NOW WAIT FOR THE 8.5-YEAR HITCH!

BRITAIN'S Treasury has begun a drastic overhaul of the information used to track economic trends. Statistics and data from surveys are being re-evaluated, to calculate whether they really help to predict turning points in the business cycle; points that, traditionally, escape the attention of forecasters.

One sector that the Treasury mandarins will continue to ignore is the land market, even though Sir Terry Burns, the Chief Secretary of the Treasury, was interested in land-price trends during the Lawson years.

Pity: if the Treasury listened to EI - which has successfully employed land-price theory as a forecasting tool - it would learn about the next major cloud on the horizon: the eight-year hitch.

TO SUMMARISE: EI warned of the Crash of '92 early in 1988. Sure enough, output peaked in the summer of 1990, with the housing sector leading the downturn; causing a weakening in employment expectations during that year which other forecasters ignored. Then came the rush into the Valley of Death for hundreds of businesses that would otherwise have thrived, if policy-makers had listened to EI and taken the appropriate preventive measures.

The UK has now passed through the worst; but is at the starting point for the next major phase - the upswing that will terminate in a recession in the year 2,000 (when, it is not unreasonable to presume, Sir Terry will still be reading the runes in the Treasury). This is the midpoint in the next 18-year cycle in land values, which terminates in depression in 2,010 - far enough away for the banks, the builders and the other mugs (the ones that will be left holding overpriced land) to have forgotten the "Barber Boom" (1972) and the "Lawson Boom" (1988).

Why the year 2,000? Because in the UK, people borrow money to buy homes which they occupy on average for over 8.5 years. So towards the end of the century, the increased turnover in the housing market will encourage a new phase of speculation (called "trading up") which will induce the mid-cycle crash, before recovering in time to restart the final surge towards the end of the classic 18-year cycle in land prices - the major boom that precedes the major bust.

That process has begun. Already builders are reporting that land prices are once again hardening up. Bryant Group, in the West Midlands, spent £70m on buying land last year, and it plans to spend more this year. But its chief executive, Andrew MacKenzie, warns that there were signs of "some pressure" on land prices, particularly in the south.

House-builders continue to suffer, turning in low profits while trying to survive the blizzard that has swept their sector for four years. The companies that were caught with large banks of land that was bought at the top end of the speculation cycle have been particularly badly squeezed. Like Barratt Developments, the country's third largest housebuilder, which saw the average price of its houses fall by £5,000 to £74,800. It has had to build more smaller homes for first-time buyers - another way of saying that it has had to squeeze as many units as possible onto its sites. But on the very expensively acquired plots, carried over from the last phase of land speculation, Barratt had to build luxury homes that yielded very low margins or even incurred losses.

But the expectations of landowners have once again been raised. The low cost of borrowing is being reflected in a hardening of land prices. Savills, the London real estate agency, notes in its current Residential Research report that the price of housing land rose by an average of 7.4% in the first half of 1993. Across the country, building land prices are up 9.3% on their June 1992 levels "and are therefore rising faster than the price of most houses".

Similar signals are coming from the commercial property market. Despite the staggering volume of empty offices in city centres, institutional investors are back in the market, anxious to buy properties occupied by tenants on long leases. Since May, there has been a recovery in property values.

BUT THE British economy is not out of the woods. Look, again, at housing.

◆ The number of households that are more than 12 months in arrears with mortgage repayments increased from 147,000 (second half, 1992) to 158,000 (first half of '93).

◆ The number of households with negative equity - their mortgages are larger than the market value of their homes - rose from 1m (second quarter, '92) to 1.8m (first quarter, '93).

Homeowners are still too deep in debt for a generalised recovery to reduce unemployment. The few bright spots in the kingdom are the peripheral areas of Ulster and Scotland, which suffered least from the last land-price speculation.

Consumption in Ulster remains buoyant. "When house prices start to rise repeatedly, you get a speculative effect," says Graham Gudgin, director of the Northern Ireland Economic Research Council. "People borrow more money than they can afford merely because they see gains to be made greater than their income. It never happened here." Because the land-price boom passed Ulster by, the cost of living is the lowest in the UK. So turnover in high street shops has kept the Ulster retail sector at the top of the UK league. "There is simply more disposable income here," the owner of one department store told The Independent on Sunday (Aug.8).

Scotland also suffered a relatively lower rate of increase in land prices - with commensurate commercial benefits. According to the Halifax Building Society, Scotland and Ulster were the only two regions to experience a rise in house prices, on an annualised basis. Scottish house prices rose by 2.2% over the 12-months to last summer, compared with a drop of 5.1% for Greater London and a drop of 4.5% for the South-East.

The Treasury should look closely at land-price theory; alas, it won't.

Published by the Centre for Incentive Taxation,
177 Vauxhall Bridge Rd, London, SW1V 1EU. Tel : 081 943 1379