MortgageBrain

2016 – A year of lows and a few highs…

Mark Lofthouse, CEO of Mortgage Brain.

Take a headline from any of our quarterly product data analysis pieces and you'll get a fair idea of how the mortgage market faired in 2016.

January 2016 - majority of mainstream 90% LTV mortgages were down in cost compared to previous three months. April 2016 - the majority of mainstream and Buy-To- Let mortgages were down in cost compared to the previous three months. July 2016 - first time buyers set to benefit the most from the current reductions in mortgage costs. October 2016 - the cost of mortgages continues to fall. Jan 2017 – majority of mainstream products see cost increases over past three months.

On the face of it, 2016 was a fairly simple story of mostly falling rates with stabilisation and signs of rises towards the end of the year.

To take those figures in isolation, however, would be to miss the real story.

At the start of the year, Britain was pulling gently out of recession, the opinion polls suggested we'd stay in Europe and the idea of a Trump presidency in the United States was frankly laughable. Mortgage rates picked up on the underlying recovery and continued to fall.

What happened next was … Brexit. Despite all the pre Brexit predictions, post Brexit the economy remained stable and while the pound fell, the stock market soared to record highs and jobless totals continued to decline. Mortgage rates shrugged their shoulders and kept on falling.

Except that by August, the first murmurs of economic queasiness were being felt. Interest rates were cut again to just 0.25% and the Bank of England rolled out another £60 billion of quantitative easing. While in the short term this was beneficial to mortgage rates, even then the market was beginning to worry about inflationary pressures and what the long term impacts of Brexit might be.

By December 2016 inflation had reached 1.6%, still not high but forecast to remain on an upward trajectory, partly because of the low value of the pound.

Elsewhere, November figures from The Money Charity showed that household debt in the UK had risen to £1.5 trillion for the first time.

The result of this is that by the end of the year the cost of mortgages had stopped falling and were starting to show signs of climbing back up.

As for the future. It seems reasonably certain that inflationary pressures will force the Bank of England to raise interest rates at some point. Bearing in mind past predictions, however, I won't be making one! They may also decide that all that household debt is bad for the UK and that higher rates may help to rein in our spending. It is a fine balancing act, however, as consumer spending is what will keep the economy going until we understand exactly what a post Brexit exit economic landscape looks like.

If base rates do rise, then the cost of mortgages will inevitably follow suit.

Overall forecasters expect to see a gentle rise in mortgage rates, but nothing to get too scared about. What could blow all these predictions out the water however, is if the US elects an ex reality TV show host as President. But hey, what are the chances of that happening? – Oh dear, it has. All bets are off!

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