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Mortgage and Property

Latest UK inflation data better than expected, but what does it mean for mortgages and property? Experts react

by Sue Whitbread | Jul 19, 2023

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Today's news from the Office for National Statistics (ONS) has revealed the latest UK inflation data for the year to June 2023. For once it is good news, but how good is it really? The data show a fall in CPI inflation to 7.9% in June, down from 8.7% in the year to May, to the lowest level in over a year. Importantly, core inflation has also fallen by more than was expected, down to 6.9% from 7.1% last month.

It's been a busy morning of data for mortgage and property professionals, with the ONS Index of Private Housing Rental Prices also released as well as the Land Registry May House Price Inflation figures.

What does all this mean for mortgage rates and for property investors? What does it tell us about the prospect of Bank of England rising interest rates further as we go through 2023? Has it eased the pressure on them? Indeed, does this reduction in the rate of inflation mean that the end is in sight for the cost of living crisis? After all, let's not get too excited. It just means that prices aren't rising quite as quickly as they were – but they are still rising. And at a rate well above the Bank of England's 2% target.

These are many of the questions to which we all need answers. Mortgage and property experts have been sharing their reactions to the latest inflation data with IFA Magazine as follows:

Clare Batchelor, Mortgage Operations Manager at Wesleyan, said: *"Inflation's moving in the right direction.*

"The central bank has been clear that it must 'see the job through' when it comes to bringing inflation down to its two per cent target, so it's widely expected that it will raise interest rates again in a few weeks' time. Potentially, we'll see even more rate rises beyond that later this year if prices are still rising too quickly.

"This will ring alarm bells for those seeking a mortgage or who are about to slip onto a variable deal. Mortgage rates have recently raced to 15-year highs, heaping hundreds of pounds on household budgets that will already be painfully tight. For those who will be hit by a higher rate in the coming months, it's recommended to speak to a mortgage adviser now – it can take time to find and secure a deal, and any delay may be costly."

Craig Fish, Managing Director at London-based mortgage broker Lodestone: *"There is a god, after all. This fall in inflation and core inflation is bigger than expected and it's expected to continue in this direction for the remainder of the year. It's to be noted, though, that this has nothing to do with the Bank of England's interest rate increases so I hope that they don't try to take credit for it. Because the pain of the rate increases has not yet been felt by most mortgage holders, I sincerely hope that the MPC stop their ridiculous and futile approach to this problem, and ease off with the rate increases now. I fear they won't and we may still see an increase or two, but mortgage holders across the UK are all crossing their fingers, toes, arms and legs."*

Simon Webb at LiveMore, the mortgage lender for the 50-90+ age group commented: *"Inflation is plodding downwards but it's a painfully slow process reaching 7.9% in June. The main contributory factor is food inflation, which is still massively high at 17.4% although it is lower than the peak of 19.2% in March.*

"A slightly more positive statistic is the 0.2% fall in core inflation to 6.9%, which strips out food and energy prices, a welcome turnaround from successive rises over the previous three months. Whether this is enough to stall the Monetary Policy Committee decision to raise base rate yet again is debateable, but there are two members of the MPC who disagree with continual rate rises. The question is, will any of their other colleagues join them?"

Lewis Shaw, founder of Mansfield-based Shaw Financial Services: *"This inflation data is excellent news for everyone, mortgage holder or not. Yes, the UK still has one of the highest inflation rates in the G7, and there's still a long way to go, but to see headline CPI fall and, crucially, core inflation reduce albeit by a smaller margin, is something we've all been hoping for and may suggest we've now turned the corner. This should mean the Bank of England only raises rates next month by 0.25%, so for mortgage holders this is great news. I'm going out on a limb here to say fixed mortgage rates have peaked. We may see a little shuffling around but the continued painful increases are over. That doesn't mean that we're out of the woods because monetary policy takes a long time to show up, however it does mean we can now start to see the faint glimmer of a light at the end of the tunnel. House prices are still in the crosshairs and will continue to reduce for now as the market is absolutely a buyers' market and first-time buyers can smell blood."*

Jonathan Burridge, founding adviser at hybrid mortgage adviser, We Are Money: *"Let us all remember that one swallow does not a summer make. This news will be a great relief to all, especially the policymakers, but, we need to see more before we can start to make any judgements. If this is a trend, then we should start to see some easing of pricing, but let's not get too carried away just yet. Inflation is still too high, so the Bank of England's rate policy is unlikely to change and traders have responded ahead of this news, so any adjustment will be slow and incremental."*

Gary Boakes, director of Salisbury-based mortgage broker, Verve Financial: *"This could be the most significant set of inflation data in years. For inflation to have fallen further than expectation surely means the pressure is off the Bank of England, but the ball is now in their court. Hopefully, we will see a positive impact across markets and reductions in swap rates, which in turn could see a drop in mortgage rates."*

Russell Maggs, mortgage adviser at Corsham-based Maggs Financial Services: *"This latest inflation data should provide a significant boost to the housing and mortgage market. The rate of inflation should now continue to fall in line with other developed countries and there is an opportunity for home movers and first-time buyers to take advantage of buying now whilst the market is flat-lining before it starts to pick up pace again in the coming months. The Bank of England should now hold the 5% base rate until the end of the year to give some stability in the markets. However, the days of super-low interest rates are behind us and we need to get used to living in a world of higher monthly mortgage payments. We're also likely to see increased options in the market to fix monthly payments for the term of the mortgage as you see in the US and on the Continent."*

Stephen Perkins, managing director at Norwich-based Yellow Brick Mortgages: *"Whilst it is very welcome news that inflation has fallen more than analysts had predicted, it should be noted this was mainly due to falling fuel prices. Core CPI (excluding energy, food, alcohol and tobacco) is rising 6.9% down from 7.1% in May, meaning many will not feel an easing in the rising cost-of-living and the government still have plenty to do to achieve their target of halving inflation by the end of the year. Hopefully, today's inflation print will be sufficient to hold base rates in the next Bank of England MPC meeting, which would be much appreciated by everyone, especially homeowners."*

Riz Malik, director of Southend-on-Sea-based independent mortgage broker, R3 Mortgages: *"Inflation falling to below 8% is fantastic news. If the 'market' responds positively to this greater-than-anticipated dip, we could witness notable shifts in the mortgage market. It is a shame that August's base rate meeting is before the release of August's inflation data, which could set the scene for the rest of 2023. This data should take into account the reduction in energy prices that occurred in July. If this leads to another substantial decrease, it could potentially curb aggressive rate hikes for the foreseeable future."*

Gary Bush, financial adviser at the Potters Bar-based MortgageShop.com: *"Clearly, it's now time for the Bank of England to rest a little in its next meeting on 3rd August, echoing what the US did recently, which should bring some calm to UK Plc. With core inflation also down to 6.9%, we are certainly going in the right direction. From the decision in two weeks, we'll see how related to the general public the members of the Monetary Policy Committee are."*

Rohit Kohli, director at Romsey-based mortgage broker, The Mortgage Stop: *"Today's drop in inflation to 7.9% is a bigger fall than anticipated for the first time in a long while and is a silver lining. However, it's not time to pop the champagne corks just yet. We need to keep a close eye on how this feeds into swap rates and the subsequent reactions from lenders. While this news is a breath of fresh air, we're not out of the woods yet. Hopefully, it gives Threadneedle Street some pause for thought and we see some stability in interest rates. I think this will be welcome news to the property market and businesses alike but external factors, such as the ongoing conflict in Ukraine, could potentially reverse these drops, especially with food inflation remaining high. Let's remain cautiously optimistic and continue to navigate these financial waters with cautious optimism. It will be intriguing to see whether a fall in swap rates will prompt lenders to reduce their product prices as swiftly and as frequently as they increased them."*

Amit Patel, adviser at Welling-based mortgage broker, Trinity Finance: *"Some welcome news just at the start of the school holidays. However, will this announcement be enough for the members of the MPC at the Bank of England to pause and reflect before making the sensible and right choice in pausing their agenda of rate hikes? I'm not too sure. They must pause with their narrative and bring welcome relief to millions up and down the country before it's too late."*

Elliott Culley, director at Hayling Island-based Switch Mortgage Finance: *"Now the Bank of England have a decision to make. Inflation remains high, but it has dropped more than predictions. Swap rates are so volatile right now and recent positive news has led to swap rate rises cooling off. What happens next is so important for the housing sector. I think we will still see a rate increase in August, but the Bank of England might start thinking they don't need to go as high as 6.25% by the end of the year as has been predicted. This could lead to a reduction in swap rates and ultimately mortgage rates, but we are not out of the woods just yet. Ultimately there are signs the rate rises are working, so the hope will be this translates into the decision-making of Andrew Bailey and the committee."*

Peter Stamford, director of Alston-based Moor Mortgages: "*For the sake of millions of homeowners, I sincerely hope that this will mean a pause in the Bank of England's interest rate hikes. But I fear they will see this fall as proof their blunt-edged strategy has been working and continue to hike. This fall in inflation could have a sting in its tail regarding interest rates."*

John Choong, markets and equity analyst at InvestingReviews.co.uk: *"Miracles do happen. For the first time in months, CPI comes in lower than expectations at 7.9%. Core CPI also comes in a touch lower at 6.9%, which should allow lenders and borrowers alike to breathe a sigh of relief. That said, champagne bottles shouldn't be popped just yet as the path to 2% remains a treacherous journey, with core CPI still high and sticky. The easing figures should allow gilt yields to find some relief in the coming days, with markets now less likely to price in a 7% terminal rate from the Bank of England. We may now see mortgage rates start to come down as well. Nonetheless, this will be dependent on whether the next few prints continue to show cooling inflation, especially on the core front. With wage pressures also beginning to ease as well, there's now hope that both the housing market and the UK economy can achieve a 'soft landing' without entering a recession."*

Jon Maloney, managing director of Wellingborough-based Century Business Finance: *"Finally, some positive news regarding the economy, something that is much needed in the SME world right now. Hopefully, this will give the Bank of England the confidence to halt any further rate increases, which should in turn slowly begin to get things moving again in what has become a very stagnant period for the economy. There's still a long way to go yet but things are moving in the right direction."*

Philip Dragoumis, owner of London-based wealth manager, Thera Wealth Management: *"Finally some good news on inflation, or at least better than expectations. Expect the pound to come under pressure today and a rally in UK bonds. 6.9% core inflation is still high but at least it's heading in the right direction. The Bank of England should pause but won't. Another three months like this and mortgage rates will look very different."*

Craig Fish, Managing Director at London-based mortgage broker Lodestone: "*There is a god, after all. This fall in inflation and core inflation is bigger than expected and it's expected to continue in this direction for the remainder of the year. It's to be noted, though, that this has nothing to do with the Bank of England's interest rate increases so I hope that they don't try to take credit for it. Because the pain of the rate increases has not yet been felt by most mortgage holders, I sincerely hope that the MPC stop their ridiculous and futile approach to this problem, and ease off with the rate increases now. I fear they won't and we may still see an increase or two, but mortgage holders across the UK are all crossing their fingers, toes, arms and legs."*

Wes Wilkes, CEO at the Newcastle-under-Lyme-based wealth manager, Net-Worth Ntwrk: *"The move down in both headline and core CPI today, and also coming in under expectations, will be welcomed by markets and provide some relief to borrowers, investors and no doubt the Bank of England, too. Prices are still rising by nearly four times the Bank's target so we are certainly not out of the woods by a long stretch but this could mean the start of the end of the vicious rate cycle as the Bank will want to avoid rising rates into a deflationary environment if the trend in inflation shifts aggressively downwards from here. Over to you Mr Bailey."*

Mark Grant of the UK-wide business finance broker, The Business Finance Branch: *"Not only did headline UK inflation fall to 7.9%, lower than forecast, but crucially core inflation, stripping out volatile food and energy costs, also fell to 6.9% in June. Will this be enough for the Bank of England to hold interest rates at the August 3rd rate-setting meeting? The jury will be out for that. Ultimately, this data merely confirms prices are rising at a slower pace, but still rising at a high level year on year for businesses and consumers. This better than expected data is welcome but may not be good enough to prevent further interest rate rises and the increased cost of borrowing we have may already have set the economy on a course to recession in the near term. Many businesses I suspect will still not be feeling like the worst is over this morning."*

Samuel Mather-Holgate of Swindon-based advisory firm, Mather & Murray Financial: *"The amount of this fall may just be the right amount to make the Bank of England change course. It's more than expected, and should continue on this trajectory. With most mortgage holders not experiencing interest rate rises yet, because they are on fixed rates, it's time for the Bank of England to reverse its strategy and start cutting rates. This is unlikely to happen until the end of the year but needs to be soon to stave off a severe recession."*

Adam Oldfield, chief revenue officer at Phoebus Software, says *"This is the most encouraging news that efforts to curb inflation are starting to have a positive effect. Especially after so many months of rising inflation.*

"News today of a drop in inflation may lead people to think that the Bank of England is achieving its goal, which will mean an end to base rate rises. However, that may not be the case when underlying inflation remains high.

"Considering the fact that Consumer Duty is just around the corner lenders and brokers will need to be doing everything possible for those clients that may be starting to struggle. Even though inflation has come down we are still dealing with rising costs and the highest mortgage rates in decades. One of the questions is, are the legacy systems many are using even able to identify the most exposed borrowers on their books? If not, how compliant can they be to the new rules?"

Nicky Stevenson, Managing Director at national estate agent Fine and Country said: "*House prices continued to rise in May compared to a year ago, although mortgage rate rises are stifling growth as it eats into what buyers can afford.*

"Today's larger-than-expected fall in inflation will spark hopes that the Bank of England will be less inclined to hike rates further, and that there will be more stability in the mortgage market as a result.

"The housing market has been incredibly resilient despite the economic pressures, and prices remain £6,000 higher than 12 months ago.

"Despite many home-movers having reduced buying power compared to the start of the year, demand remains broadly similar to 2019, which was a fairly typical year for the housing market.

"Sensibly priced properties are still attracting a lot of interest and offers, particularly from buyers who sense they could be getting a good deal on their next home."

Ross Boyd, CEO, Dashly, said: *"Today's figures allow us to take a more positive view on the market and the hope is that falling inflation should mean that interest rates cool and provide some much-needed optimism in the market. If confidence increases, we'll start to see an easing off in terms of fixed rates and a lot more movement in the housing market.*

"There is significant nervousness for homeowners and rightly so. The impact of the consecutive interest rate rises is being felt across the UK – re-mortgagers are feeling the pinch with their mortgage payments going up as much as 3-4% in some cases and those looking to move are sitting on the fence wondering whether its sensible to proceed or not.

"The Government and The Bank of England must tread carefully from here on in as any misstep in what has become a very delicate situation could have severe implications for the nation's economy and subsequently impact the property market."

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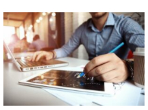

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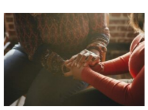

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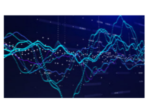

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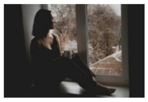

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