Capital Economics

13. Key UK Forecasts

Yr. av. unless stated	2016f	2017f	2018f
GDP (%y/y)	2.0	1.5	2.5
CPI (%y/y)	0.6	2.2	3.0
Employment (%)	1.3	0.0	0.5
Bank Rate (%, end yr)	0.25	0.25	0.25
10 yr Gilt Yield (%, end yr)	1.50	1.75	2.00
$/£ (end yr)	1.25	1.20	1.20
€/£ (end yr)	1.18	1.20	1.20

Savills

Mainstream drivers and house price forecasts

Central Five-year forecast	2017	2018	2019	2020	2021	Total
UK house price growth	0.0%	2.0%	5.5%	3.0%	2.0%	13%
Household income, y/y change	1.0%	1.9%	2.6%	3.3%	3.2%	13%
Employment, y/y change	-0.4%	0.0%	0.4%	0.8%	1.0%	2%
Bank of England base rate	0.1%	0.1%	0.4%	0.9%	1.4%	n/a

Source: Savills Research, Oxford Economics

Knight Frank

			UK			PRIME LONDON		
RISK	SCENARIO	IMPACT	LIKELIHOOD	IMPACT	RISK SCORE	LIKELIHOOD	IMPACT	RISK SCORE
INTEREST RATES	The Bank of England changes direction on rates, raising them more rapidly than expected to target inflation	Our expectation is that the UK base rate will not rise before 2019. Economic fundamentals and uncertainty surrounding Brexit suggest rates are likely to remain historically low for several years. Any reversal of policy by the Bank of England, due to rising inflation for example, could put pressure on mortgage borrowers. Rising rates would make alternative investments look more attractive, and could prompt investors to look less favourably on lower-yielding property investments.	1	4	5	1	4	5
GLOBAL ECONOMY	The UK economy is hit by weaker global activity	While the wider global economy is strengthening, there are still areas of weakness, stemming from slower than expected growth in emerging economies, combined with concerns over the ability of central banks to stimulate their economies. Fragile oil prices are compounding the issue. Any slowdown in the global economy could weigh on UK growth.	2	3	5	2	3	5
MACRO PRUDENTIAL POLICY TOOLS	The Bank of England imposes restrictive mortgage policies	The Bank of England's Financial Policy Committee has been granted powers to intervene in the mainstream mortgage market and has introduced criteria that will make it more difficult to secure a mortgage on a buy-to-let property. Lenders, already dealing with the EU Credit Directive which came into force in March, may react to signals from the Bank by becoming more cautious about lending, potentially weighing on mortgage availability, however this may be offset by the Bank's TFS funding scheme.	2	3	5	2	3	5

BREXIT	A deal emerges that is economically unfavourable for the UK	The UK will enter a protracted period of detailed negotiations over the shape of its future relationship with the EU. Balancing concerns surrounding immigration and single market access will be central to the talks. There is a risk that the UK loses some or all of its access to the single market, including passporting services for London-based banks. A second independence referendum in Scotland risks adding to market uncertainty which could impact on housing transactions.	2	3	5	2	4	6
GEO-POLITICAL CRISIS	Worsening geopolitical crises result in a wider economic fall-out	Political tensions are still high on a global scale, including the stalemate in the Middle East, and subsequent strains over large-scale migration and the threat of terrorism in Europe. The World Economic Forum has identified such issues as being among the biggest risks to the world in the coming year, and these could affect world trade and, as a result, global growth.	3	2	5	3	2	5
DOMESTIC ECONOMY	Uncertainty leads to sharply lower economic growth	The Bank of England has downgraded its forecast for UK economic growth in 2017 to 0.8%, from 2.3%, with a forecast of 1.8% growth by 2018, citing concerns over Brexit. A marked slowdown could have a knock-on impact on jobs and wages which would in turn affect demand in the housing market.	2	3	5	2	3	5
NEW BUILD SUPPLY	Housing supply exceeds demand	An oversupply of housing is unlikely to be an issue for most of the UK, where local housing markets are largely characterised by a lack of new homes. However, in some areas on the edges of central London, the issue of oversupply may be worth monitoring, particularly in higher price brackets.	1	2	3	2	3	5
POLITICAL RISK	New property taxes and restrictions on non-resident buyers	Property taxes remain a favoured tool of politicians in tackling wider affordability issues, irrespective of their effectiveness. However, in an effort to stimulate the housing market and wider UK economy post-Brexit, the chances of further large-scale property taxation are likely to have receded. Policy moves announced for 2017 around the tax treatment of those who are not domiciled in the UK may have an impact, although this is unlikely to reach beyond the prime central London market.	2	1	3	2	3	5
CURRENCY RISK	The current weak pound starts to strengthen against other currencies	Sterling has been the weakest performing currency in the developed world in 2016. As a result, UK assets, including property, look more affordable for overseas investors. While there has been some recent weakening in emerging market currencies, Sterling-denominated investments remain attractive. Sterling may rise against the dollar if and when a framework of an economically favourable Brexit deal emerges.	1	1	2	1	2	3