HOUSING
in the doldrums

by Ian Barron

THE BRITISH government is reading "recovery" in the drop in the rate of inflation to a 30-year low. In fact, the June rate of 1.2% is a signal of distress in the High Streets, where retailers have been running a continuous "sale" of goods in a desperate effort to stay alive until consumers decide to spend with confidence.

Government forecasters are grasping at any number that suggests an upturn from the economic trough. The problem, however, is that they do not know how to value the relative significance of the trends.

Take, for example, the housing market. Everyone agrees on the importance of the residential market in the economy. Some want prices to rise - as evidence of consumer confidence. Others, however, want prices to stabilise - so that the inflation rate is not pushed up.

On the face of it, the despondent housing market ought to be buoyant. As the Halifax Building Society's graph reveals, average house prices have now fallen back in line with average earnings. Good, say some; for this means houses are once again affordable. Bad, say others, for this suggests that earnings are rising too fast (thus eroding competitiveness).

Good, say some, who want construction to restart. Bad, say others, who feel that this would give a kick-start to land prices - the primary cause of the boom in the late 1980s, which lead directly to the recession. According to Westbury Partnership Homes, a Gloucestershire company: "We are already seeing increases in the cost of building materials and as land prices recover, proposed levels of housing investment will not be sufficient to meet the social housing movement's needs."

According to Pieda, a firm of economic consultants, UK house prices will continue to fall for at least the next two years. For there is a "wall" of 300,000 unsold properties overhanging the market, which means total supply will outstrip demand.

The crash in private sector construction (from 179,000 in 1989 to 138,000 last year) has been more than offset by the sharp rise in the reposession of 85,000 houses from families that found they could not finance their mortgages. According to Shelter, the charity for the homeless, the number of people living in homes in arrears with mortgages payments has reached 2m - double the population of Birmingham.

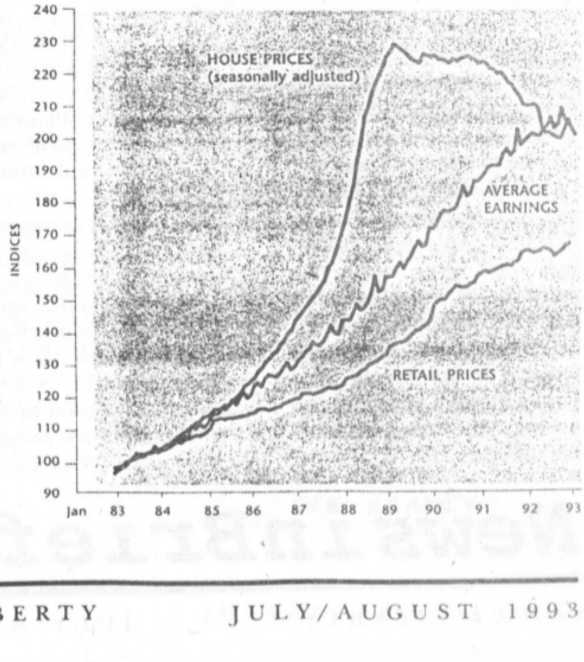
Builders are one of the victims of the "success" in the fight against inflation. Cut-throat competition has slashed their profit margins to "suicide" levels, according to the Royal Institution of Chartered Surveyors. Good, for Major's government, which is making large claims for the implications of a low rate of inflation. Bad for the economy, say the analysts who know that construction is one of the leading sectors of the economy.

"This is desperate news for an industry which should be leading the country's investment recovery," says the RICS. "We are in a Catch-22 situation. Work levels will not allow tender prices to rise until late 1994 and with pressure on supply and sub-contract costs, it is difficult to see how some companies will cope."

THE BLEAK outlook is forcing construction firms to diversify on an international basis, in search of cut-price land.

The UK's Taylor Woodrow has bought 2,000 lots in Florida on favourable terms, chairman Colin Parsons told his annual meeting in May. "We continue to seek other parcels of land available at heavy discounts which have planning approval and where production can start quickly."

Taylor Woodrow has disposed of most of its Australian shopping centres, is seeking to reduce its commitment to property in the USA, and rebalance its portfolio in the UK and Canada.



The UK industry has lost 500,000 jobs since mid-1989. According to a trade enquiry by the Building Employers Confederation

- building output is still falling after four years of decline;
- 96% of firms are working at less than three-quarters of their current capacity;
- 25% of all firms expect to continue shedding jobs.

OVERALL, then, the outlook continues to look bleak for consumers and the UK economy.

The low rate of inflation, far from encouraging people, has exposed the decline in the real value of their prime asset - their homes. In past land-led booms, homeowners have been misled by high rates of inflation which disguised the drop in real values. Now, faced with the truth, people's confidence will remain shattered for at least the next 12 months, whatever the story behind the statistics on employment being published by the government.