The House Price Uncertainty (HPU) Index is constructed using the methodology suggested by Baker, Bloom and Davis (2016) to proxy for economic policy uncertainty. The HPU is an index of search results from five large newspapers in the UK: The Guardian, The Independent, The Times, Financial Times and Daily Mail. In particular, we use LexisNexis digital archives of these newspapers to obtain a quarterly count of articles that contain the following three terms: ‘uncertainty’ or ‘uncertain’; ‘housing’ or ‘house prices’ or ‘real estate’; and one of the following: ‘policy’, ‘regulation’, ‘Bank of England’, ‘mortgage’, ‘interest rate’, ‘stamp-duty’, ‘tax’, ‘bubble’ or ‘buy-to-let’ (including variants like ‘uncertainties’, ‘housing market’ or ‘regulatory’). To meet the search criteria an article must contain terms in all three categories.

The resulting series of search counts is then scaled by the total number of articles in the given newspaper and in the given quarter. Finally, to obtain the HPU index, we average across the five newspapers by quarter and normalise the index to a mean of 100. The Index starts in 1982 Q1.

The HPU Index has now been incorporated to the set of variables we employ in our forecast models. Our results so far show that HPU helps improve the out-of-sample forecasting power of the models (more details will soon follow in a Working Paper and soon posted in Section ‘Publications’ of the Observatory). However, we briefly note here the following stylised facts about the Index.

- The UK has experienced two recessions over the period 1982-2018. The first one 1990 Q3 – 1991 Q3 and the second one 2008 Q2 – 2009 Q2. HPU increases ahead of those two periods and it reaches an (up to that point) historical maximum right at the beginning of the economic recessions (228 in 1990 Q3 and 316 in 2008 Q3).
- The Uncertainty Index increased ahead of the EU Referendum and nearly reached its 2008Q3 level right after the referendum took place (306 in 2016 Q3). While the index dropped during the first half of 2018 to a value close to 100, it has started rapidly increasing in the second half of the year, reaching 211 at the start of 2019. The Index is standing at 158 as of today. Uncertainty generated by (i) the domestic political situation, (ii) the negotiations with the EU about the withdrawal agreement, and (iii) the outcome of Brexit and its consequences are having a direct impact on the housing market.
- The volatility of the Index significantly increased since 2007 and remained high ever since.

HPU can therefore be of potential interest to anyone monitoring the UK Housing Market and the UK Economy in general. If you do make use of our index please cite it:

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