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HOUSING POLICY AND ECONOMIC GROWTH

Presentation for the International Centre for Housing and Urban Economics (ICHUE) Workshop

University of Reading
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Local Government

The purpose of this presentation is to set out:

1. The macroeconomic overview
2. Housing and the economy
3. Housing policy responses to the crisis
4. Longer term issues and policy

1) The macroeconomic overview

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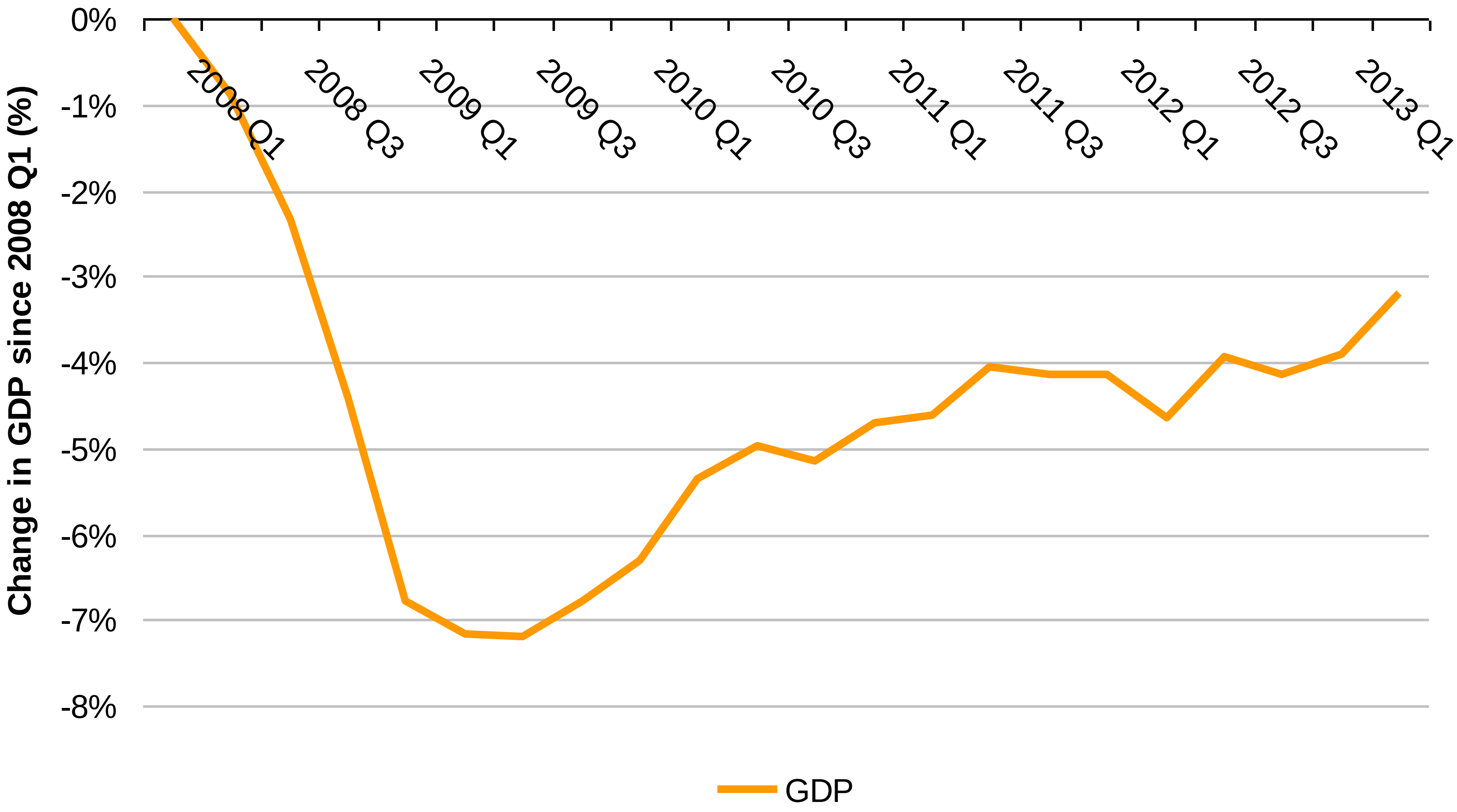
GDP fell sharply during the recession – by around 7% - and is yet to return to pre-recession levels



Data Source: ONS

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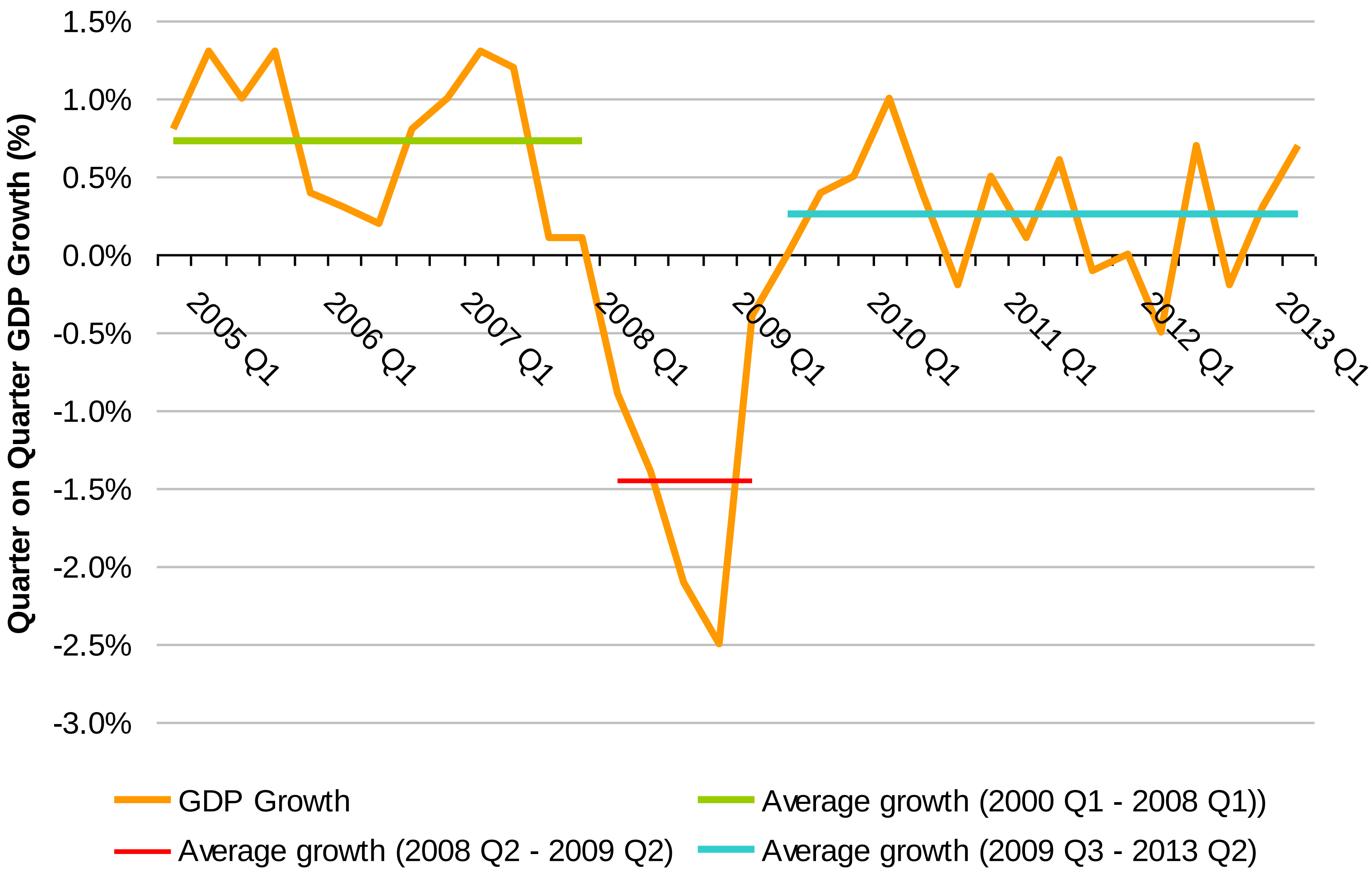
The economy continues to recover, but recovery has been slower than expected



Data Source: ONS

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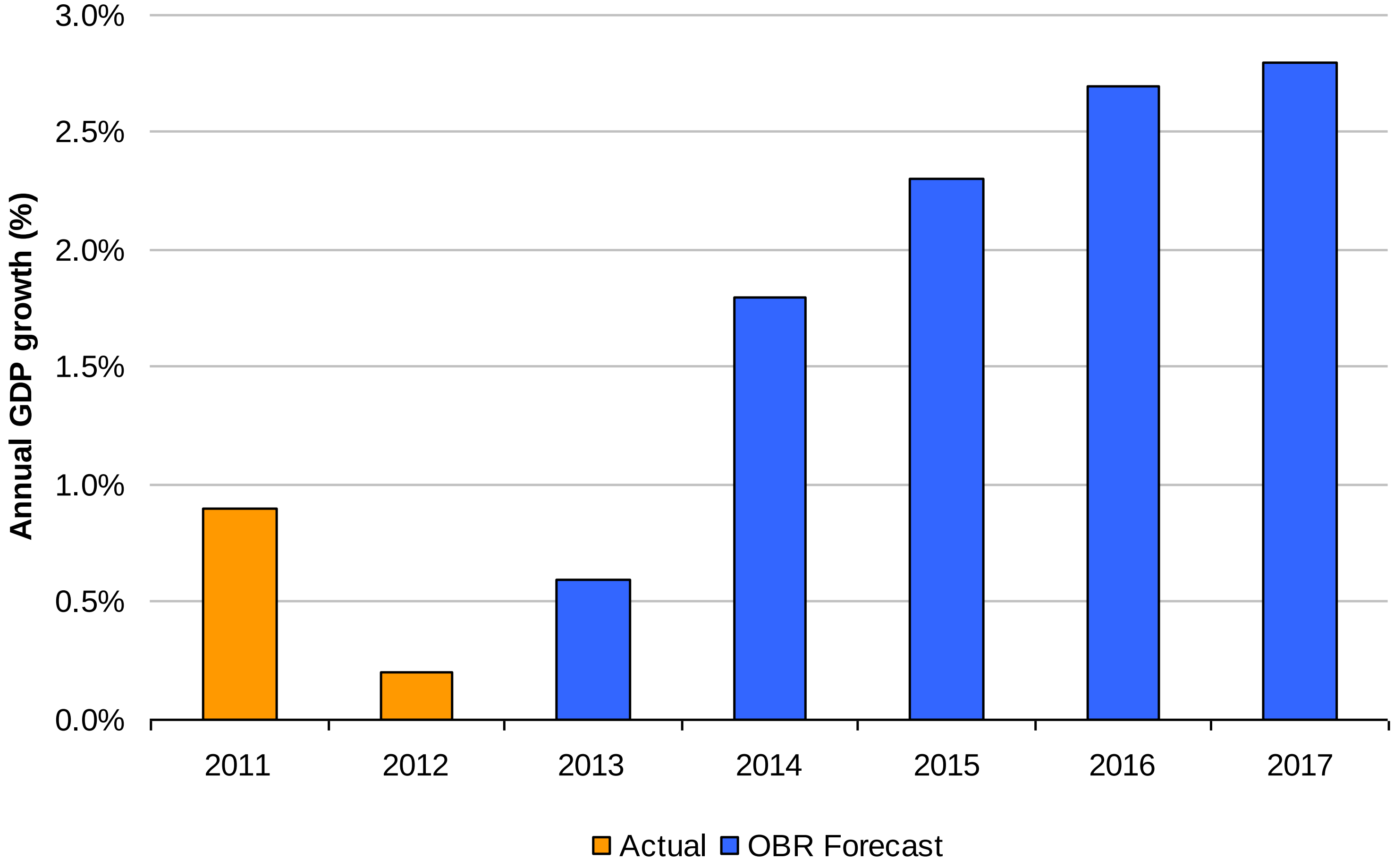
The latest forecasts from the Office for Budget Responsibility suggest growth will remain below trend until 2016



Data Source: OBR

A number of uncertainties surround these forecasts, and have cast a shadow over the UK economy

There have been significant global uncertainties holding back economic recovery:

1. Euro area – the Euro crisis and anaemic growth
2. United States – the “fiscal cliff”
3. Slowing economic growth in China

These factors have been weighing on UK business confidence and investment, and dragging on economic growth

Recent developments suggest that the economy may be turning a corner

Some of the global risks have abated:

- Euro area –grounds for optimism, with relative calm on the financial markets
- Growth in China - had slowed, but the latest indicators suggest growth is picking up again

The UK economic outlook seems to be improving:

- Business confidence is picking up, the CBI optimism index 7 (5,.. -12)
- Recent manufacturing and construction indicators show a marked improvement: Construction PMI 59.1 (57), Manufacturing PMI 57.2 (54.8)
- Strong performance in other countries such as America, Japan and some EU countries provide an opportunity for increasing Britain's exports
- The OECD has raised it's forecast for the UK economic growth to 1.5% (0.8%)

2) Housing and the economy

Construction output contributes around 8% of GDP…
Housing accounts for around 3 per cent of GDP

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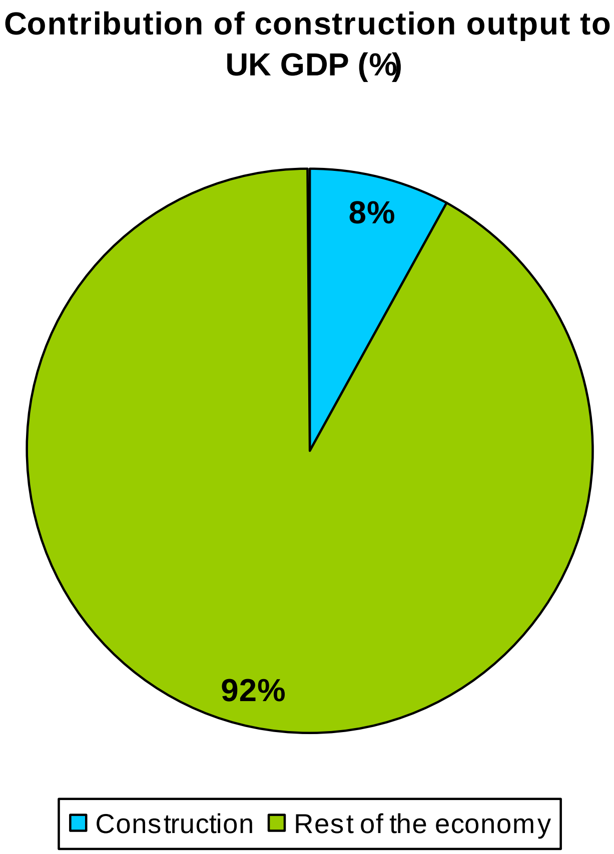

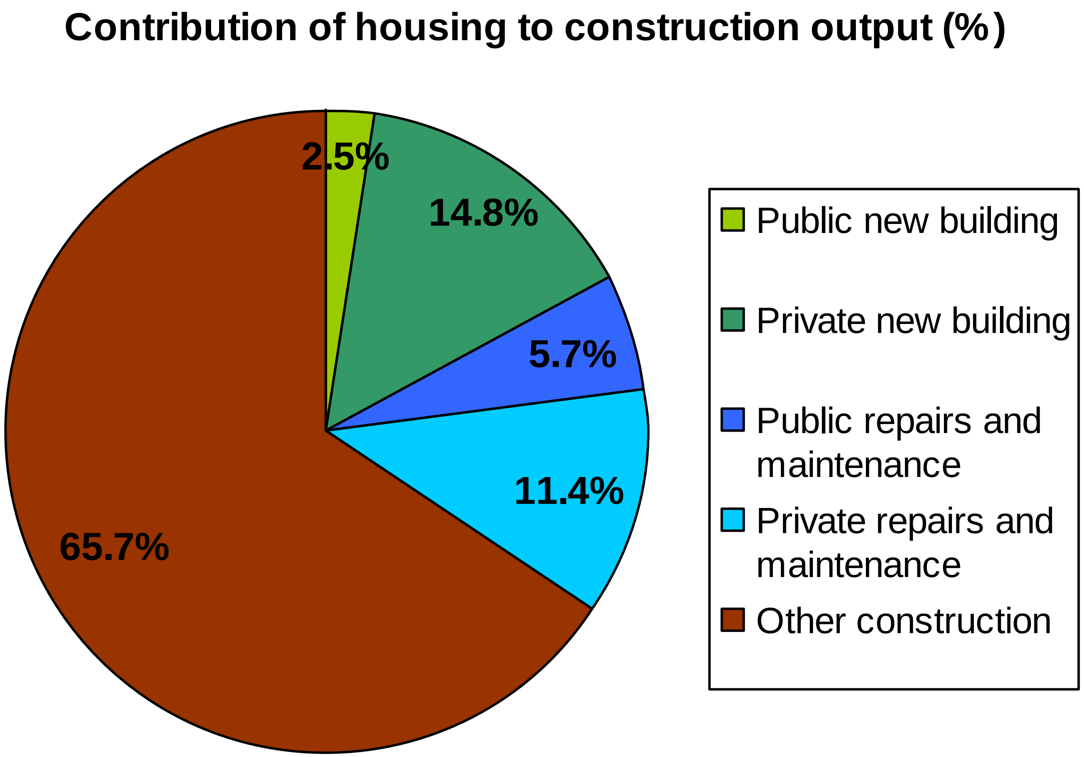

Data Source: ONS

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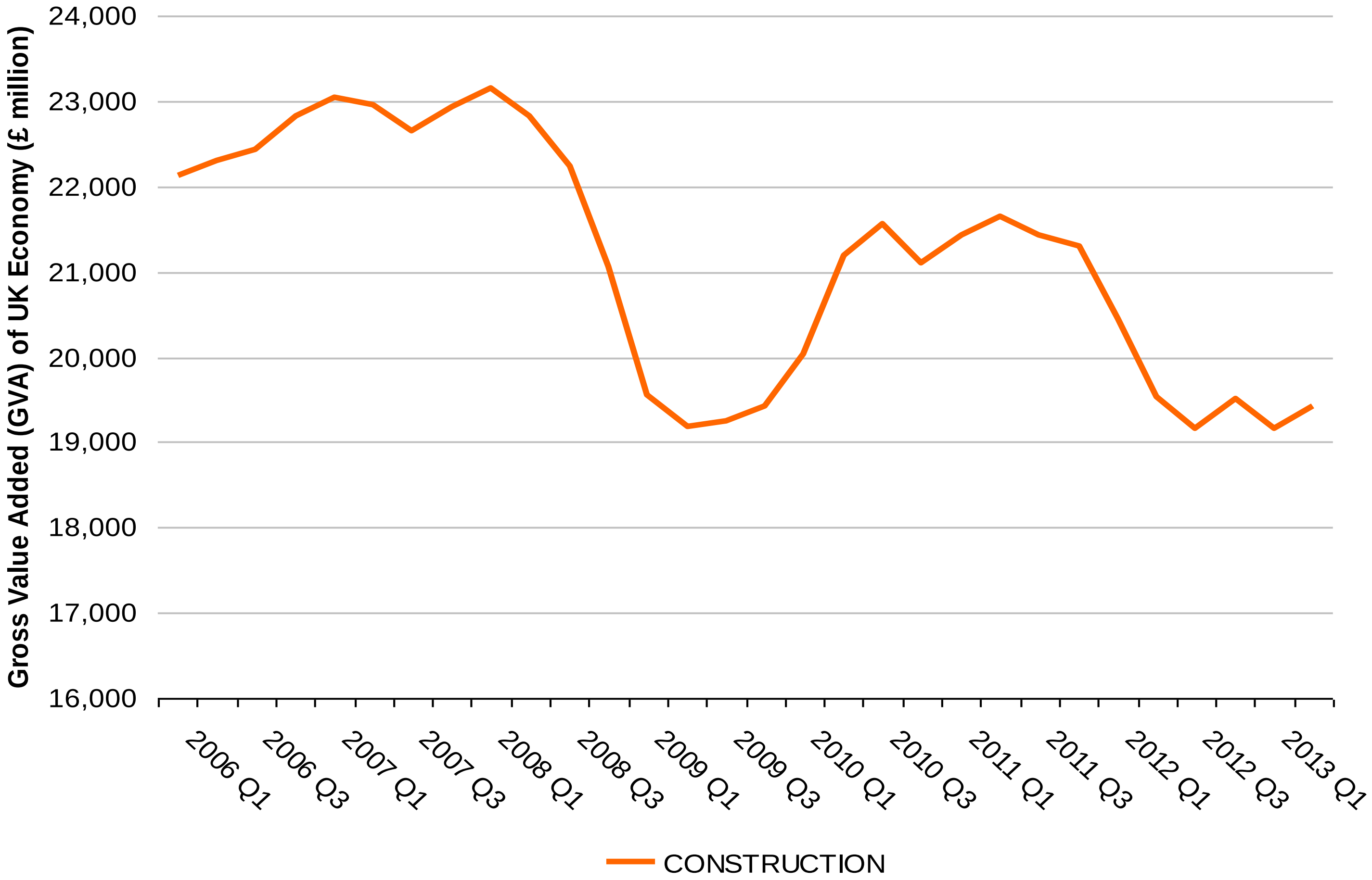
Construction output fell much more sharply than overall economic output during the recession – nearly 20%, housing was worse affected still



Data Source: ONS

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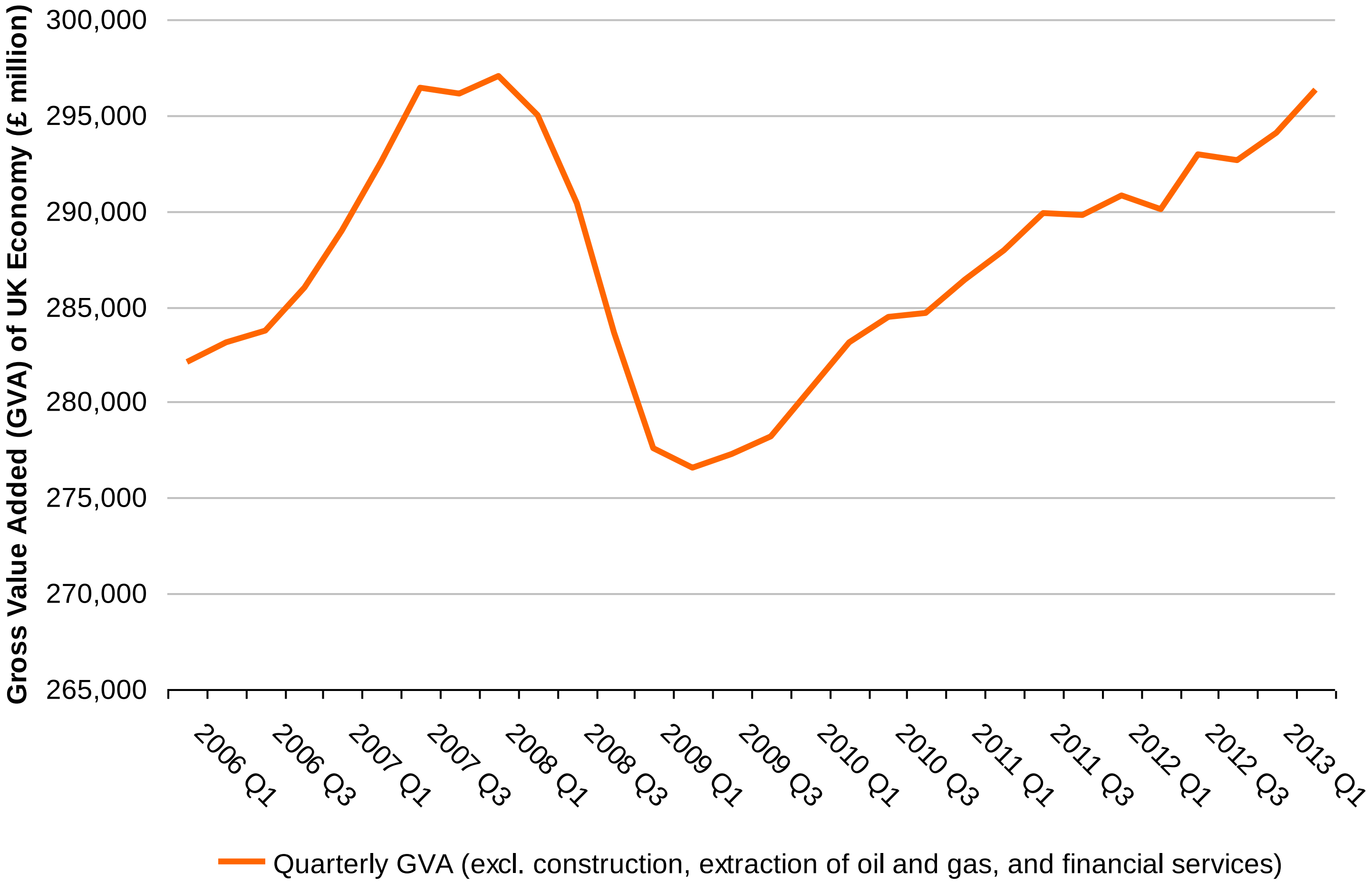
Indeed, if construction, North Sea oil and gas and financial services are excluded, the economy has broadly returned to pre-crash levels of output



Data Source: ONS

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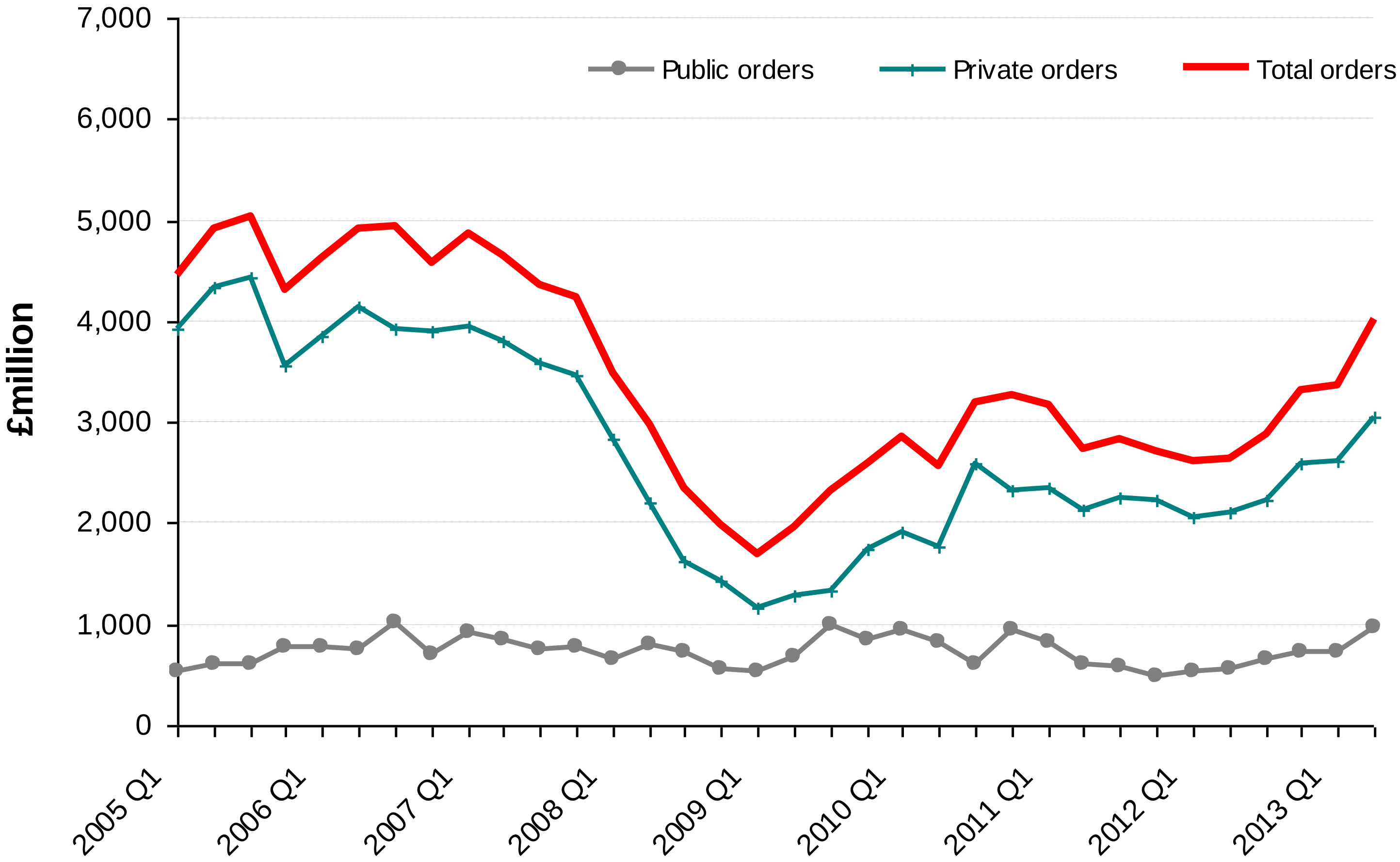
Some of the leading indicators suggest a significant pick up in construction output ahead



Data Source: ONS

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Housing can play a key role supporting recovery

- The sector has more spare capacity than others– meaning it can grow more without creating inflation
- It has strong job multipliers, as building and repairs and maintenance are labour intensive
- Job growth helps to underpin aggregate demand for goods and services within the economy
- Housing construction does not rely heavily on imports, which drag on growth

It is estimated that there is a supply chain multiplier in construction of 1.78, i.e. 1 construction job supports 0.78 jobs elsewhere in the supply chain.

For every £1 million of new housing output, 19.9 workers are needed for a year. For every £1 million of housing repairs and maintenance 30.8 jobs are supported.

Source: Scottish Government, and Construction Skills and DCLG analysis

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The short term prospects for UK growth are highly dependent on creating the right conditions for greater investment, including in housing

Summary of the OBR's central forecast

	Percentage change on a year earlier, unless otherwise stated						
	Outturn	Forecast					
	2011	2012	2013	2014	2015	2016	2017
Gross domestic product (GDP)	0.9	0.2	0.6	1.8	2.3	2.7	2.8
Expenditure components of GDP							
Household consumption	-1.0	1.0	0.5	1.2	1.7	2.4	2.8
General government consumption	-0.1	2.6	0.4	-0.7	-0.4	-1.0	-1.8
Fixed investment	-2.9	1.4	2.2	6.7	8.1	7.7	7.8
Business	3.1	4.9	1.9	6.1	8.6	8.6	8.6
General government	-26.2	2.7	2.6	5.0	1.8	-1.5	-1.2
Private dwellings	2.3	-5.4	2.0	8.9	10.0	10.0	9.7
Change in inventories	0.3	-0.2	-0.2	0.0	0.0	0.0	0.0
Exports of goods and services	4.6	-0.3	1.5	4.4	5.1	5.3	5.3
Imports of goods and services	0.5	2.0	1.0	3.8	4.4	4.8	4.9
CPI	4.5	2.8	2.8	2.4	2.1	2.0	2.0

Source: HMT

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3) Housing policy responses to the crisis

Following the financial crisis, a number of factors have been holding back greater housing investment

Demand-side barriers

- Lending – banks are less willing to lend as the perceived risk of house prices falling is higher
- To reduce banks exposure to this risk, higher deposits have been demanded
- The cost of borrowing for banks has increased due to uncertainty in the economy, and higher risk aversion in the financial sector

Supply-side barriers

- The fall in house prices has reduced the financial viability of building, leading to stalled sites
- Reduced access to investment finance, particularly for smaller suppliers

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The Government has a number of flagship policies in place to support the housing market in the short term (1)

Demand-side

- Creating an **Affordable Housing Guarantee** for up to £10 billion to support affordable homes

- **Help to Buy** – The Guarantee will support up to **£130 billion** of high loan-to-value mortgages, and the equity loan scheme will provide **£3.5bn** of investment in England to help support up to 74,000 home buyers

- An expanded **Build to Rent fund** with **£1 billion** to support the development of more new homes for rent

The Government has a number of flagship policies in place to support the housing market in the short term (2)

Supply-side

- The **Get Britain Building fund** to unlock building on sites with planning permission
- Supporting the release of **public sector land** and reducing planning delays to accelerate major housing projects
- **Affordable homes programme** with new affordable rents with 170,000 homes over the current Spending Review period and a further 165,000 homes over 3 years announced at Spending Review 2013
- Increasing the maximum discounts available for **Right to Buy** tenants and plans to reduce the eligibility period. For the first time, all the additional sale receipts will be recycled back into new affordable rented homes

4) Longer term issues and policy

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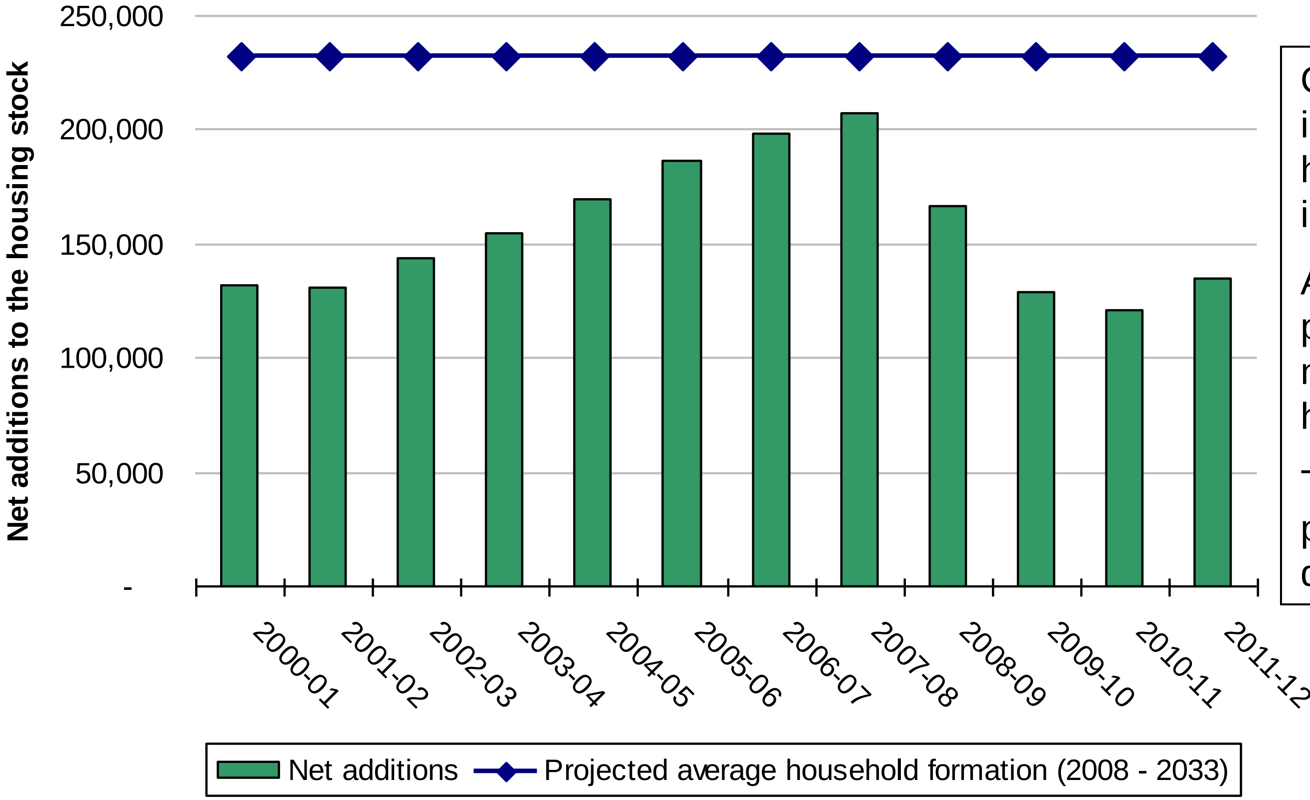
The current rate of housebuilding is not keeping pace with the number of new households, which is primarily driven by population growth



Over 70% of the projected increase in the number of new households is from population increases.

Alongside this an ageing population will lead to a greater number of single person households.

These are not forecasts, but projections based on socio-demographic trends

Data Source: DCLG

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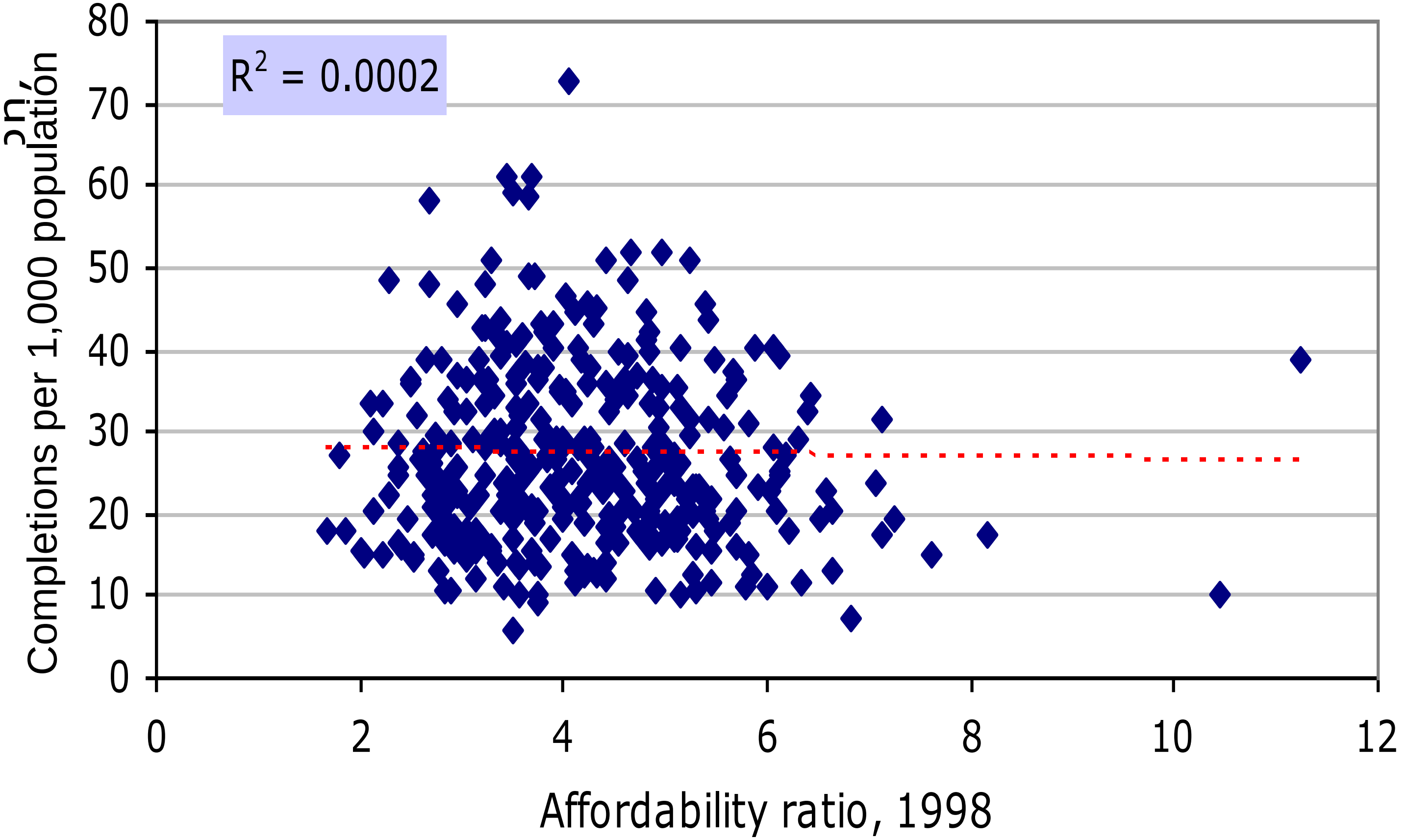
There is not a strong correlation between the affordability of housing and the supply of housing in an area



Not only are we not building enough houses, there is some evidence that we are not building houses in the right places, reflected in a poor correlation between demand (measured by affordability) and new building supply.

Source: DCLG internal analysis

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Housing plays a key role in supporting long run economic growth through interactions with the labour market

An adequate supply of housing and in the right places is needed to:

- Ensure housing is affordable and that workers can be retained in and attracted to areas where the jobs are. Unaffordable housing risks raising labour costs and undermining business competitiveness and productivity
- Support geographical labour mobility, lower levels of unemployment and increase output
- Support the realisation of agglomeration economies – the increases in productivity associated with geographical clustering of populations and economic activities

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The Government has put in place a range of local growth measures to support the housing market and broader economic development longer term

Enablers

- Introducing a simplified National Planning Policy Framework that creates a presumption in favour of sustainable development and planning guidance which makes greater use of market signals
- Capital Infrastructure Fund for large sites
- Supporting 39 LEPs via the Single Local Growth Fund (Heseltine), building on the Growing Places Fund which provides up-front funding to get local development under way
- Establishing a £2.6bn Regional Growth Fund leveraging in over £13bn of private investment
- Creating 24 Enterprise Zones across the country to support both new and expanding businesses

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New Partnerships

- Working with local areas to create 39 Local Enterprise Partnerships (LEPs), aligned with functional economic areas, to play a key role in driving economic growth

- Agreeing 8 City Deals and a second wave

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The Government has put in place a range of local growth measures to support the housing market and broader economic development longer term

Incentives

- Delivering a New Homes Bonus that rewards local councils when they provide more housing for their local population
- Community Infrastructure Levy –15% or 25% to go to local communities (depending upon whether they have a neighbourhood plan)
- Giving local authorities a direct stake in local economic growth by allowing them to keep 50% of the local business rates revenue
- New freedoms e.g. Tax Increment Financing

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Summary and key messages

- The UK economy has come out of recession more slowly than expected – the result of a range of international and other factors, including problems in the Euro zone.
- OBR forecasts suggest the UK will progressively return to trend growth rates by 2016.
- Construction and housing, North Sea oil and gas and financial services have contributed significantly to the recession and sluggish recovery.
- Construction/housing investment has a key role to play in supporting economic recovery in both the short term and the long term but there are both demand side and supply side risks.
- The Government has taken a range of measures to promote growth both in the housing market– including putting in place a new regime for enabling local economic growth.
- There are tentative signs the economy has turned the corner. But the evidence suggests recovery from credit booms and busts takes longer than other types of recession because of the time it takes to de-leverage debt.
- But a framework for future growth is in place.