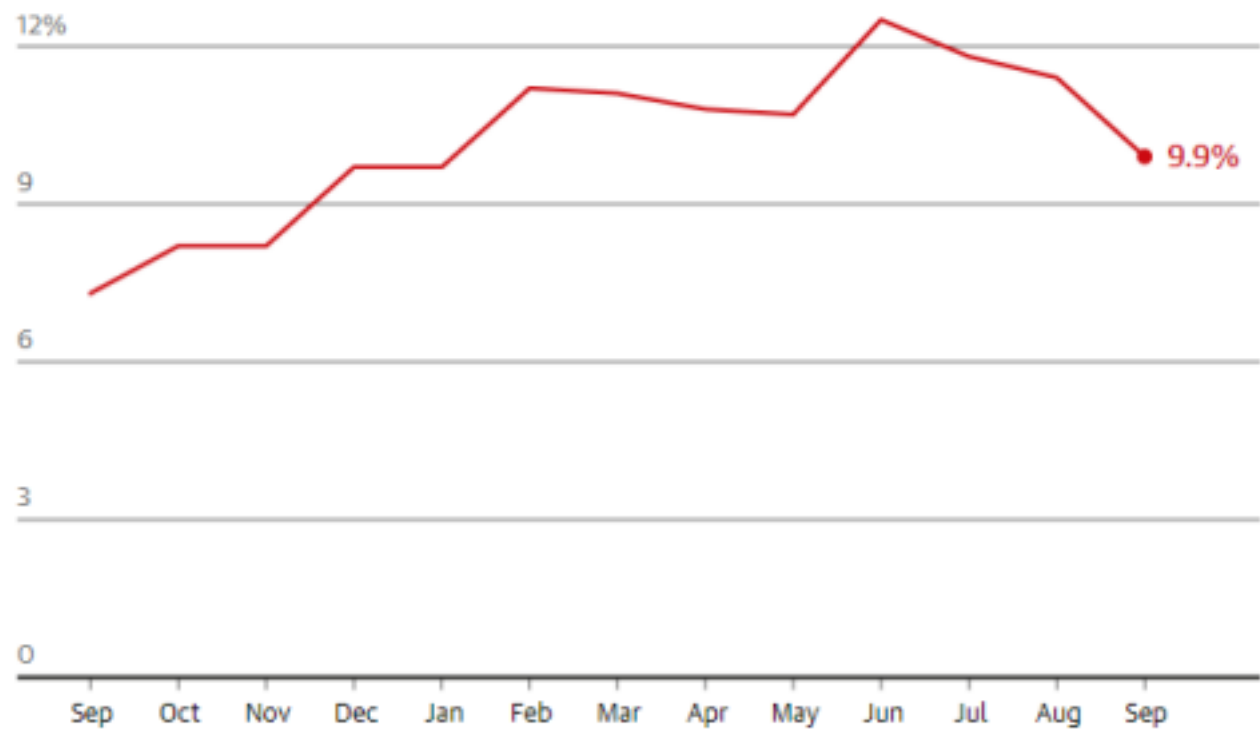


Figure 1: Annual house price inflation slowed for the third month in a row in September 2022, from 11.4% to 9.9%



Source:
<https://www.theguardian.com/business/2022/oct/13/uks-13-year-housing-market-boom-to-end-in-2023-surveyors-predict> 13/10/2022

Extract A: UK house prices set to fall as mortgage rates shoot up, experts warn

Surging mortgage rates could push down house prices in the year ahead, according to surveyors. Experts have said “storm clouds are visible” in the housing market, as the average two-year mortgage rate has hit 6.46%. High mortgage rates have a significant impact on the incomes of individuals and households and, as a result of increased monthly payments, make it more difficult to buy a home at every price point.

New buyer inquiries fell for the fifth month in a row in September, the Royal Institution of Chartered Surveyors (RICS) has found. A typical UK property now costs £293,835, according to Halifax’s index.

According to Zoopla, mortgage rates were set to rise to 4-5% over before the mini-Budget. But, the fall-out from the mini-Budget added an extra 1% to mortgage rates, which are now settling around the 6% mark.

A limited supply of properties for sale is still supporting modest price rises, but this looks set to end as the pace of growth slows markedly.

The outlook for interest rates and uncertainty over the wider economy are taking their toll, with the impact of rising mortgage rates expected to outweigh the boost that buyers could get from stamp duty cuts in the recent mini-Budget.

The average two-year fixed mortgage rate on the market on Wednesday was 6.46%, according to Moneyfacts.co.uk. And the average five-year fixed deal was 6.32%. Both of these average rates are the highest since 2008.

But the number of homeowners wishing to sell has dropped and housing stock remains at historic lows.

Zoopla is more sceptical about a major fall in house prices. The real estate firm said that house prices are unlikely to fall dramatically unless there's a major battle to haggle asking prices down.

As homeowners will have to fork out thousands of pounds extra a year to pay their mortgage if interest rates continue to rise — many could be put off moving.

A fall in demand tends to lead to a natural fall in house prices. So it's bad news for sellers as they could be forced into lowering their asking prices if demand falls.

However, some mortgage experts including Nick Morrey of Coreco argue that because the UK has a low supply of housing, predictions that house prices may collapse should be taken with a pinch of salt.

Adapted from:

<https://www.thesun.co.uk/money/20087547/uk-house-prices-set-fall-mortgage-costs-up/> 13/10/2022

Questions:

- With reference to the information provided, explain two reasons why the PES for housing is likely to be low
- With reference to the information provided, assess the impact of high mortgage rates on the housing market.
Use a demand and supply diagram in your answer