Overview: In this quarter, we highlight two significant statistics in the housing market. First, UK property prices have experienced, for the first time since 2012 Q3, a negative growth rate (-0.1%). Second, this negative growth rate has been mainly led by the regions in the South of the country, in particular, London (-2%) and Outer South East (-0.7%). The house price fluctuation in London is particularly noticeable given that it was the region with strongest growth in the previous quarter, proving, once more, its volatile nature. Most of the other regions in the UK continue to undergo a period of subdued growth, with the exception of Northern Ireland where prices grew at 1.9%.

Financial Stability. The negative growth rate for the UK national market has also affected the corresponding exuberance indicators that are now farther away from the explosive threshold. None of the regional market indicators are close to the explosive threshold either. The risk of any of those markets to enter in an exuberance phase is therefore very low at the moment.

The Price-to-Income Ratio continues to be high for historical standards, close to its all-time high in 2007. Despite the slight negative growth in house prices, the ratio has not declined due to the fall in real income. This indicator will therefore continue to be a source of concern as pressure on indebted households does not show signs of easing off.

Forecasts. The results of our forecast exercise suggest that UK house prices will be growing this year but at a lower rate compared to 2016 (2.3% vs 3.8%). The slowdown in prices is mostly due to three factors: (i) the increase in the real mortgage rate, (ii) the slowdown in the growth rate of the consumption expenditure, and (iii) the increase in the supply of new houses observed in the last quarter.

With regard to the regional housing markets, the predicted patterns of property price behaviour vary considerably. This quarter’s one-year-ahead forecasts indicate that all property markets will continue to experience sustained house price growth, with the exception of London, Outer South East, the North and Scotland. According to the forecasting results, London and Outer South East, the region contiguous to the metropolis, will experience a declining property market in the course of 2017. However, the rates of property price inflation are predicted to build up at the start of 2018.