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Chancellor's (Lawson) Papers:
House Prices: The Royal Institute of Chartered Surveyors Surrey.

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DD's: 25 Year



24/1/96.

UNCLASSIFIED

MAMC: V1

FROM: S BROOKS (MG2)

DATE: 12 May 1989

x4605

CHANCELLOR

cc Sir P Middleton
 Sir T Burns
 Mr Wicks
 Mr Scholar
 Mr Peretz
 Mr Odling-Smee
 Mr Riley
 Mr Sedgwick
 Mr Grice
 Mr Davies (MP1)
 Miss O'Mara
 Mr Hibberd
 Ms Kosmin
 Mr Owen
 Mr Pike
 Mr Ritchie
 Mr Coulton
 Mr Sheath

*Mike / Sarah
 pls thank*

[Red signature]

SEASONALITY OF HOUSE PRICES

Sir Terence Burns thought you might be interested to see the results of some work we have done to seasonally adjust the Halifax index of house prices. Although the Halifax index is a timely and valuable indicator, the fact that it is not seasonally adjusted somewhat impairs its usefulness, since we know the housing market is markedly seasonal.

2. The monthly percentage increases in the index fell fairly steadily from over 4 per cent last July to 1 per cent last December, and house prices actually fell by $\frac{3}{4}$ per cent in January. But over the last three months, the index has been rising at between 1 and 2 per cent per month. By seasonally adjusting the Halifax index, we can make an assessment of whether these increases reflect a normal seasonal pattern or indicate, on the other hand, a pick up in the underlying rate of house price inflation: on balance we think they are seasonal.

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3. The seasonally adjusted index was calculated using a standard method (see annex A for details). The results are not very surprising - house prices are seasonally low in the winter, in particular in January, and seasonally high in the summer. This shows up best in charts 1 and 2. The most salient recent data is as follows (shown in more detail in table 1)

		seasonally adjusted				
		Level	One Month % change	<u>Annualised Percentage Changes</u>		
				3 months	6 months	12 months
1988	Jan	162.7	1.5	22.7	17.8	16.3
	Feb	166.6	2.4	21.3	20.9	16.9
	Mar	170.5	2.4	28.1	25.1	18.2
	Apr	174.7	2.4	33.0	27.7	20.3
	May	179.5	2.8	35.0	28.0	22.0
	June	184.3	2.7	36.4	32.2	24.2
	Jul	191.7	4.0	45.1	38.9	27.9
	Aug	197.9	3.2	47.7	41.2	30.7
	Sep	204.4	3.2	51.2	43.6	34.0
	Oct	207.7	1.7	37.9	41.4	34.4
	Nov	212.4	2.2	32.5	39.9	33.8
	Dec	215.4	1.4	23.3	36.5	34.4
1989	Jan	217.3	0.9	19.8	28.5	33.6
	Feb	219.8	1.1	14.7	23.3	32.0
	Mar	223.5	1.7	16.1	19.6	31.1
	Apr	224.5	0.4	13.9	16.8	28.5

4. As charts 3 and 4 show, seasonal factors clearly contributed to the sharp falls in the unadjusted three and six month growth rates from 50 per cent or so last September to under 10 per cent in February in the case of the three month rate and to under 20 per cent in the case of the six month rate. Since February, the unadjusted three month rate has turned up quite sharply and the decline in the unadjusted six month rate has slowed. But these changes evidently reflect seasonal influences - after seasonal adjustment the three and six month rates have continued

to decline (albeit with a temporary reverse in March in the case of the three month rate). According to our estimates, the increase in house prices in April was, after seasonal adjustment, less than $\frac{1}{2}$ per cent and was the smallest increase since September 1986.

5. Estimates of seasonal factors need to be interpreted cautiously, especially when the calculations are based (as in this case) on only a few years data. But we think that our estimates reinforce the view that the underlying rate house price inflation has continued to slow steadily in the last few months.



S BROOKS

Chart 1: The Halifax Index

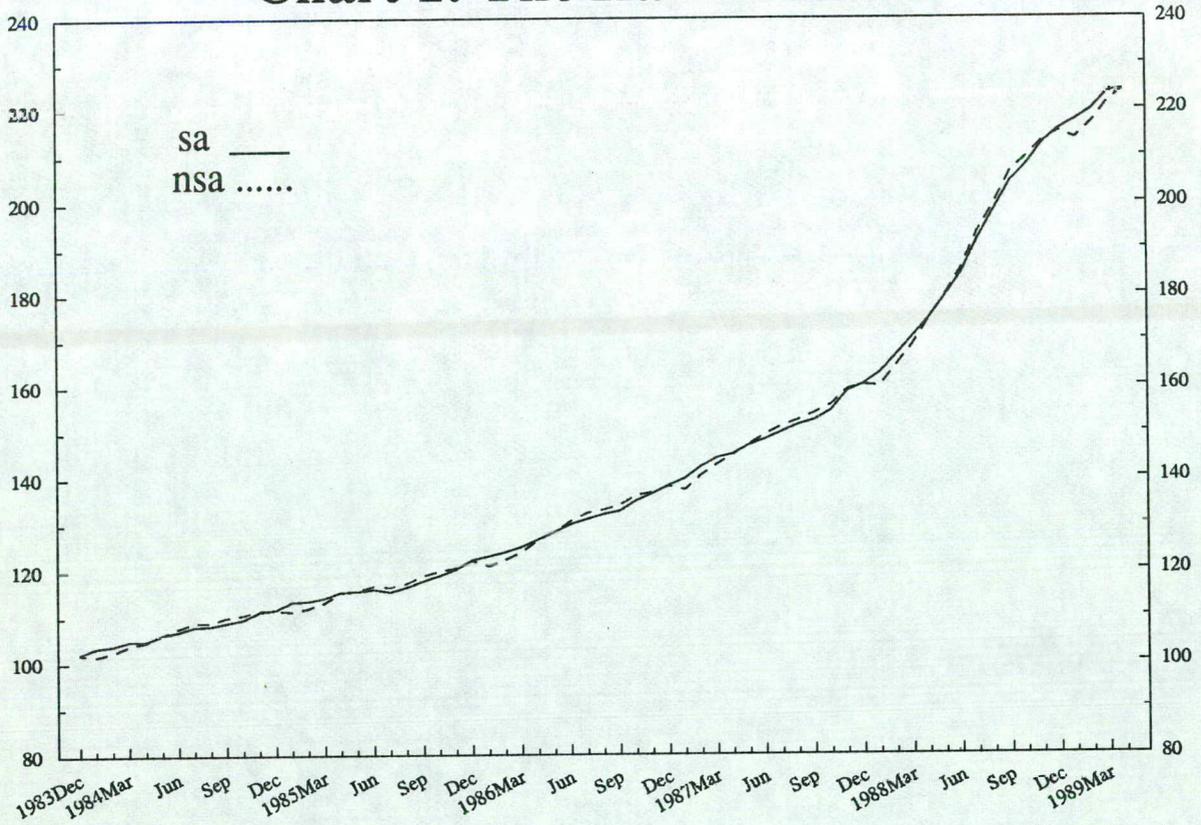


Chart 2: The Halifax Index - One month changes

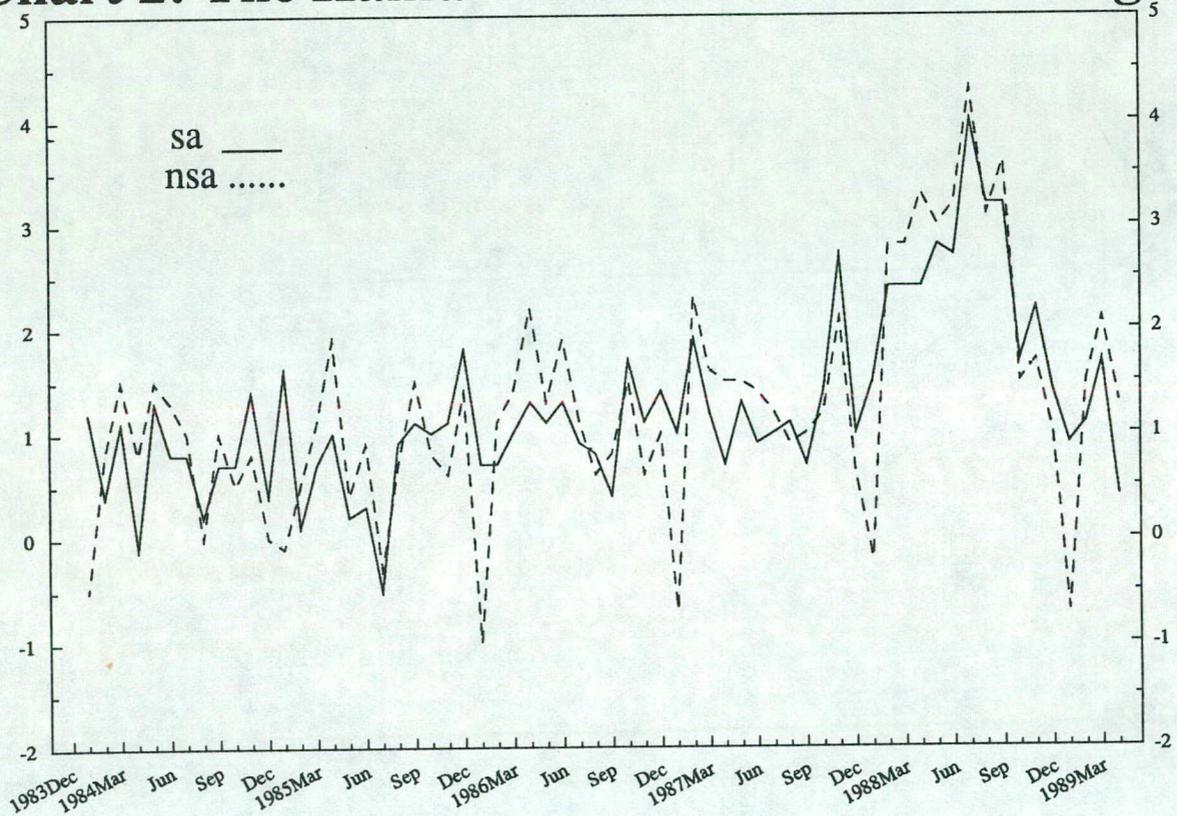


Chart 3: The Halifax Index - Three month changes

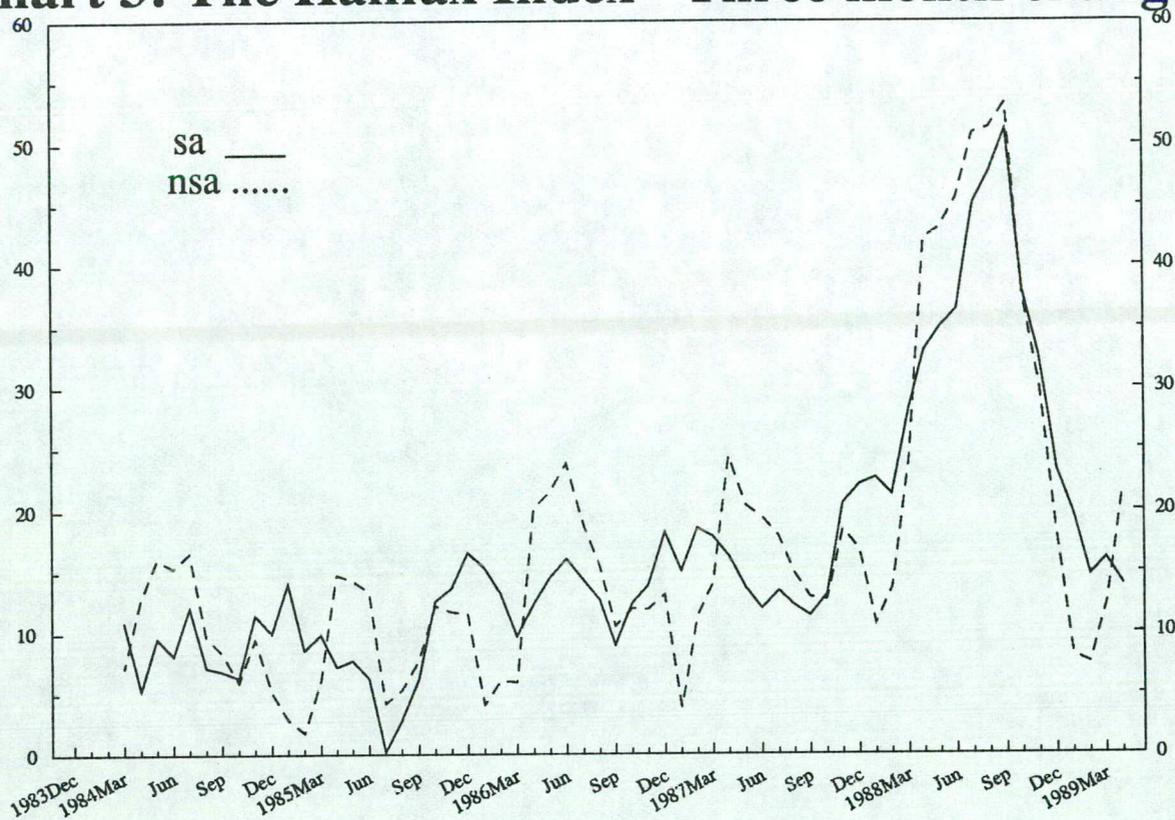


Chart 4: The Halifax Index - Six month changes

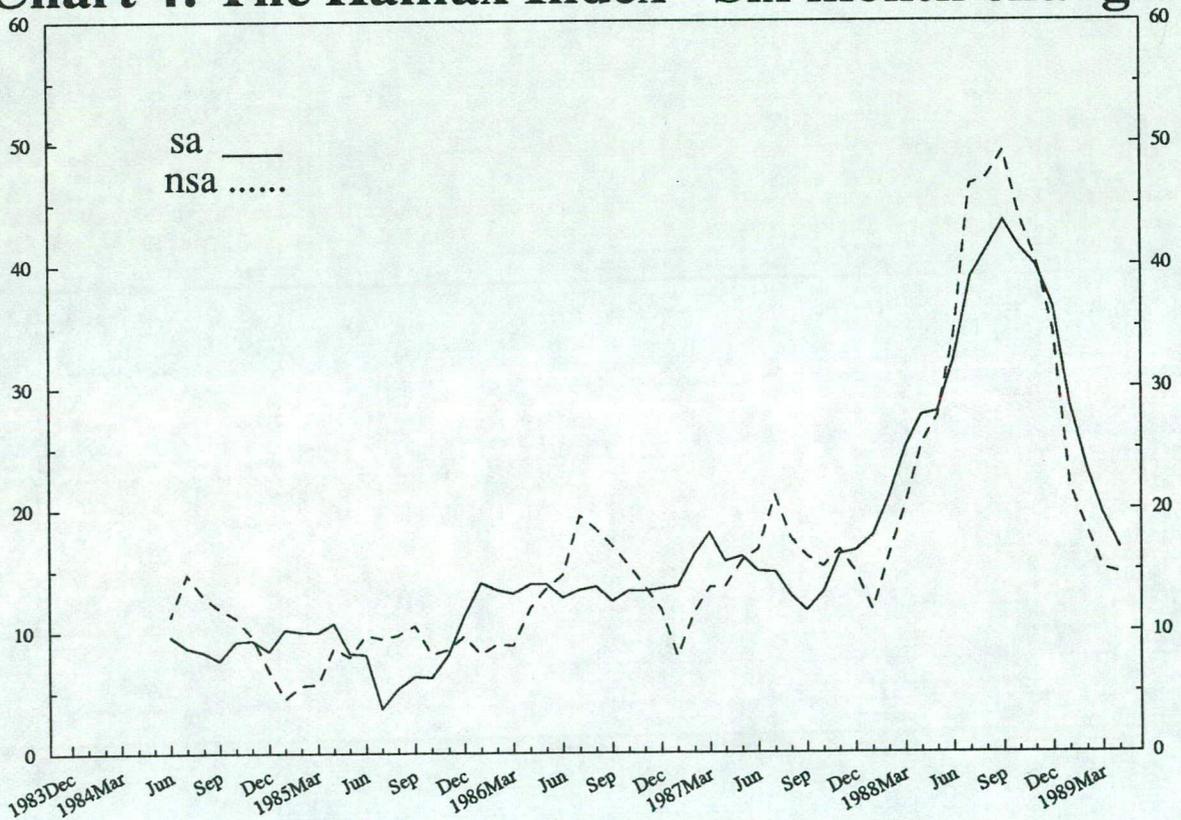


TABLE 1 : THE HALIFAX HOUSE PRICE INDEX
annualised % changes

Levels	annualised % changes				
	Levels		1 qtr	2 qtr	4 qtr
	nsa	sa	sa	sa	nsa
1984Q1	102.7	104.1			
1984Q2	106.3	106.1	7.9		
1984Q3	109.3	108.3	8.6	8.2	
1984Q4	111.1	110.8	9.6	9.1	
1985Q1	112.1	113.6	10.5	10.0	9.2
1985Q2	115.9	115.6	7.2	8.9	9.0
1985Q3	117.5	116.5	3.2	5.2	7.5
1985Q4	120.8	120.5	14.5	8.7	8.7
1986Q1	122.4	124.1	12.5	13.5	9.2
1986Q2	128.6	128.4	14.6	13.5	11.0
1986Q3	133.2	132.0	11.7	13.1	13.4
1986Q4	137.1	136.7	15.0	13.3	13.5
1987Q1	140.3	142.2	17.1	16.1	14.6
1987Q2	147.3	147.0	14.2	15.6	14.5
1987Q3	152.6	151.3	12.2	13.2	14.6
1987Q4	158.3	157.9	18.6	15.4	15.5
1988Q1	164.3	166.6	23.9	21.2	17.1
1988Q2	179.9	179.5	34.8	29.2	22.1
1988Q3	199.7	198.0	48.0	41.2	30.9
1988Q4	212.5	211.8	30.9	39.2	34.2
1989Q1	217.2	220.2	16.8	23.7	32.2

Levels	percentage changes					
	Levels		1 month	3 months	6 months	12 month
	nsa	sa	sa	sa	sa	nsa
1987Jan	137.4	139.9	1.0	15.1	13.7	13.6
Feb	140.6	142.5	1.9	18.6	16.3	15.0
Mar	142.9	144.3	1.2	17.9	18.1	15.2
Apr	145.1	145.3	0.7	16.3	15.7	14.5
May	147.3	147.2	1.3	13.7	16.1	14.7
Jun	149.4	148.4	0.9	12.0	14.9	14.2
Jul	151.2	149.9	1.0	13.4	14.8	14.3
Aug	152.5	151.5	1.1	12.2	12.9	14.6
Sep	154.0	152.5	0.7	11.4	11.7	14.8
Oct	155.8	154.6	1.4	13.1	13.2	14.5
Nov	159.1	158.7	2.7	20.6	16.3	16.2
Dec	160.1	160.3	1.0	22.1	16.6	15.8
1988Jan	159.8	162.7	1.5	22.7	17.8	16.3
Feb	164.3	166.6	2.4	21.3	20.9	16.9
Mar	168.9	170.5	2.4	28.1	25.1	18.2
Apr	174.5	174.7	2.4	33.0	27.7	20.3
May	179.7	179.5	2.8	35.0	28.0	22.0
Jun	185.5	184.3	2.7	36.4	32.2	24.2
Jul	193.4	191.7	4.0	45.1	38.9	27.9
Aug	199.3	197.9	3.2	47.7	41.2	30.7
Sep	206.4	204.4	3.2	51.2	43.6	34.0
Oct	209.4	207.7	1.7	37.9	41.4	34.4
Nov	212.9	212.4	2.2	32.5	39.9	33.8
Dec	215.1	215.4	1.4	23.3	36.5	34.4
1989Jan	213.5	217.3	0.9	19.8	28.5	33.6
Feb	216.8	219.8	1.1	14.7	23.3	32.0
Mar	221.4	223.5	1.7	16.1	19.6	31.1
Apr	224.3	224.5	0.4	13.9	16.8	28.5

* annualised rates

ANNEX - CALCULATION OF SEASONAL FACTORS

The Halifax index has been adjusted using the ratio-to-moving-average method. The seasonal factors themselves are shown in table A1. The sample of observations used to calculate them was December 1983 to April 1989, the period over which the monthly Halifax index has been published. The nsa figures are divided by the seasonal factors to obtain the sa figures. As the sample is on the short side, the results must be interpreted with appropriate caution.

TABLE A1 : SEASONAL FACTORS

January	0.98234
February	0.98648
March	0.99044
April	0.99895
May	1.00091
June	1.00649
July	1.00879
August	1.00689
September	1.00995
October	1.00796
November	1.00246
December	0.99881



FROM: M P PARSONS

DATE: 15 May 1989

MR BROOKS (MG2)

mp

SEASONALITY OF HOUSE PRICES

The Chancellor has asked me to thank you for your minute of 12 May.

M. Parsons

M P PARSONS

UNCLASSIFIED*Sarah
pls thank*FROM: RUTH KOSMIN (FIM2)
DATE: 23 May 1989
EXT: 4508

CHANCELLOR

cc Sir P Middleton
Sir T Burns
Mr Scholar
Mr Odling-Smee
Mr Peretz
Mr Hibberd
Mr O'Donnell
Mr Grice*Thanks.***HOUSE PRICES: RICS SURVEY**

The results for the quarter ending April 1989 are now available from the RICS housing market questionnaire, and the attached chart includes the latest figures. It is evident that the market is slowing down.

2. A total of 137 agents contributed to the latest survey, and for England and Wales as a whole the following breakdown shows the percentage of agents reporting in each of the categories:-

	%	%
(i) very much higher (approx 8% or more)	3.5	(3.0)
(ii) much higher (approx 5%)	8.6	(10.8)
(iii) slightly higher (approx 2%)	11.2	(15.9)
(iv) the same	41.6	(48.8)
(v) lower	35.0	(21.5)

Handwritten notes: 23.3 (bracketed around ii, iii, iv); 76.6 (bracketed around iv, v); 70.3 (bracketed around v, iv, iii, ii, i)

The results of the previous survey, for the 3 months ending in March 1989, are shown in brackets.

3. The results for the special highlighted region, the South West, show a different pattern from the nationwide figures. Twenty five agent contributed to the survey, and 60 per cent of the respondents experienced lower prices compared with three months previously. Virtually all the remaining 40 per cent showed no change in price, and there were no reports of prices having increased by 5 per cent or more.

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4. The evidence from the overall survey is of a slow market over most of the country, and that asking prices have to be realistic to achieve sales. Vendors in London in particular are having to reduce asking prices in order to sell. The responses from the South West discussed above show a depressed market with little activity, and this lethargy is now apparent in both the Midlands and the North West. The one region that still shows buoyant conditions is the North, with confident markets in areas like Newcastle, Hartlepool, Hull and Leeds.

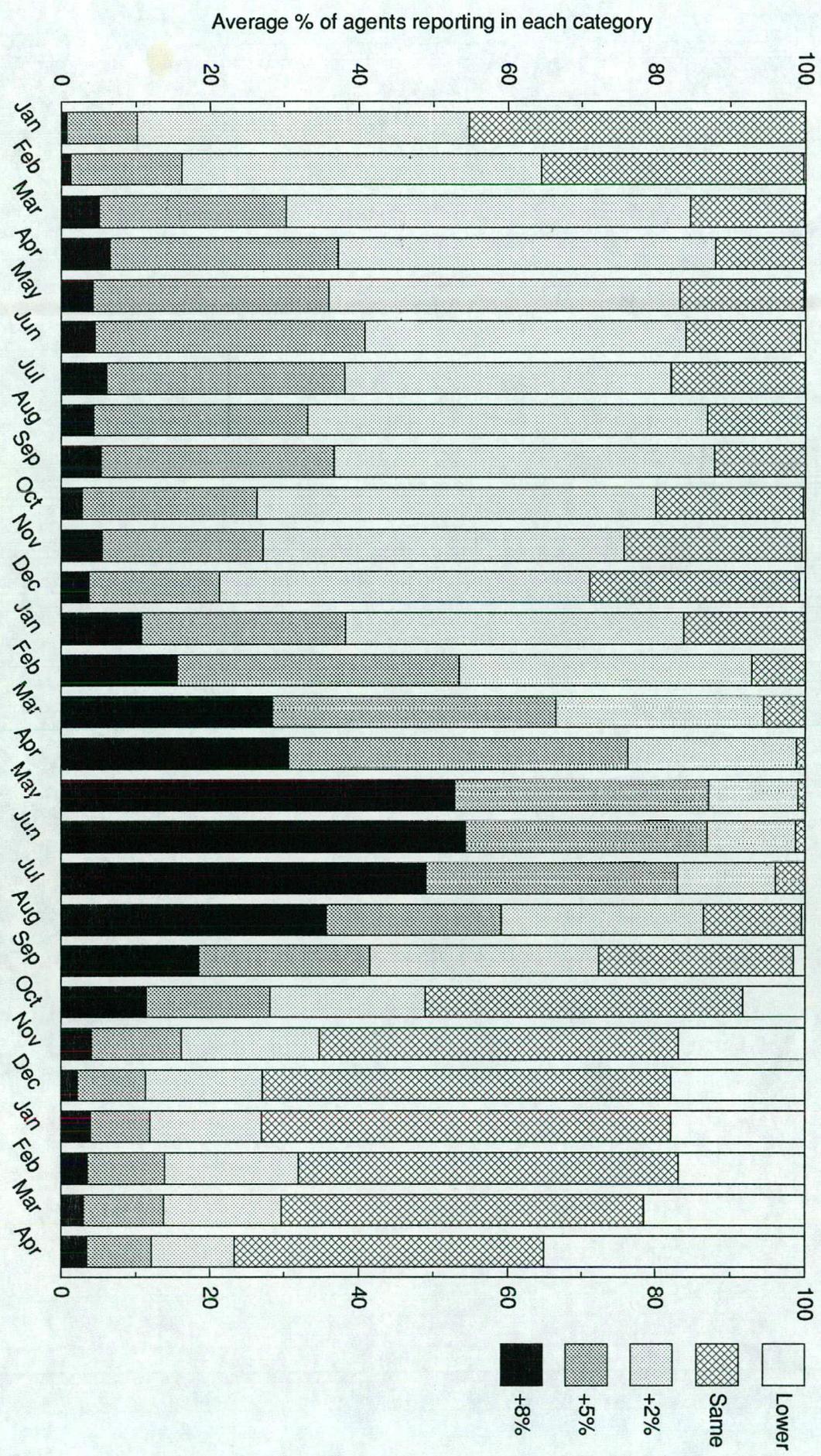
Ruth Kosmin

RUTH KOSMIN

Agents' Comparison With Prices Three Months Ago

5/27/89

1987 - 1989





FROM: SARAH COWX

DATE: 24 May 1989

MS KOSMIN (FIM2)

mp ✓

HOUSE PRICES: RICS SURVEY

The Chancellor was grateful for your minute of 23 May.

Sarah Cowx

SARAH COWX



FROM: A C S ALLAN

DATE: 22 June 1989

CHANCELLOR

cc Sir P Middleton
Sir T Burns**SIR JEFFREY STERLING**

Sir Jeffery Sterling rang me this morning. He was keen to pass on to you the fact that the private house building market had almost come to a standstill. Most of his current sales were simply replacing cancellations, which had been running at a very high level. The market had now weakened quite markedly in the Midlands and the North. Even with discounts of up to 20% there was very little movement. One of the problems was that people still had exaggerated expectations of how much their existing houses were worth. It would take some time for people to get used to the fact that the prices paid this time last year were never really on offer to the market as a whole. The normal seasonal peak was nearly over, and he saw the market remaining very depressed for the rest of this year at least.

2. Part of his reason for ringing was to stress that there was no need at all for a further increase in interest rates to dampen housing demand: if you were concerned about whether your policies were having an effect, they were "doing it in spades"; and "if there was overheating last year, there is frostbite this year".

3. He added that the cruising and ferries businesses were doing very well, and capital expenditure generally was very strong.

A C S ALLAN

UNCLASSIFIED

FROM: C MELLISS (IF2)
 DATE: 27 June 1989
 X4700

CHANCELLOR 12/2

cc Economic Secretary
 Sir T Burns
 Mr Evans
 Mr Sedgwick
 Mr Hibberd
 Mr Pickford
 Mr Edmonds
 Mr O'Brien
 Mr Hanks
 Mr Ramsden

OK? We should presumably
 ensure that all replies
 make clear that indices have
 been adjusted by HMT to
 put them onto a "more comparable"
 basis.

INTERNATIONAL INFLATION COMPARISONS AND THE TREATMENT OF HOUSING COSTS

1. As you know there has been a spate of PQs asking for international comparisons of inflation rates. Attached are some recent examples.

2. In answering these questions the treatment of housing costs has been a continuing problem. On some occasions the answer has made it explicit that owner-occupier housing costs have been excluded, on other occasions we have used the RPI less MIPs but without saying so explicitly, and on other occasions we have used the total RPI. There may be some danger of confusion and so it would be desirable to have, as far as possible, a consistent treatment in answering these PQs.

3. The attached note by Mr Ramsden sets out how housing costs are treated in the consumer price indices for each of the major industrial countries and suggests a possible line to take. It shows that by removing the costs of MIPs or equivalent from the calculated inflation rates one obtains figures that are more comparable than the headline indices. The suggested line to take is therefore that we should use, wherever possible, the adjusted indices when answering PQs which involve international comparisons. We should also describe them as "more comparable".

4. Sir Terence Burns has seen this note in draft and agrees with the proposed line to take. Should you also endorse this recommendation there will be an opportunity to apply it in First Order questions on 6 July.

C Melliss
 C MELLISS

8.12.88
HAMILTON EXPLAINS
6.4.89
10. Ms. Mowlam: To ask the Chancellor of the Exchequer what information he has as to the current inflation rates of the member states of the Group of Seven leading industrialised countries.

Mr. Norman Lamont: With permission, Mr. Speaker, I shall publish a table in the *Official Report*.

Percentage increase in consumer prices over 12 months to October 1988

	Per cent
United States	4.2
Japan	1.1
Germany	1.3
France	3.0
United Kingdom	6.4 ¹ (5.1)
Italy	4.7
Canada	4.2 ¹ (4.2)

¹ Bracketed figure excludes mortgage interest payments.
Source: OECD, Department of Employment.

20.1.89

Inflation

Mr. Illsley: To ask the Chancellor of the Exchequer how many countries in the European Community have a lower rate of inflation than the current rate in the United Kingdom.

Mr. Lilley: The latest available figures suggest that nine European Community countries have a lower rate of inflation than the current rate in the United Kingdom.

24.2.89.

35. Mr. Cummings: To ask the Chancellor of the Exchequer how many members of the European Community have inflation rates lower than that in Britain.

Mr. Lilley: Nine.

6.4.89

6. Mr. Buckley: To ask the Chancellor of the Exchequer how many members of the European Economic Community have inflation rates lower than that in the United Kingdom.

Mr. Lawson: On the basis of comparable figures, seven EEC member countries currently have lower inflation than the United Kingdom and four have higher inflation.

12.6.89.

Inflation

Mr. Chris Smith: To ask the Chancellor of the Exchequer what information he has in respect of the figures given by him to the House on 7 June of comparative inflation rates in the United Kingdom and in Italy on the precise components in each of the two calculations of housing costs.

Mr. Lilley: The inflation rate given for the United Kingdom was for the increase over the year to April in the all items RPI excluding mortgage interest payments. In the quoted Italian index of consumer prices owner-occupier housing costs are not included.

19. Mr. Coleman: To ask the Chancellor of the Exchequer what are the current inflation rates in (a) Britain and (b) other members of the Group of Seven.

40. Mr. Corbett: To ask the Chancellor of the Exchequer what are the current inflation rates in (a) Britain and (b) other members of the Group of Seven.

Mr. Lilley: The current 12-month inflation rates for the United Kingdom and the other members of the Group of Seven are given in the weekly OECD publication, "Current Economic Indicators", a copy of which is available in the House of Commons Library.

4.5.89

12. Mr. Ronnie Campbell: To ask the Chancellor of the Exchequer if he will list the countries of the Group of Seven whose inflation rates, including an estimate of housing costs, are below that of Great Britain.

Mr. Lilley: Only Canada treats owner-occupier housing costs in its measure of consumer price inflation in a similar way to the UK. The overall inflation rate in Canada is currently below that in the UK.

4.5.89

Mr. Norman Hogg: To ask the Chancellor of the Exchequer if he will list the countries of the EEC whose inflation rates, including an estimate of housing costs, are below that of Great Britain.

Mr. Lilley: Only Ireland treats owner-occupier housing costs in its measure of consumer price inflation in a similar way to the United Kingdom. The overall inflation rate in Ireland is currently below that in the United Kingdom.

7.6.89

Mr. Lawson: The reduction of excessive domestic demand will itself cause in due course an improvement in the current account of the balance of payments. I have made that clear time and time again.

The rise in inflation that we are experiencing today is a worldwide phenomenon. Taking the seven major industrial countries as a whole—that is what the G7 are, as the right hon. and learned Member for Monklands, East seemed not to know—inflation is now at its highest level for almost five years. Indeed, over the past six months the rise in recorded inflation in the United Kingdom has been only marginally greater than the rise in inflation in the G7 as a whole. That is only because, unlike most of the rest of the world, we include mortgage interest payments in our retail price index—[Interruption.] The Opposition do not like the facts, but they are going to get some facts. On a genuinely comparable basis, inflation in this country has increased over the past six months by less than in the G7 as a whole.

The right hon. and learned Gentleman may care to know that while admittedly our recorded inflation rate is currently some 3½ per cent. above the G7 average—

Mr. Lawson: I will tell him, if he likes, of a member of G7, not merely the OECD or the EEC. On a comparable basis, the Italian rate of inflation is higher than ours. Italy's rate of inflation is 6.7 per cent. and ours is 5.9 per cent., and that is a fact.

INTERNATIONAL COMPARISONS OF INFLATION AND THE TREATMENT OF HOUSING COSTS

There has been considerable interest recently in international comparisons of consumer price inflation both on a non-standardised published basis and adjusted to take account of differences in the treatment of owner occupier housing costs. This note describes the indices used for briefing on consumer price inflation in the Group of Seven countries with particular focus on treatment of housing costs. It concludes with a suggested line to take in briefing. (An annex examines the treatment of housing costs in the smaller EC countries.)

2. Table 1 shows the population coverage and release date of the consumer price indices used in briefing for each of the G7 countries. The index used for the UK is the all items retail price index (RPI).

Table 1:

	<u>Population Coverage</u>	<u>Release date after end of month</u>
UK	All households except very high and low income families	2-3 weeks
US	All urban households	2-3 weeks
Japan	All households of more than two persons and excluding agricultural workers	4 weeks
Germany	All households	2 weeks
France	All households of wage and salary earners in urban areas	2-3 weeks
Italy	Households of wage and salary earners	2 weeks
Canada	All urban households	3-4 weeks

In choosing consumer price indices our aim is that they should as far as possible satisfy the following criteria:-

- have as wide a coverage as possible both in terms of goods included and population covered;

- should be the indices that receive most attention domestically - the "headline" index;
- should be as up to date as possible so as to give an indication of most recent trends and make possible comparison with latest UK figures.

3. For all the G7 countries the index used is the published "headline" index. In all cases except Italy it is the index which gives the widest population and area coverage. For Italy the index used only covers households of wage and salary earners because it is available up to two months before the more representative all households index.

4. Consumer price indices are not standardised across countries in terms of their coverage of goods and services. They differ in the methodology used to calculate the index and also because consumption patterns differ between countries. (Countries also use different base years for calculations of weights; the UK and France update their weights annually.)

Housing

5. One area where there is no agreed methodology and where there are marked differences in approach is in the treatment of housing costs, in particular owner occupier housing costs.

6. Housing costs can be split into three sub groups, those that are tenure specific to the owner occupied or to the rented sectors and those costs that all households face whatever their tenure status. Table 2 details the treatment of these housing costs in each of the G7 countries. It is clear that among G7 countries:-

- only Canada treats the costs of owner occupation in a similar way to the UK;
- France and Italy make no allowance for owner occupier costs at all;
- all include some allowance for costs in the rented sector.

Table 2: Treatment of housing costs in the G7 countries

	Rented Sector	Weight	Owner occupied sector	Weight	Weight given to costs not specific to tenure status**
UK	Rent	3.2	MIPs	6.0	7.3
US	Rent and other renters costs	7.9	Imputed rent and insurance.	19.7	0.4
Japan	Rent	2.7	Imputed rent.	9.0	2.1
Germany	Rent	*	Imputed rent.	*	*
France	Rent and repairs	9.1	No allowance made.	0.0	0.0
Italy	Rent	4.5	No allowance made.	0.0	0.5
Canada	Rent and other rates costs	7.8	Depreciation, MIPs, property taxes insurance and repairs.	12.7	5.2

* No separate indices are available. Total weight of 15.4 per cent given to rent and imputed rent.

** Exact coverage varies but may include rates, water charges, DIY materials, repairs etc.

Source: OECD and national sources

7. The way that owner occupier housing costs are measured in the UK RPI is unsatisfactory. The effect of large and perverse fluctuations in the mortgage interest payments (MIPs) component of the UK RPI renders the index unsuitable as a measure of underlying inflation. There is therefore considerable interest in indices which exclude these costs. Two approaches are possible. Firstly, one can exclude MIPs or their equivalent from each country's consumer price index. This is not ideal because the cost of home ownership is removed from the inflation measure altogether. Alternatively MIPs could be excluded from the UK measure and be replaced by an alternative measure of the costs of home ownership, for example imputed rent or house prices. This is also unsatisfactory because:-

- the various alternative measures would give widely differing results and there is no agreement as to which would be best;
- though the treatment of owner occupier housing costs could be made broadly consistent with that in the US, Japan and Germany, this would not be the case for Canada, France and Italy, and a similar exercise would have to be undertaken for these countries.

8. The exclusion of costs specific to owner occupiers, i.e. MIPs for the UK and Canada, imputed rent in the US, Japan and Germany is the better approach in this instance because it gives greater comparability between the indices of different countries. [To get comparable indices of consumer prices for other countries only those costs directly equivalent to MIPs should be excluded.] In Table 3 this has been done for all the G7 countries except the US, where insurance has also been excluded, and Germany, where it has not been possible to obtain a separate index for private rent so that both imputed and private rent have been excluded.

9. It should be stressed that the estimates presented here are our own. Such an exercise has not been attempted by any of the international organisations and these estimates do not have their backing nor that of the statistical authorities of the individual countries concerned. Because of this, back series of the data are not available and would have to be estimated.

10. Table 3 gives figures for G7 12-month inflation rates in April on both the domestically published "headline" basis and adjusted to give approximate consistency with the UK RPI excluding MIPs.

Table 3: G7 12 month Consumer Price Inflation Rates in April

	"Headline"	Excluding costs broadly equivalent to MIPS	Owner occupier housing costs excluded
United Kingdom	8.0	5.9	MIPs.
United States	5.0*	5.2*	Imputed rent, insurance.
Japan	2.4	2.4	Imputed rent.
Germany	3.0	2.9	Imputed and private rent.
France	3.6	3.6	Not included in first place.
Italy	6.7	6.7	Not included in first place.
Canada	4.6	4.4	MIPs.

* Figures are for March.

Source: National sources for "headline" figures. Others are HMT estimates

11. By removing the element for MIPS or equivalent from the calculated inflation rates we obtain, in our judgement, figures that are more comparable than the "headline" indices. However there are still substantial differences between the indices and they cannot be said to be genuinely or fully comparable. It is quite possible that further adjustments to make the indices even more comparable could conceivably lead to substantial changes in the inflation rates in the above table.

12. There is also a danger that in some circumstances it may prove difficult to quote the more comparable figures. Parliamentary questioning on this topic is already becoming more detailed. It would be difficult to deny a future request to provide/comment on inflation figures "as published including estimates of all constituent items of the relevant indices" but the more comparable figures could be quoted as well.

Suggested Line to take:

13. There will be continuing strong interest for the foreseeable future in comparisons of inflation rates in the G7 and EC countries. We believe that figures which exclude MIPs or equivalent are more comparable than the "headline" figures which make no such adjustment. However because of differences in their treatment of other goods and services apart from the costs of owner occupation, figures which exclude MIPs or equivalent are not genuinely comparable in every respect.

14. On the basis of figures which are on a more comparable basis than the "headline" published figures the UK currently has a lower inflation rate than Italy, Spain, Portugal and Greece among the G7 and EC countries (see annex).

IF2 Division
June 1989

ANNEX

TREATMENT OF HOUSING COSTS IN SMALLER EC COUNTRIES

The main paper has outlined the approach to housing costs of the EC countries who are in the G7; the United Kingdom, Germany, France, and Italy. This annex covers the other eight EC countries. Table A1 below details the treatment of housing costs in the smaller EC countries.

Table A1: Treatment of Housing Costs in the smaller EC Countries

	Rented sector Rent	Weight	Owner occupied sector	Weight	Weight given to non tenure specific costs**
Netherlands	Rent	*	Imputed rent	*	3.2
Belgium	Rent	6.4	No allowance made		0.0
Spain	Rent	1.9	Imputed rent	13.6	3.0
Portugal	No allowance made		No allowance made		0.0
Denmark	Rent	17.5	No allowance made		1.6
Greece	Rent	13.1	No allowance made		0.0
Ireland	Rent	1.2	MIPs and insurance	2.8	1.7
Luxembourg	Rent	3.4	No allowance made		0.0

* No separate indices are available. The total weight for rent and imputed rent is 13 per cent.

** Exact coverage varies but may include rates, water charges, DIY materials, repairs etc.

Source: OECD and national sources.

A2. Table A1 shows that of the smaller EC countries:-

- only one country, Ireland, treats owner occupier housing costs in a similar way to the UK;
- five countries, Belgium, Portugal, Denmark, Greece and Luxembourg make no allowances at all for the cost of owner occupation in their index of consumer prices.

A3. Table A2 shows the current inflation rate in the smaller EC countries on the published "headline" basis and adjusted where possible to exclude the specific costs to owner occupation (consistent with the exclusion of MIPs in the UK RPI). It has been possible to adjust on a reasonably consistent basis for most countries except the Netherlands and Ireland where all housing costs have been excluded

Table A2: Current* 12 month inflation rates in the smaller EC countries

	"Headline"	Excluding costs broadly equivalent to MIPs	Owner occupier housing costs excluded
Netherlands	0.8	0.3	Rent, imputed rent, water, garage rent and repairs
Belgium	2.8	2.8	Not included in first place
Spain	6.8	6.4	Imputed rent
Portugal	12.4	12.4	Not included in first place
Denmark	4.7	4.7	Not included in first place
Greece	13.5	13.5	Not included in first place
Ireland	3.3	3.2	MIPs, rent, rates, water charges, insurance and repairs
Luxembourg	2.8	2.8	Not included in first place

* February for Ireland, April for Spain. March for rest.

Source: National sources for "headline" figures. Others are HMT estimates.

D. D. D.

*Saver
pls thank*

FROM: RUTH KOSMIN (FIM2)
DATE: 27 JUNE 1989
EXT: 4508

CHANCELLOR

[Red signature]

cc Sir P Middleton
Sir T Burns
Mr Scholar
Mr Odling-Smee
Mr Peretz
Mr Sedgwick
Mr Hibberd
Mr O'Donnell
Mr Grice

HOUSE PRICE

HOUSE PRICES: RICS SURVEY

The results for the quarter ending May 1989 are now available from the RICS housing market questionnaire for England and Wales, and the attached chart includes the latest figures. There is now evidence of a substantially more depressed housing market than over the last few months, with the proportion of estate agents reporting in the lower price category having risen to 53 per cent from 35 per cent in April and around 20 per cent in November to March.

2. A total of 152 agents contributed to the latest survey. The following breakdown shows the percentage of agents reporting in each of the following categories, where prices are compared with three months ago:-

	%	%
i. very much higher (approx 8% or more)	2.3	(3.5)
ii. much higher (approx 5%)	4.9	(8.6)
iii. slightly higher (approx 2%)	8.1	(11.2)
iv. the same	31.9	(41.6)
v. lower	52.7	(35.0)
	84.6	76.6

The results of the previous survey, for the 3 months ending in April 1989, are shown in brackets.

3. The results for the special highlighted region, Wales, show a slightly more buoyant market than for the national figures, with 72 per cent of respondents showing no change and only 12 per cent

reporting lower prices. The remaining 16 per cent show slightly higher prices. This may be due in part to North Wales benefiting from the new road links (M55 - NE Wales Expressway) and industry attracting new home owners (Enterprise Zone in Flint, Japanese investment around Deeside).

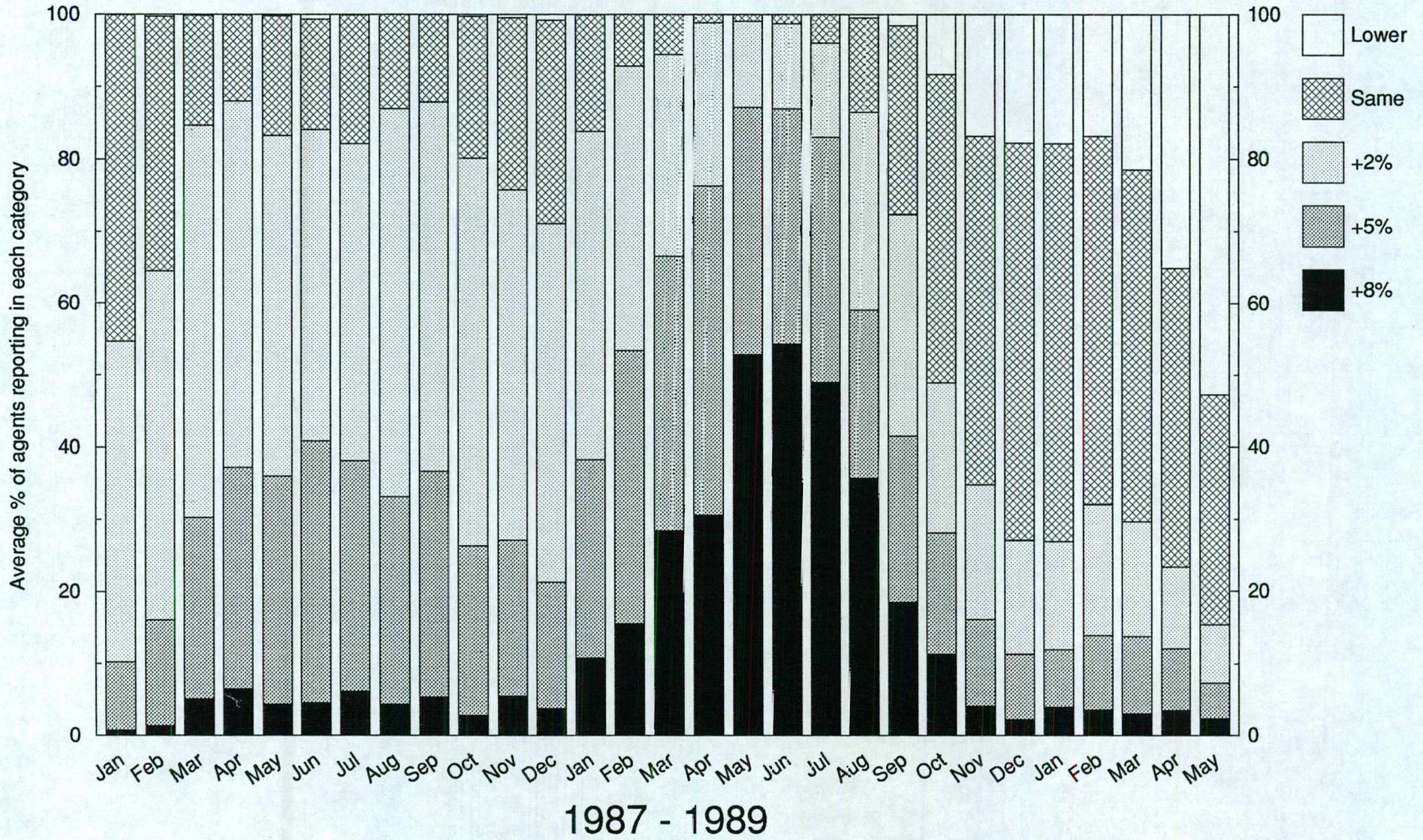
4. The picture for England as a whole is that the market slow-down has now spread as far north as Tyneside. Generally, a stagnating property market is forcing vendors to lower prices, often to a considerable extent. There are however plenty of potential buyers, but for properties that are realistically priced. In some areas such as the South West reductions of up to 20 per cent are required to complete a sale, but more generally price reductions of up to 10 per cent have secured willing purchasers.

Ruth Kosmin

RUTH KOSMIN

FIM2

Agents' Comparison With Prices Three Months Ago





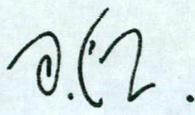
FROM: D I SPARKES
DATE: 28 June 1989

MR C MELLISS (IF2)

cc PS/Economic Secretary
Sir T Burns
Mr H P Evans
Mr Sedgwick
Mr Hibberd
Mr Pickford
Mr Edmonds
Mr O'Brien
Mr Hanks
Mr Ramsden

INTERNATIONAL INFLATION COMPARISONS AND THE TREATMENT OF HOUSING COSTS

The Chancellor was grateful for your minute of 27 June concerning international inflation comparisons, excluding owner-occupier housing costs, to be used when answering PQs. He agrees with your proposed approach and imagines that, on every occasion these adjusted indices are used, it will be made clear that adjustments to the published indices for other countries have been made by the Treasury in order to put them onto a "more comparable" basis.


DUNCAN SPARKES



pm

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

28 June 1989

P R C Gray Esq
Private Secretary to
Prime Minister
10 Downing Street
LONDON
SW1

cc PS/Economic Secretary
Sir T Burns
Mr H P Evans
Mr Sedgwick
Mr Melliss
Mr Hibberd
Mr Pickford
Mr Edmonds
Mr O'Brien
Mr Hanks
Mr Ramsden

Dear Paul

INTERNATIONAL INFLATION COMPARISONS AND THE TREATMENT OF HOUSING COSTS

... The Chancellor thought you might like to see the attached note by David Ramsden setting out how housing costs are treated in the consumer price indices for each of the major industrial countries and suggesting a line to take on international comparisons of inflation - which we will be using in PQs etc.

Yours
ACSE

A C S ALLAN
Principal Private Secretary

MIPs

UK
Canada
Ireland

2/7
2/12 EC

Imported Rents

vs
Japan
Germany
Netherlands
Spain

3/7
3/12 EC

Others

France
Italy
Belgium
Portugal
Denmark
Greece
Luxembourg

2/7
7/12 EC

UNCLASSIFIED

FROM: J STERN (FIM2)
 DATE: 25 JULY 1989
 EXT: 4507

*Sarah
 Mrs Clark*

CHANCELLOR

[Handwritten signature]

cc Sir P Middleton
 Sir T Burns
 Mr Scholar
 Mr Peretz
 Mr Sedgwick
 Mr Walsh (o/r)
 Mr Gieve
 Mr Hibberd
 Mr O'Donnell
 Mr Grice
 Dr Kosmin
 Ms Ryding

HOUSE PRICES: RICS SURVEY

The results for the 3 months ending June 1989 are now available from the RICS housing market questionnaire for England and Wales. The attached chart shows the latest figures.

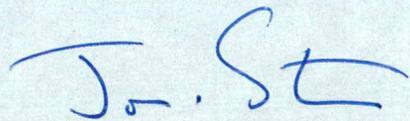
1. Demand in the housing market continues to fall. Not only is there a further rise in the proportion of estates agents reporting lower prices - 60 per cent in June up from 53 per cent in May and 35 per cent in April - but sizeable price falls of 10 per cent or more are being reported in areas outside the South-East eg the East and West Midlands and the South-West. Prices are now stabilising in the northern regions of England.

2. 152 agents contributed to the latest survey. The following breakdown shows the percentage of agents reporting in each of the following categories which compare prices with 3 months ago:-

	%	%
i. very much higher (approx 8% or more)	0.0	(2.3)
ii. much higher (approx 5%)	2.7	(4.9)
iii. slightly higher (approx 2%)	9.4	(8.1)
iv. the same	27.9	(31.9)
v. lower	60.0	(52.7)
	87.9	(84.6)

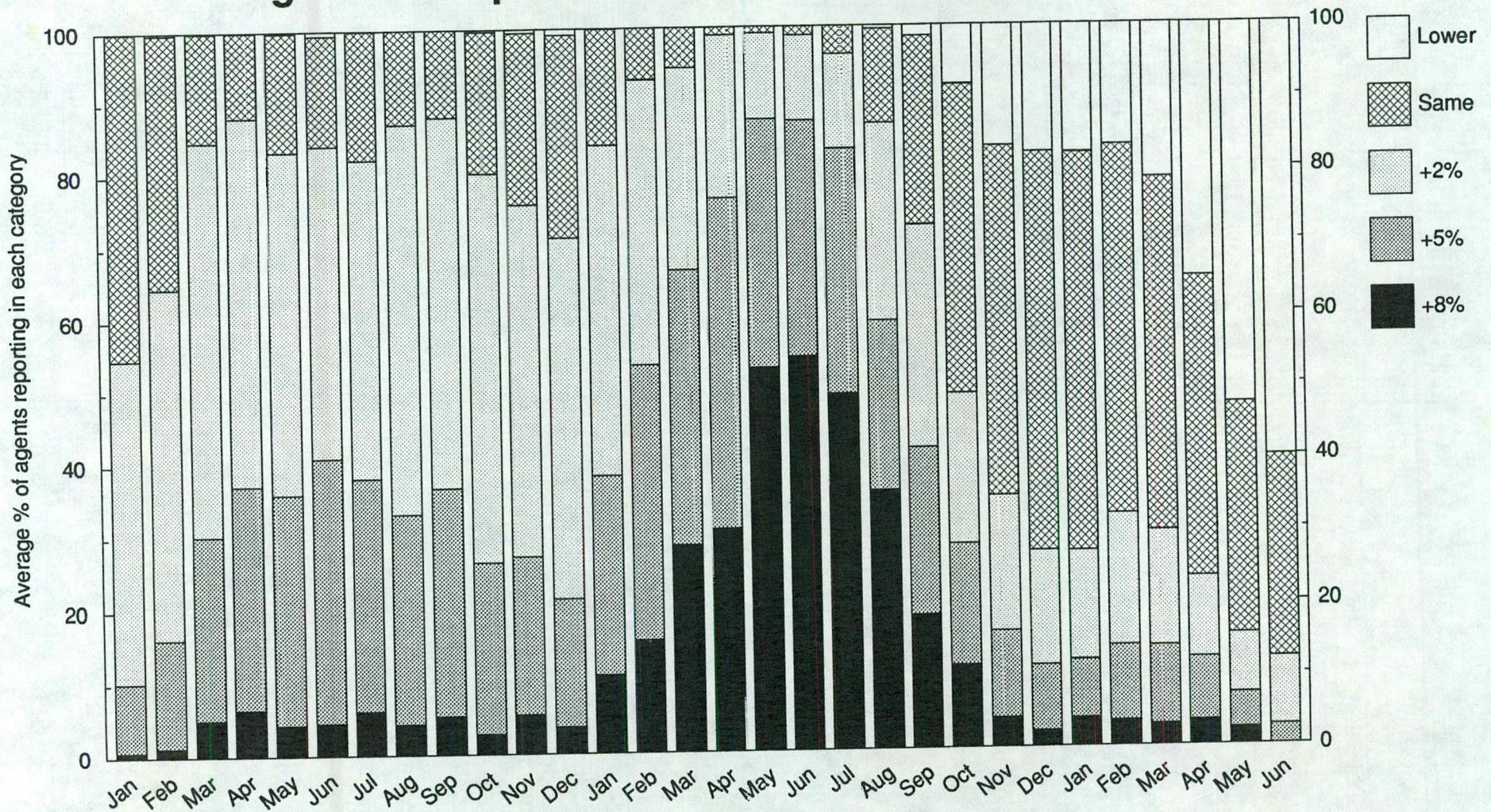
The results of the previous survey for the 3 months ending in May, are shown in brackets.

3. The results for the special highlighted region, Greater London, show even larger price falls. 88 per cent of estate agents report falling prices, 11 per cent level prices and none report increases. Prices are falling throughout the area except at the top end of the market where prices are static. Thus, we are seeing some sharp falls in nominal as well as real house prices in Greater London as in an increasing proportion of England and Wales.



JON STERN

Agents' Comparison With Prices Three Months Ago



1987 - 1989



FROM: SARAH COWX

DATE: 27 JULY 1989

MR J STERN (FIM2)

jwp

HOUSE PRICES: RICS SURVEY

The Chancellor has seen and was grateful for your minute of 25 July.

Sarah Cowx

SARAH COWX