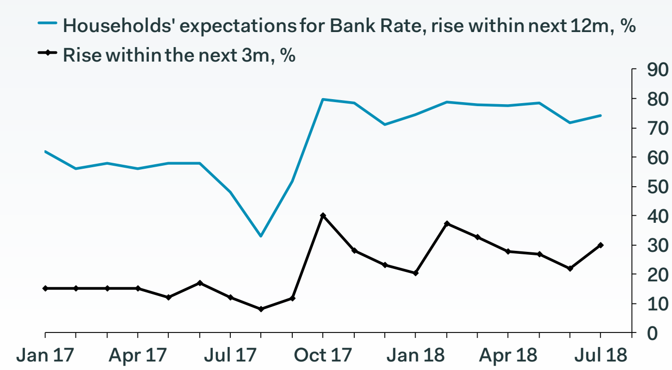


Meanwhile, employment growth looks set to cool in the second half of this year, stemming the flow of people looking to purchase a home. Measures of employment decisions or intentions in the Markit/CIPS, Report on Jobs, E.C. and Bank of England's Agents surveys all have deteriorated since the start of this year. Collectively, they suggest that year-over-year growth in employee numbers will slow to about 0.8% by the end of this year, from 1.5% in May.

A lasting recovery in housing market activity also will require consumers' confidence to recover. But GfK's composite index fell back to a five-month low in July. In addition, just 25% of households in June thought that now is a good time to buy a house, according to the Building Society Association's quarterly Property Tracker survey. That's up only marginally from 24% in March, and well below the 37% average of the last decade.

At the very least, last week's increase in Bank Rate likely will prevent demand from strengthening further. The hike came much sooner than most households anticipated. In July, 75% expected Bank Rate to rise within the next year, but only 30% thought the MPC would act within the next three months. Note that when the MPC announced that it would raise rates "over the coming months" in September, the new buyer enquiries balance dropped sharply to -22 in September 2017, from -4 in August.

MOST HOUSEHOLDS DIDN'T SEE THE BANK RATE HIKE COMING



Admittedly, 90% of home-buyers take out fixed-rate mortgages, whose rates won't rise one-for-one with Bank Rate. Indeed, five-year risk-free swap rates have held broadly held steady over the last three months, as the MPC has continued to emphasise that it intends to tighten policy gradually and that Brexit might force it to change course. But long-term financing for banks has become more expensive. Senior unsecured bond spreads and CDS premia for the main U.K. banks have risen over the last three months, while intensifying competition has forced banks to raise deposit rates. Accordingly, interest rates for fixed-rate mortgages likely will continue to creep up over the coming months. And don't forget, mortgage rates only need to rise marginally to have a big impact on affordability, because loan-to-income ratios are at a record high.

Accordingly, it's still too soon for a meaningful recovery to take hold in the housing market. We expect monthly mortgage approvals to hold steady at June's 65K level in the second half of this year and year-over-year growth in house prices still to be close to 2% by the end of this year.

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THIS WEEK IN BRIEF

Note: "**D**" prefix denotes Datanotes for these releases.

Monday, August 6

- **D: Car Registrations (7)/09:00 BST**

Private new car registrations rose by **0.1%** year-over-year in July, better than the 4.7% average decline of the previous 12 months. But sales were dampened a year ago by the increase in Vehicle Excise Duty.

Tuesday, August 7

- **D: BRC Retail Sales Monitor (7)/00:01 BST**

Year-over-year growth in like-for-like sales values slowed to **0.5%** in July, from 1.1% in June. Food sales jumped but non-food sales struggled during the World Cup and hot weather.

- **D: Halifax House Prices (7)/08:30 BST**

House prices leapt by 1.4% month-to-month in July, pushing up the three-month average of year-over-year growth to **3.3%**, from 1.8% in June.

- **MPC member McCafferty on LBC Radio/16:00 BST**

Mr. McCafferty, who attended his final MPC meeting earlier this year, said markets were right to expect a couple more increases in Bank Rate over the next two years.

Wednesday, August 8

- **No significant data released.**

Thursday, August 9

- **D: RICS Residential Market Survey (7)/00:01 BST**

The net balance of surveyors reporting rising house prices edged up to **+4** in July, from +3 in June. In addition, the new buyer enquiries balance rose to +2— the first positive reading since March 2017—from zero.

Friday, August 10

- **D: Monthly GDP (6)/09:30 BST**

We think the monthly GDP index rose by just **0.1%** month-to-month in June, though this should be just strong enough to push up quarter-on-quarter GDP growth to **0.4%** in Q2, from 0.2% in Q1. Industrial production likely held steady in June, as a recovery in manufacturing output probably was offset by a further fall in output in the energy supply sector. Construction should fare better, rising by about 1.0% month-to-month. But we look for no change in services output too, given that output in the private non-distribution services sector was slightly above its trend in May and retail sales volumes fell by 0.5% month-to-month in June. **Consensus: 0.2% m/m, 0.4% q/q.**

- **D: Trade (6)/09:30 BST**

We expect the trade deficit to exceed its 12-month average, £2.2B, holding steady at **£2.8B**. Export volumes have been weaker than implied by surveys, so a rebound might be on the cards. But the trade balance in erratic items has been negative in only one of the last 10 months, despite tending to average about zero over the medium term, so another deficit in erratics trade is overdue. **Consensus: £2.5B.**

CHART OF THE WEEK: THE MPC RAISED ITS INFLATION FORECAST

PANTHEON'S FINANCIAL FORECASTS

		End-month:				
	4pm Thu.	Sep	Dec	Mar 19	Jun	Dec
Bank Rate	0.50	0.75	0.75	0.75	1.00	1.25
3m Libor	0.81	0.90	0.90	1.10	1.10	1.40
12m Libor	1.05	1.10	1.20	1.30	1.50	1.70
2-year Gilt	0.74	0.90	1.00	1.20	1.30	1.60
10-year Gilt	1.30	1.40	1.60	1.80	2.00	2.20
30-year Gilt	1.76	1.80	2.00	2.20	2.30	2.50
FTSE 100	7745	7500	7400	7500	7600	7800
USD/GBP	1.29	1.32	1.35	1.40	1.40	1.40
EUR/GBP	1.11	1.15	1.23	1.27	1.27	1.27
Sterling TWI	77.3	78.7	83.2	86.3	86.3	86.3

PANTHEON'S ECONOMIC FORECASTS

	Period average:						
	Q1 18	*Q2 18*	*Q3 18*	*Q4 18*	*2017*	*2018*	*2019*
GDP, q/q%	0.2	0.4	0.3	0.3	-	-	-
GDP, y/y%	1.2	1.3	1.3	1.3	1.7	1.3	1.7
Employment, y/y%	1.2	1.2	1.3	1.0	1.0	1.2	0.6
Unemp. rate, %	4.2	4.2	4.2	4.2	4.4	4.2	4.1
Wkly earnings, y/y%	2.6	2.6	2.8	2.7	2.3	2.7	3.0
CPI, y/y%	2.7	2.5	2.5	2.3	2.7	2.5	2.0
RPI, y/y%	3.6	3.3	3.2	3.3	3.6	3.3	2.8
PSNB FY, £B	-	-	-	-	39	33	30
Cur. acc't., % GDP	-3.4	-4.5	-3.8	-3.5	-3.9	-3.8	-4.0
House prices, y/y%	4.4	3.6	2.4	1.5	4.7	3.0	1.5