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Leaders in Wealth Management

Chartered Financial Planners

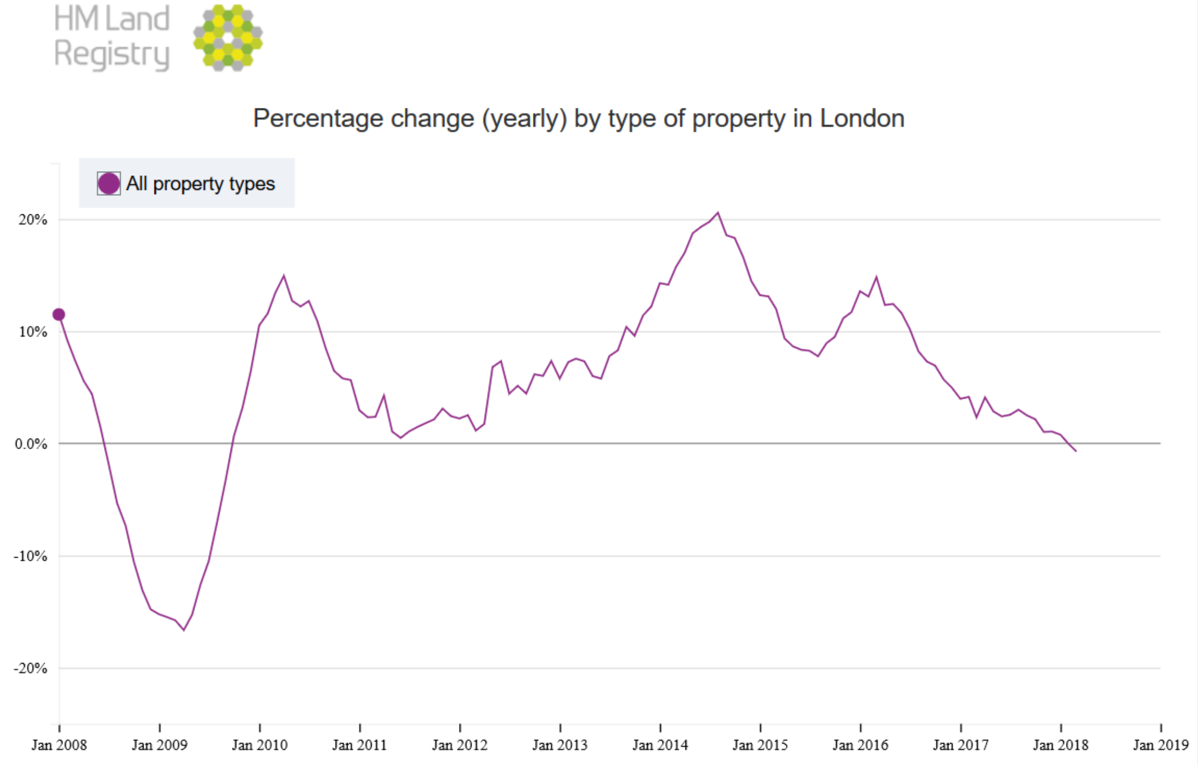
Economics and Wealth Advice Update

I produce these markets reports bi-monthly.
We produce client-only reports, more frequently.

Have you heard the one about falling London house prices?

The Land Registry (LR) collates sales prices of all homes. Not a sample, not hearsay, not opinion. We can accept LR statistics as the closest to reality as you can find.

The following chart is the **annual percentage change in London house prices**, courtesy of LR.



As you see, the most recent month, for which we have data (March 2018), shows London prices have fallen over the last year. This may be no surprise to you, if you have been seeing increasingly bearish punditry on the matter.

Sure, it's a tiny year-on-year fall. Prices have fallen, in the year to March 2018, less than 1%. It doesn't even compare to the vast rises of 2010 to 2017 (approximately +70%).

However, isn't it at all interesting (sic!) to you, dear reader, that we see a fall **at all**, given we have the lowest borrowing rates EVER?

In days gone by, with the Base Rate at merely 0.5%, we would have seen house prices going somewhat vertical and at least 25% up, annually, would we not? And yet, we see a fall. And the trend suggests more to come.

Perhaps it has something to do with the sheer number of properties on the market. Right now, there are some 55,000 London properties for sale. Yet, last year, there were less than 5,000 sales on average, monthly. That's about 11 month's supply on the market.

Higher Buy-To-Let taxation is now hurting. It will hurt even more as it rises further till it peaks in a couple of years. Buy-To-Letters are selling up and not buying back in, and they are not being replaced with new entrants.

It seems to me the oversupply versus demand is rising.

This month, I note, the members' survey of the Royal Institution of Chartered Surveyors - RICS (i.e. professionally-recognised estate agents) said that 65 per cent of London-based estate agents saw property prices fall in April. **This is the weakest reading since February 2009.**

Go back to 2009:

In the 2008 recession, London house prices fell over 20% (see above).

In February 2009, we'd had the Great Financial Crash, and Depression was in the air. And we are back to hugely negative agents' sentiment levels of then... This is not bullish London house prices.

And no wonder estate agents are extremely despondent. Look at the numbers of sales (bear in mind the vast increase in the number of agents over the years):

London house sales volumes, monthly, since records began:

I have no idea why the spike in sales in March 2016. I would suggest it was probably a blow off top of mania in the market.

So, sales volumes are now back to economic recession levels (2008), and heading down, according to estate agents.

I reiterate, in 2008/09, London house prices fell over 20%, as sales volumes plummeted. Adding mortgage approval numbers for the late 1980s to the mid 1990s (not shown), which were, similarly, falling as prices fell, we can deduce that:

If sales volumes fall prices also fall, generally.

Back to 2009: what did the policymakers do? They slashed interest rates. The Base Rate went from 5.0% to 0.5% that year. And stayed no higher over these last 9 years.

So, with such negativity and despondence in this market, will they slash rates again?

Well, you might think they would. But it's extremely unlikely. From just 0.5%? And with steady GDP growth ie no recession? Apart from October 2016*, I can think of no other modern period when the Base Rate was reduced, outside of a recession.

* The cut, to 0.25%, was quickly reversed back up, in early 2017.

In fact, as global interest rates are actually RISING*, it seems to me it is just a matter of time before Mark Carney, the most dovish central banker ... since the last one..., or his successor, RAISES the UK Base Rate. In any case, mortgage rates have, generally, risen over the last year.

* The US Federal Reserve has raised rates 5 TIMES since early December 2016, from 0.25% to 1.5% today. The markets expect a rise to 1.75% in the next couple of weeks. ... while our Bank of England sits on its hands watching consumer price inflation trend up and up, contrary to its mandate. It's just a matter of time before the UK Base Rate rises, multiple times.

What influences inflation? Largely, commodity prices ie oil and energies, agricultural produce and metals eg iron ore, copper etc. The next chart is of the global commodities' prices index:

CRB

As you can see, commodity prices have been rising some 2 and a half years now (since the deflationary commodities bust which ended early 2016).
We now have commodities prices at their highest in 3 years.
And the trend is up, strongly. This is inflationary folks.
I have been talking about inflation for a couple of years now.

So, we have rising commodities prices...

Which lead to rising inflation...

From which we can expect rising interest rates, in due course.

Are you investing for global inflation?

Is global inflation sustainable?

Well, inflation rose from low single digits (like now) to circa 25%, over just 10 years, from the mid 60s. Is that likely to happen again?

I would say not, though it is certainly possible.

It seems to me we should expect high single digit inflation, 5-10 years from now.

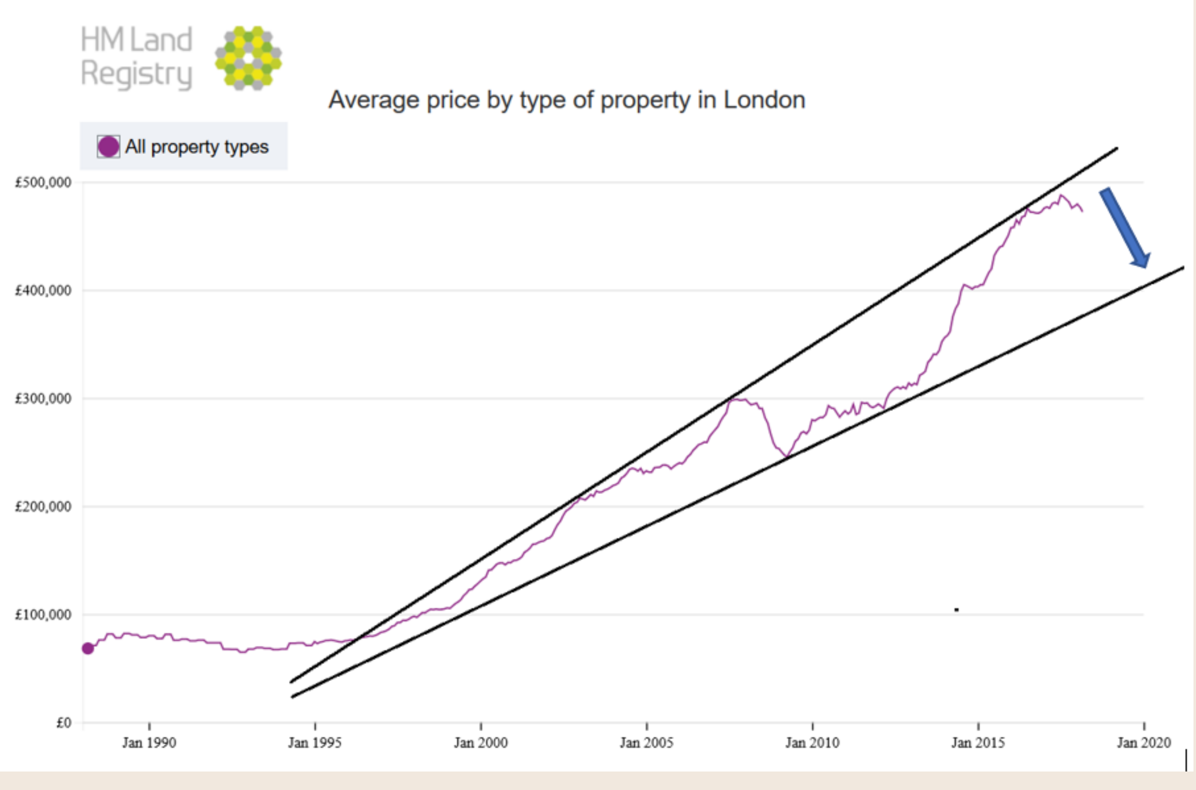
To which you might be breathing a sigh of relief. I wouldn't if I were you.

With 5-9% inflation we should expect 3-6% Base Rates.

With 3-6% Base Rates we should expect 5-8% mortgage rates.

London house prices are falling with mortgage rates of 2-3%...

The next chart is the **London house price index**, over the last 30 years.



LR provided the data. I added the trend lines and the potential route (the arrow) for London house prices, for the next 2-3 years.

I am forecasting a 16% fall in London house prices from 2017 to 2020 or so, from average £490k to average £410k, taking the average price down to the lower trend line, as it did to 2009.

That is just for the medium term.

For the long term, it will be down to whether or not we are, indeed, in an ERA of rising interest rates. It is not yet confirmed but likely it will be this year.

But many readers will say **I'm not in London**.
Sure. However, historically, what has happened there has spread out to the rest of the UK. There is every reason to expect this to repeat.

Yes, but it's only a circa 1% fall, so far.
Sure. However, I've just explained borrowing rates are likely to rise in the medium term and rise for years. As they say in Hollywood movies: Do the math(s)!

So, as well as the question:

Are you investing, in your portfolio, in commodity and related assets - to meet the inflation challenge?

I also ask:

Are you top-heavy in property? (Commercial, or Residential. Uncle Tom Cobley doesn't care in a rising rates environment.)

I suggest you check your plans for security and comfort in your retirement.

Remember, interest rates fell from as long ago as the mid 1970s to 2009.
They have, effectively, stayed flat for over 9 years.

The US has raised rates consistently for nearly 3 years. The UK will have to raise.

If rates fell for over 4 decades, isn't it plausible they could rise for 10+ years?!!!

I have said, for a decade or more, that when rates stop falling they will rise for years.

I am telling clients, and anyone else who will listen, that that is now probable. Most likely, we will have confirmation this year.

The bulk of wealth advisers and portfolio managers has NEVER managed money in an era of rising interest rates.

They have only known falling rates, throughout their careers.

Has yours?

So, I ask again, as I do every Booms and Busts Report:

What should **YOU** do to secure and grow your wealth and purchasing power?

Don't put it off till it's self-evidently too late.

Can you benefit potentially from our advice?
We work for wealthy families and/or high earners.
We work for clients all over the UK and indeed on 3 continents.

We now have an association with an excellent financial planning firm who can advise interested parties with portfolios materially under £500k. Contact me for details.

Our most important and most often repeated philosophy is (as seen widely on our website): "We advise you based on what we would do, were we in your shoes, given what we know".

Call me personally to see how we can help.

Please note carefully the following important messages:

I believe most folk do not realise, in big picture, the changes happening right now in our economy and markets (interest rates, government bonds and property).

They will.

I think most folk also do not realise, in big picture, the amazing opportunities in our markets (global stocks, commodities, inflation-directed assets).

They will. But will they benefit?

Click ***to forward to a friend*** if you think they could benefit from reading this.

If you have any queries over any of the issues raised do not hesitate to get in touch with me by calling me or emailing me at ***jdavis@jonathandaviswm.com***.

On Twitter, follow me ***@J0nathanDavis*** where I frequently comment and link to important commentaries on markets and economics.

Kind Regards

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