THE HOUSING MARKET

WHY THE HOUSING MARKET MATTERS

The state of the housing market gives a good proxy for the state of the economy. The majority of UK GDP is generated from consumption. A key factor affecting this is house prices. If house prices change, this influences the level of consumption in the economy. If prices increase, we see a positive wealth effect. Homeowners feel more confident and increase spending on goods and services elsewhere in the economy, increasing the overall level of economic activity.

Important terms

Mortgage
A loan used to finance the purchase of a house – usually taken over 25 years

Stamp Duty
An ad-valorem tax payable on the purchase of a home; the percentage amount levied depends upon the purchase price of the house

Deposit
An initial amount paid by the buyer to fund the property purchase; the mortgage covers the rest of the purchase price

Property Bubble
A significant increase in the value of property caused by increases in demand, speculation and herd behaviour

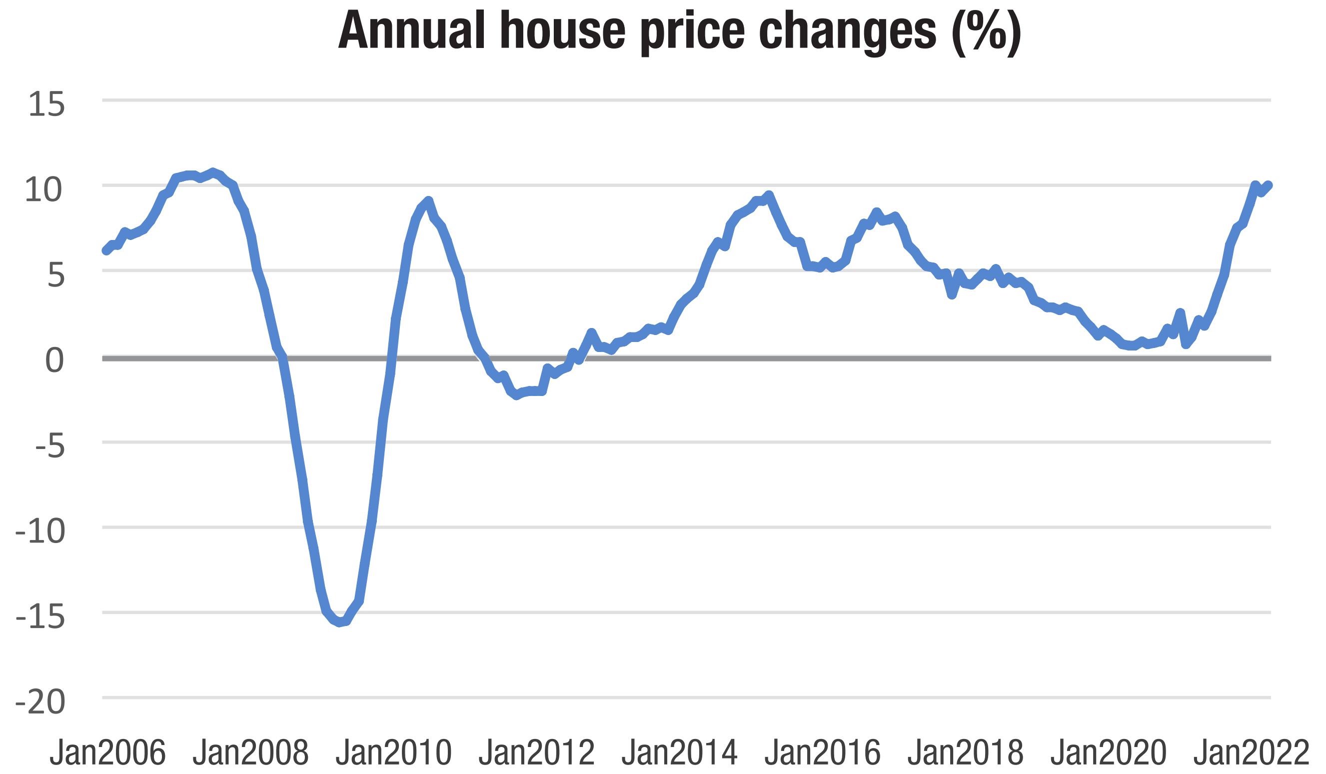
Landlord
When an individual rents a house, the owner of the property is the landlord (landlords are often private but can be housing associations which provide social housing)

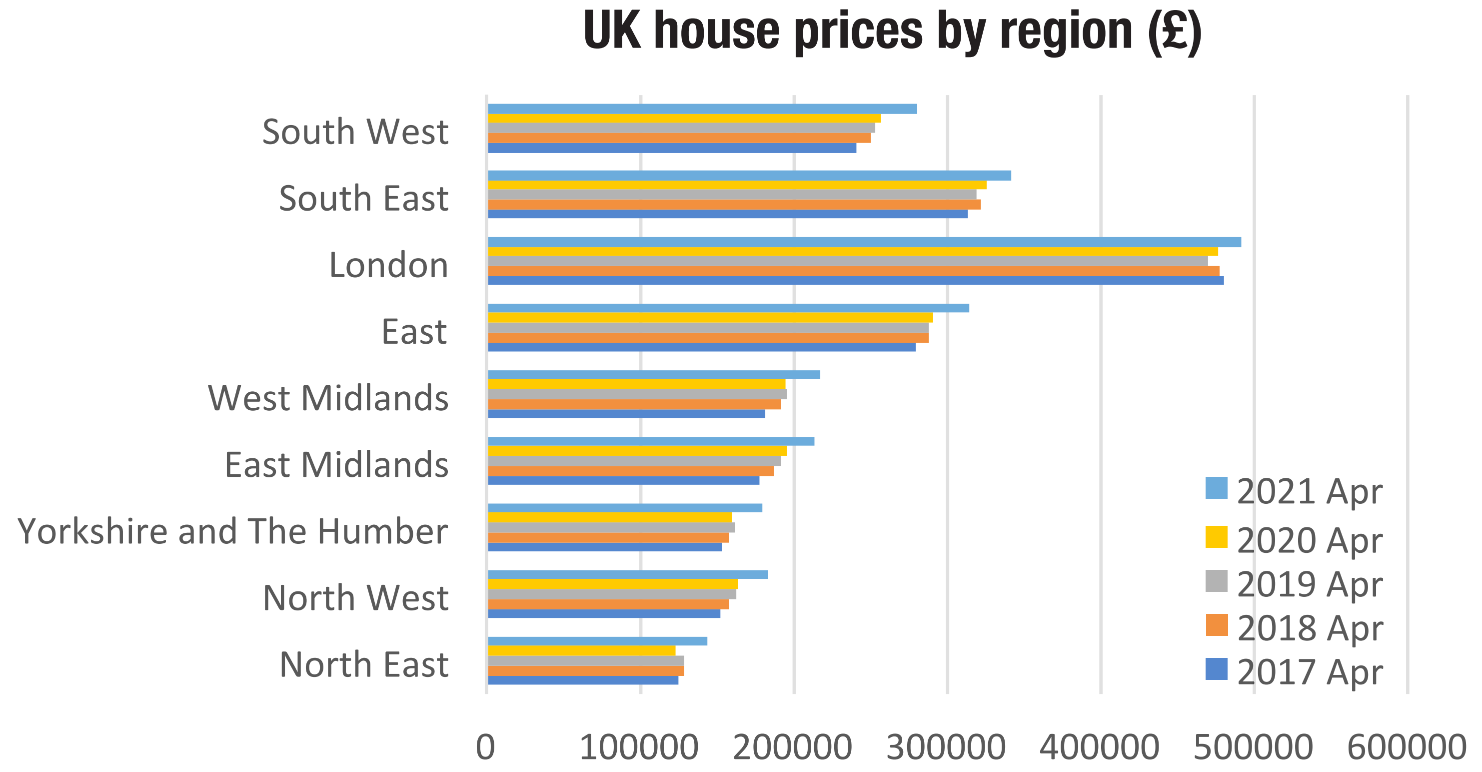
Tenant
An individual that rents a property from a landlord; a tenancy agreement is drawn up between the landlord and the tenant, outlining the terms of the agreement

North/South Divide
A term used to describe the differences in property prices between the North of the UK and the South

Owner-Occupied Housing
A type of housing in which the person who lives in a house owns it

Estate Agents
An intermediary that brings together buyers and sellers of a property





House prices are driven by changes in demand and supply. As a fiscal policy stimulus response to the coronavirus pandemic, the then Chancellor Rishi Sunak announced that between 8th July 2020 and 30th June 2021 there would be a Stamp Duty holiday, eliminating the payment unless a property was sold for more than £500,000. This is one short term factor that drove up house prices.

Demand factors

- Household income
- Amount of savings accumulated
- Availability of mortgages
- Low interest rates (expansionary monetary policy)
- Population growth
- Availability and price of substitutes (renting)
- Government taxation policy

Supply factors

- Degree of planning regulations affecting builders
- Availability of housing stock
- Cost of production (e.g. material costs such as a timber, cement, wages and salaries of construction workers)
- Technology (e.g. many features of a house are now manufactured in factories and simply assembled on site)

SUPERMARKETS

Important terms

Consumer Surplus
The difference between the market price and the price the consumer is willing and able to pay

Monopsony Power
Exists where a firm has considerable buying power 'upstream' over its suppliers

Copycat Products
Own-brand goods which use similar designs and colour schemes to established brands which are competitors

Price Anchoring
A reference point that a consumer has in mind with regard to an acceptable price that they are willing to pay

Interdependence
A situation in which firms must consider the reactions of rivals when making strategic or tactical decisions

Monopoly
Monopoly power exists where a firm has 25% or more market share; a dominant market position is where a firm has 40% or more market share

The Big Three
A term used to describe the firms with the highest market share in the UK. These are Tesco, Sainsbury's, and ASDA

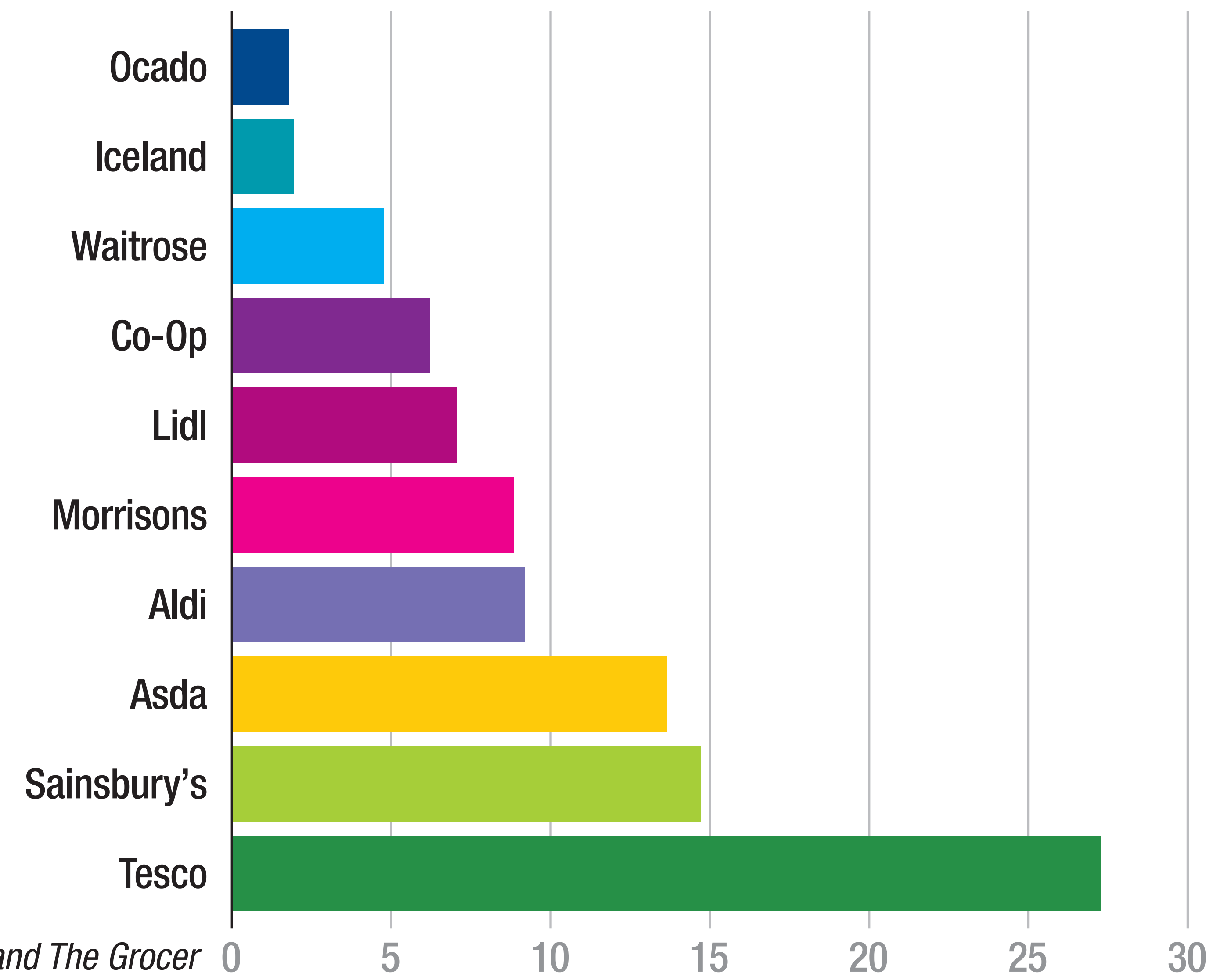
Multi-Channel Retailing
Involves selling products or services through a number of distribution channels including bricks and mortar stores, websites or delivery services

Non-Price Competition
A range of advertising and marketing strategies e.g. loyalty cards with the aim of increasing consumer demand and retention

Market share

The overall value of the UK grocery retail market is estimated to to be around £200bn per year. Supermarkets still account for the largest amount of sales despite the increase in demand for online shopping that was accelerated by the onset of COVID-19. Despite the market share of leading supermarkets such as Tesco, we have seen a change in consumer behaviour and an increase in demand for discounted supermarkets such as an Aldi and Lidl. This growth has been driven by selling unbranded and copycat products at discounted prices, as well as offering a smaller product range which enables the brands to keep their cost, and hence prices, low.

UK Supermarkets - market share (%) by sales (2022)



Source: Statista and The Grocer

Competition

Supermarkets compete with each other in a number of ways. Traditional economic theory would suggest that prices in an oligopolistic market are 'sticky'. However over recent years price wars have become quite common. Some stores give savings compared to rival supermarkets on receipts for transactions. This provision of information aims to lock in loyalty. There have, however, been complaints made to the regulator (the CMA) and supermarkets were asked to review their pricing and promotional strategies that appear to exploit some consumers' computational weaknesses.

Mergers and takeovers

Markets are dynamic. In 2018, Sainsbury's announced its intention to takeover ASDA. In 2019, the Competition and Markets Authority blocked this merger.

Technological change

The shopping experience has changed and this is largely down to new technology. Self service checkouts, scan as you go, m-commerce and e-commerce are just some examples that now exist. These innovations differentiate the shopping experience for customers and in the long run could drive down costs for producers.

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COFFEE SHOPS

Important terms

Brand Image
The perception of the business in the mind of the consumer

Buffer Stock
A scheme set up to stabilise commodity prices which are susceptible to price fluctuations

Income Elastic
When demand responds more than proportionally to a change in income

Supply
The quantity that a producer is willing and able to sell at a given price

Innovation
The process by which new products are produced or new ways of producing them are developed

Supernormal Profit
Profits that signal and incentivise new competitors to enter the market i.e. above “normal” profit

Monopolistic Competition
When there are many producers in a market selling differentiated products

Product Differentiation
When producers sell the same core product but add different features to make it stand out

Price Volatility
When prices fluctuate as a result of changing demand and supply conditions

Data drop

In 2002, the UK branded coffee shop market was estimated to be worth £4.4bn with annual growth of 43%

Between 2005 and 2019, consumer expenditure in restaurants and coffee shops increased by over 75%

In 2022, there were 9,540 branded coffee shops in the UK, and this was expected to reach 10,500 by the end of 2025

Prior to COVID-19, 85% of UK consumers reported visiting a coffee shop once a week

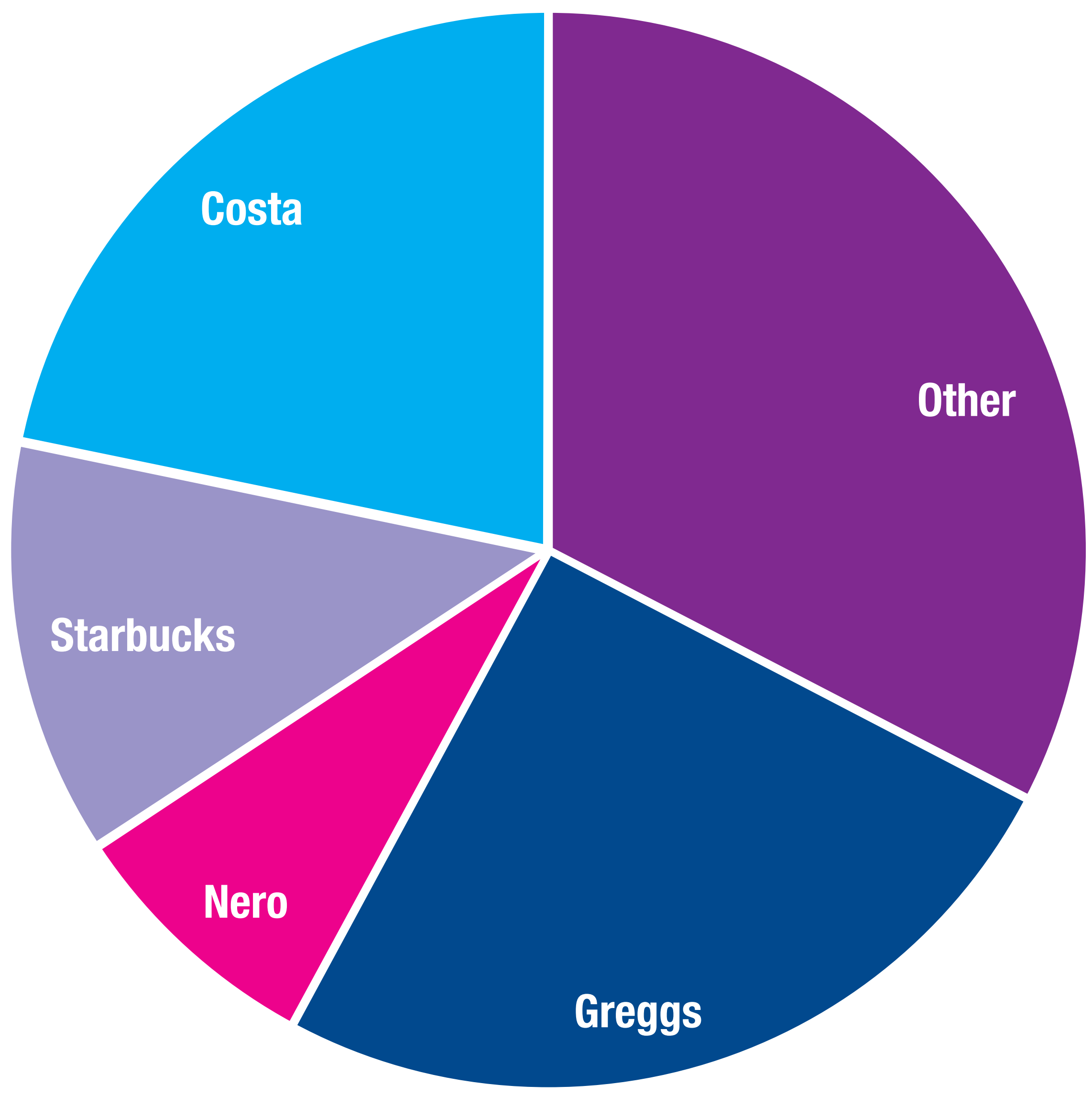
Market structure

There are four main firms that dominate the branded coffee shop market segment. These are:

- Costa Coffee
- Greggs
- Starbucks
- Caffe Nero

Loyalty and reward programmes, branding and product differentiation are used extensively by these brands to retain and attract customers. They are now increasingly competing in the drive-thru market. The scale of operations of Costa and Greggs (over 4,500 stores between them) enables the businesses to benefit from economies of scale. The branded segment of the coffee shop market could be classified as **oligopolistic**.

Branded coffee shop outlets market share (sales) (2019)



However, markets are dynamic. If we change our definition of the market then the structure differs.

For example, there are over 7,000 independent coffee outlets in the UK and over 10,000 that sell coffee which are non-specialists (such as pubs and garden centres). This suggests low barriers to entry and we could classify the market as **monopolistically competitive**.

Demand factors

- Consumer incomes
- Tastes and preferences
- Brand image
- Price of substitutes e.g. tea
- Price of complements e.g. milk or cake

Supply factors

- Number of coffee producing countries
- Number of coffee roasters
- Climatic and growing conditions
- Stocks of coffee

OIL

Important terms

Crude Oil
Occurs naturally and is unrefined: Venezuela, Saudi Arabia, Canada and Iran have the biggest reserves in the world

Refining
The process of making different products from a basic one e.g. petrol from crude oil; fractional distillation separates oil into different component parts such as kerosene and diesel

Commodity
A raw material that can be bought and sold

Futures or Forward Market
When buyers and sellers arrange to trade specific quantities of a commodity at a specified price with delivery to be made in the future

OPEC
The Organisation of Petroleum Exporting Countries regulates the amount of oil each member country is able to produce, thus influencing price

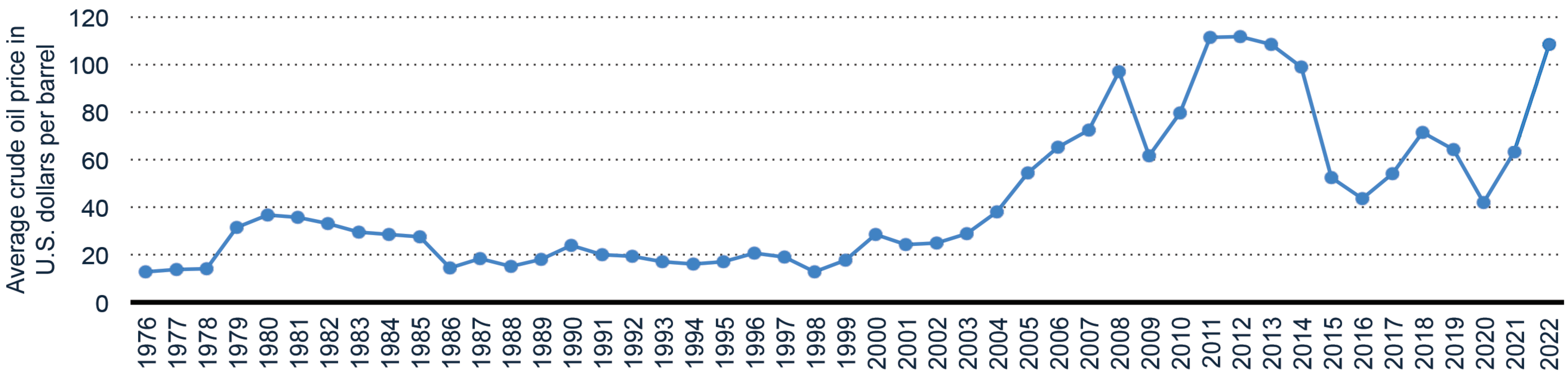
Price Elasticity of Supply
The responsiveness of quantity supplied to a change in price

Speculation
When an investor buys or sells an asset with the intention of making a profit; a speculator buys low and sells high and tries to take advantage of fluctuations in prices

Cartel
A group that aims to keep prices high by restricting competition and market entry

Volatility
The degree of price variation over a period of time

Average annual Brent crude oil price from 1976 to 2022 (in U.S. dollars per barrel)



Source: Statista

How the market works

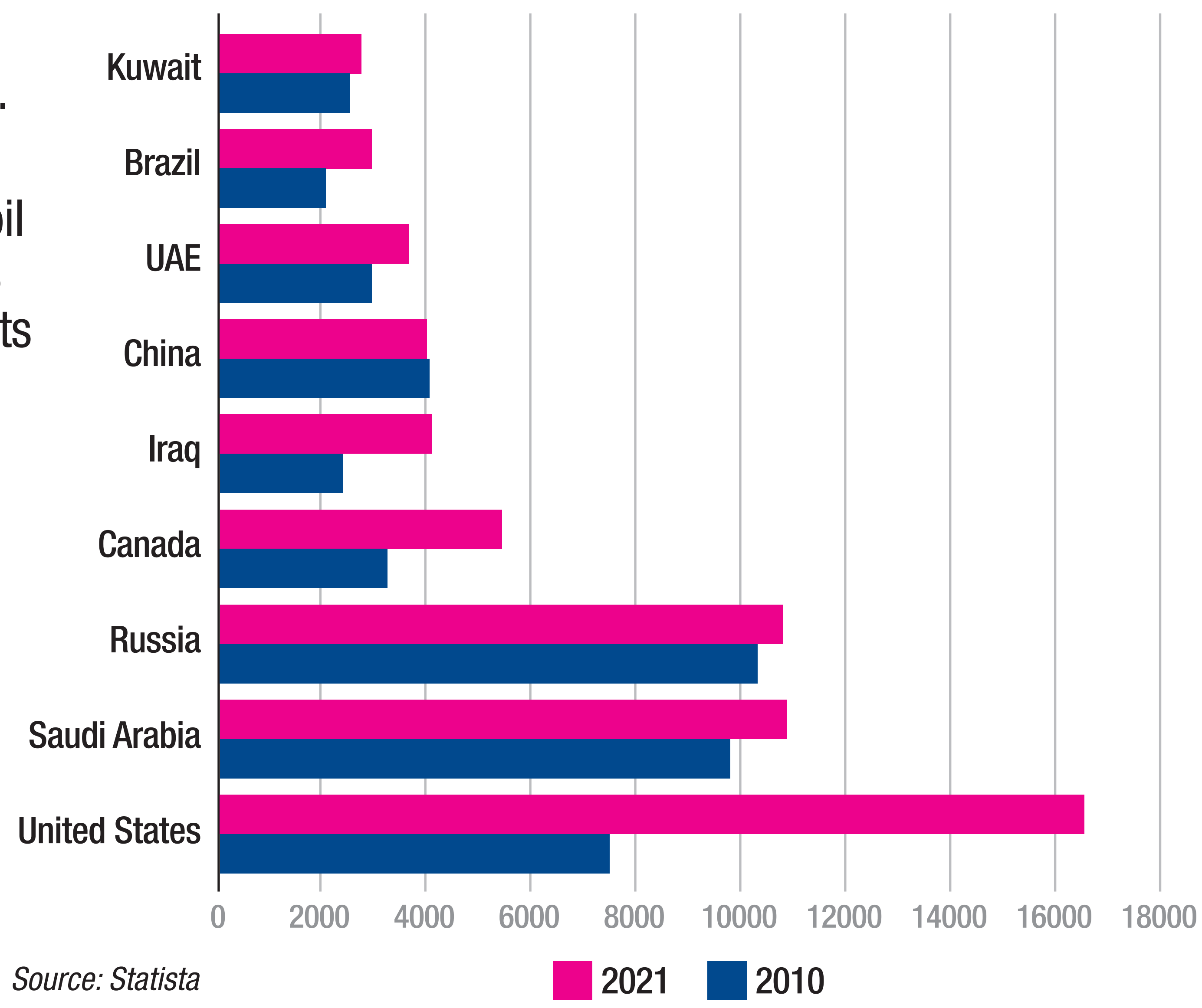
Crude oil is the world's most actively traded commodity. Its refined products are bought and sold all over the world. The price of oil is set by the market and around 100m barrels of oil are traded daily.

Demand and supply drive price changes. Oil is a finite resource so it is inevitable that the price will rise as reserves fall. Burning oil releases CO2 into the atmosphere and individuals and governments are becoming increasingly green in their thinking. Many governments are encouraging the use of renewables such as wind and solar power.

The UK government has set a target of no new petrol or diesel cars being sold from 2030. These factors will ultimately diminish demand for all in the longer term.

Politics plays a part in determining prices, with OPEC members being able to cut or increase production and hence influence supply. This is known as a supply shock. There have been many examples in the latter half of the 20th century and early 21st, including the Iranian revolution, the first and second Gulf Wars, Global Financial Crisis and most recently COVID-19.

Oil production in leading countries (2010 and 2021) in '000s barrels per day



Source: Statista

AIRLINES

Important terms

Air Passenger Duty
A tax levied on consumers when they fly from a UK or Isle of Man airport in which the tax is added onto the cost of the flight; the amount paid differs depending on whether the flight is short haul or long haul

Flag Carrier
A state owned or subsidised airline

Sunk Costs
A cost which is unrecoverable upon exit from a market

Deregulation
When markets are opened up to competition and rules and regulations which act as barriers to entry are reduced or removed, in order to incentivise competition and innovation and drive down prices

Barriers to Entry
Factors that make it difficult for a competitor to enter a market: can be structural (naturally existing) or behavioural / strategic (deliberately put in place by existing firms)

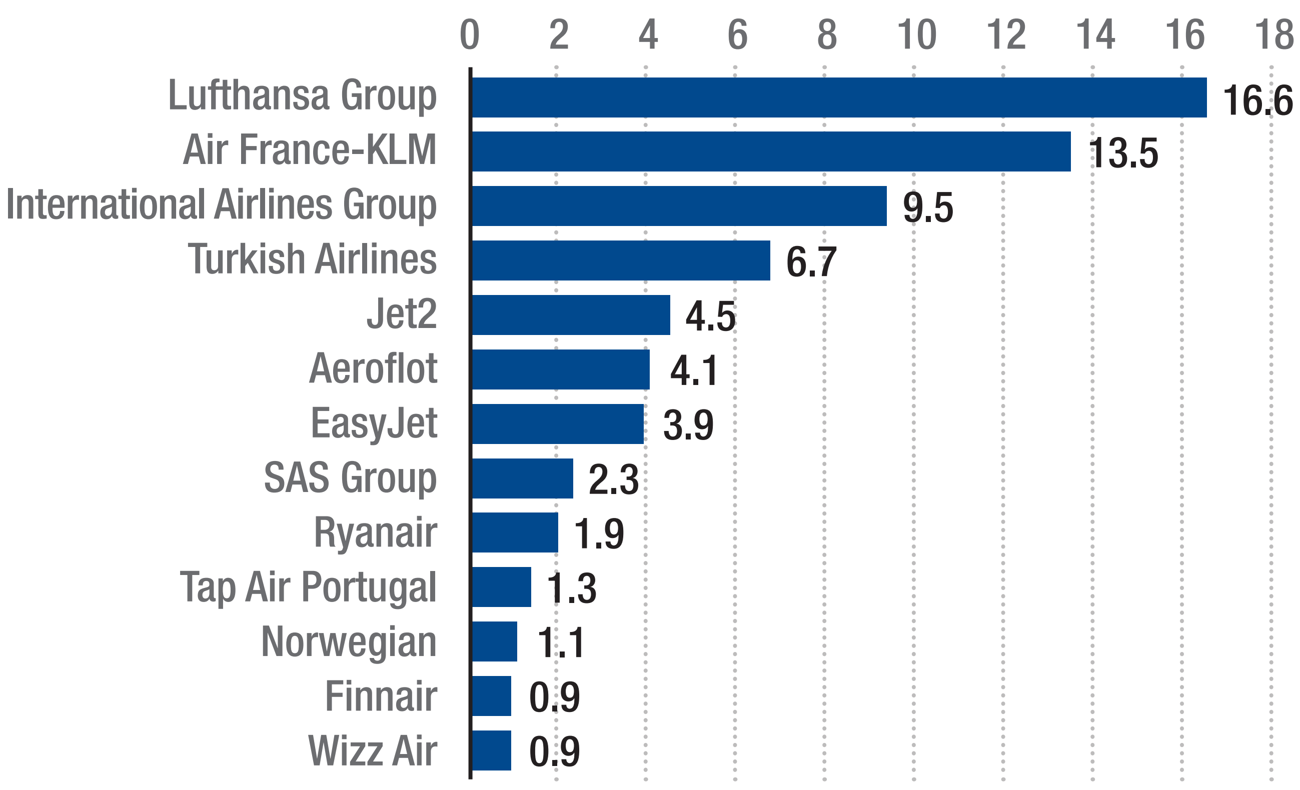
Contestable Market
These exist where there is a credible threat of new entry to a market; new entrants may innovate in terms of process to gain a foothold in an industry

Low Cost Airlines
An airline which eliminates specific costs in order to lower prices and are often 'no frills' or only operate on specific routes e.g. Southwest airlines in the USA and EasyJet in the UK

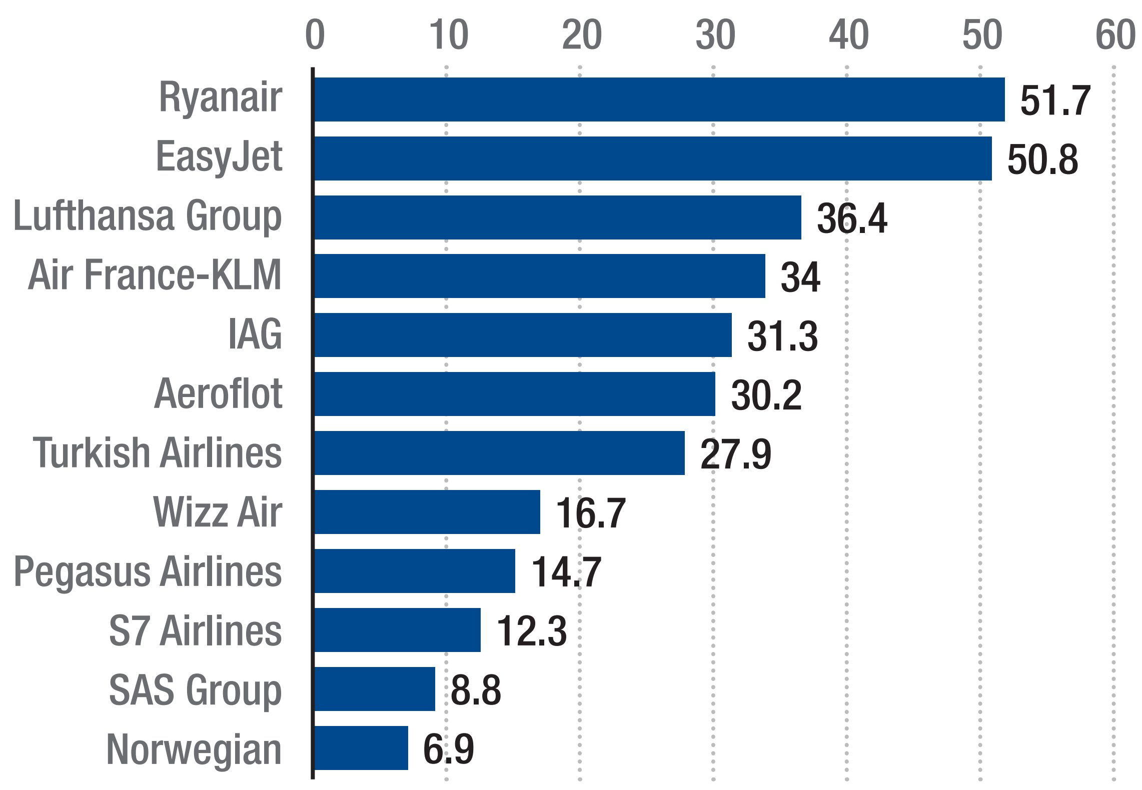
Dynamic Pricing
When prices change according to real time market conditions or customer attributes e.g. a sudden surge of traffic to an airlines website or consumers browsing for certain tickets will trigger a price increase

Price Discrimination
When a firm separates the market into different groups and charge each group the maximum price they are willing to pay, therefore extracting consumer surplus

Leading airline groups in Europe in 2020, based on revenue (in billion U.S. dollars)



Leading airlines in Europe in 2020, based on number of passengers (in millions)



Source: Statista

Context corner

In many European countries, governments own a sizeable stake in airlines. These are known as flag carrier airlines and this ownership is rooted in strategic reasons. State ownership in Finland's flag carrier Finnair amounts to 60% whereas the French government has a 18% stake in Air France. National laws have made it much more difficult for airlines to merge so the industry has seen a wave of horizonal co-operation and strategic alliances. For example the oneworld alliance is made up of BA, American Airlines, Cathay Pacific and Qantas. This co-operation enables firms to develop networks, improve choice and reduce costs. There have been some mergers including British Airways and Iberia and in the USA, United and Continental airlines.

The global financial crisis hit the airline industry hard with airlines suffering losses due to falling passenger demand and being hit with higher costs for aviation fuel. From 2010-2019, European air passenger numbers increased by approximately 52% as European economies recovered from the demand side shock.

In 2020 global passenger demand fell by 66% due to the disruption of COVID-19. It is estimated that airlines worldwide lost $370bn due to COVID. Lufthansa of Germany received the greatest amount of state aid - just over $12bn.

The low cost disruptors

Travelling by air was once considered a luxury good. From 1997, any airline in the EU was able to operate a service in any country – this is an example of deregulation. The low cost disruptors such as Easyjet operate in niche markets. They have successfully segmented the market by flying only on specific short haul routes and offering a limited in-flight service with the aim of keeping costs low. Some airlines lease aircraft rather than buy them and this helps to reduce fixed costs, enabling these operators to pass on savings in the form of lower prices. This strategy capitalises on price and income elastic consumers.

Examples of low cost airlines include:

- EasyJet (UK)
- Ryanair (Ireland)
- Wizz Air (Hungary)
- Norwegian (Norway)
- Southwest (USA)

Many low cost airlines operate a dynamic pricing model that is driven by consumer engagement. The majority of an airline's costs are fixed. They are highly labour and capital intensive. The marginal cost of an additional passenger is virtually zero. Many airlines offer reduced price tickets in the days prior to departure as this increase in marginal revenue will contribute positively to covering fixed costs or make a further addition to profit.

GIG ECONOMY

Important terms

Gig Economy A market in which independent workers contract for short-term engagement	**Sharing Economy** The ability to generate income by sharing or renting out assets	**Platform Economy** The use of IT systems to facilitate/ connect opportunities for gigs/sharing
Innovation Can be process based (doing something differently) or product / service based (producing a new or updated offering)	**Zero Hours Contracts** Where workers are employed without any guarantee of how many hours they will work	**National Living Wage** The legal minimum wage rate for workers over the age of 25
Self-Employment When individuals work for themselves in their own business and receive an economic benefit for doing so	**National Minimum Wage** A price floor for labour which employers cannot legally undercut	**Inequality** The difference in how assets, wealth or income are distributed among individuals and/or populations

Context corner

Gig economy businesses in the ‘sharing economy’ have disrupted the status quo in the markets that they have entered. They have allowed owners of assets to share the use of apartments, cars, garages etc on a short-term basis and profit from sharing. They tend to offer customers greater choice and lower prices and disrupt incumbents. This causes dynamic efficiency in the industry i.e. forcing existing firms to become more innovative with their own offerings. For example, many taxi firms now have their own apps and hotel / holiday bookings can be customised.

When Uber and Airbnb entered their respective markets contestability increased. The firms found innovative ways, driven by technological change, to sidestep traditional barriers to entry. For example, investment in capital equipment and staff costs are huge in hospitality. Airbnb does not bear the costs of building and servicing accommodation.

Stakeholder perspective

According to a Guardian article in 2019, 4.7 million people work ‘gig’ jobs. Many are on zero hours contracts.

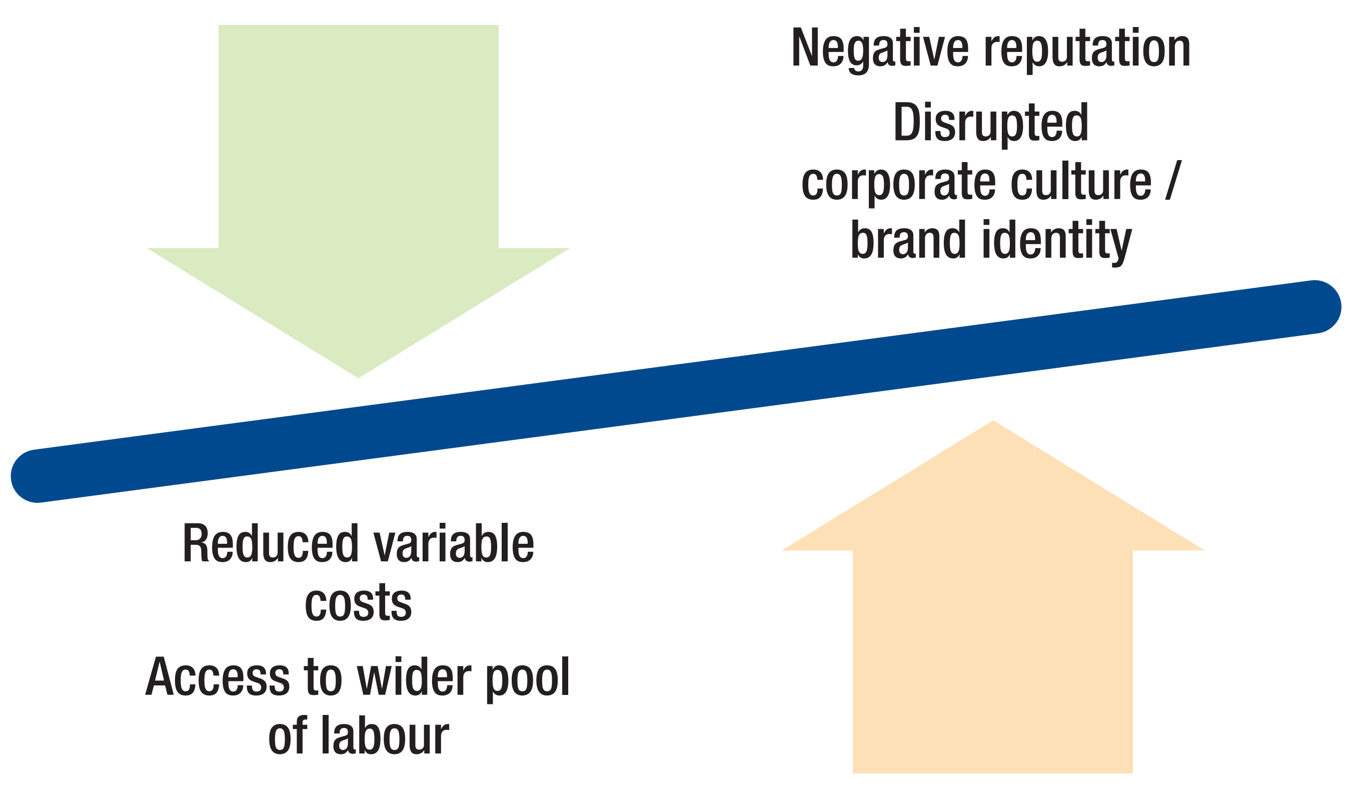
Airbnb

- Has disrupted the hospitality industry
- Is a market place for people to list and discover accommodation all around the world
- It has over 1million listings worldwide
- Enables owners to monetise their spare capacity
- Airbnb’s revenue is generated from bookings; hosts are charged for each guest booking
- Guests and hosts review one another

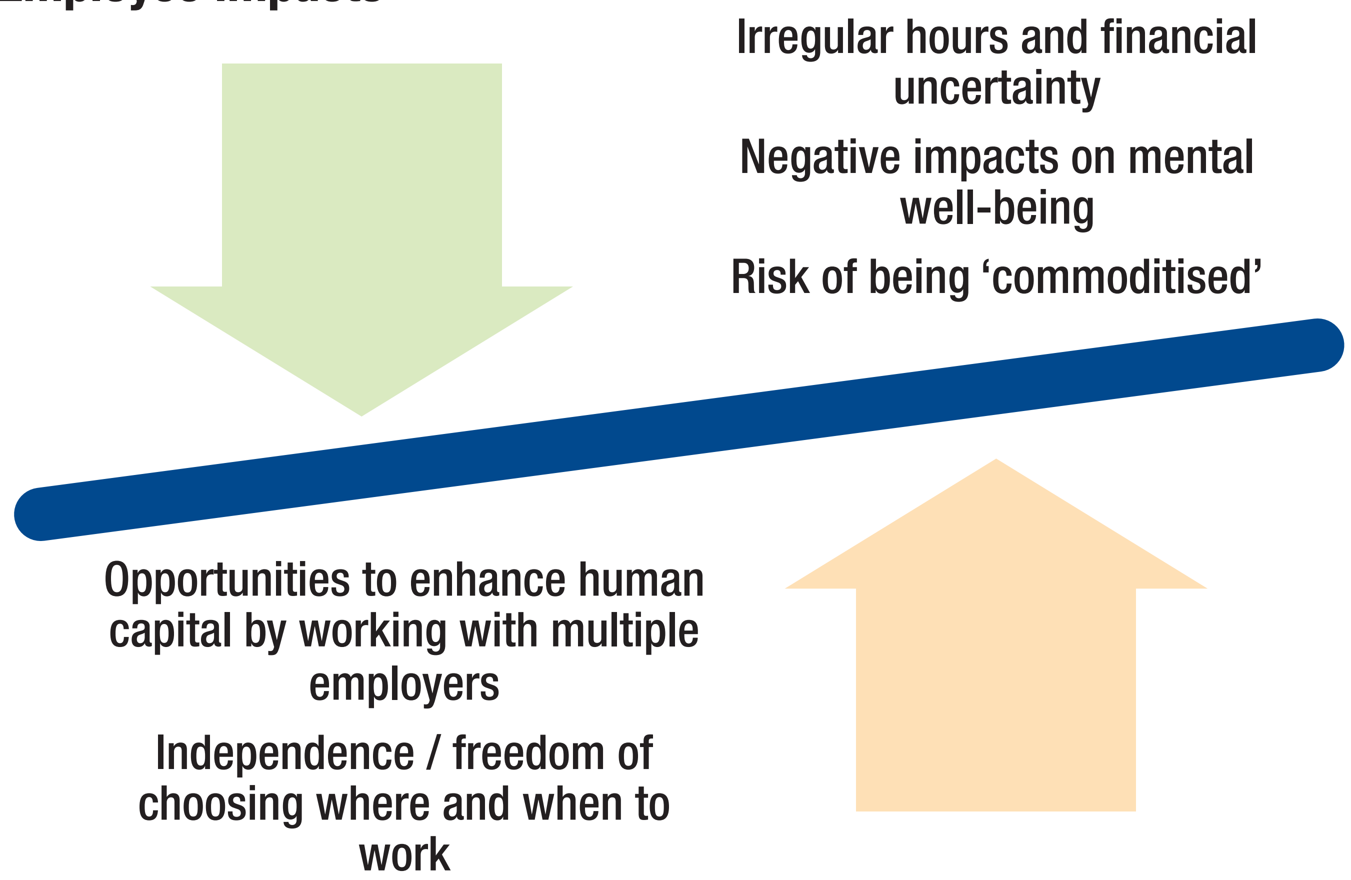
Uber

- Cab drivers register with Uber and use their own car to offer their service via the Uber app
- Passengers register with Uber and provide bank details; Uber debits the account for the fare so cash doesn’t change hands
- Pricing is calculated via Uber’s surge system; at times of peak demand, price increases
- Uber’s revenue comes from a fee which they take from the fare before passing it onto the driver
- The UK Supreme Court ruled that Uber must consider those working for it as ‘workers’ rather than self-employed. This entitles them to a minimum wage (National or Living depending on the driver’s age), holiday pay and a pension

Business impacts



Employee impacts



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STREAMING SERVICES

Important terms

Oligopoly
A market dominated by a few large firms, in which there is a high level of market concentration, interdependence and high barriers to entry

Product Differentiation
When producers sell the same core product but add different features to make it stand out

Streaming
Refers to the ability to consume content over an internet connection; users have autonomy over what they decide to watch and when, and the content is not stored on the end user's device

Innovation
Can be process based (doing something differently) or product / service based (producing a new or updated offering)

Interdependence
A situation where firms must consider the reactions of rivals when making strategic or tactical decisions

Non-Price Competition
Advertising and marketing strategies designed to increase demand, for example offering different genres of television shows or 24/7 customer support

Over-the-Top
A media service that is broadcast to consumers via the internet and not traditional means such as terrestrial or satellite television

AI – Artificial Intelligence
A type of machine learning which uses algorithms to track user engagement and recommend content based on past usage

Cloud Network Distribution
Where content is stored on servers which can be accessed and streamed from anywhere

Context corner

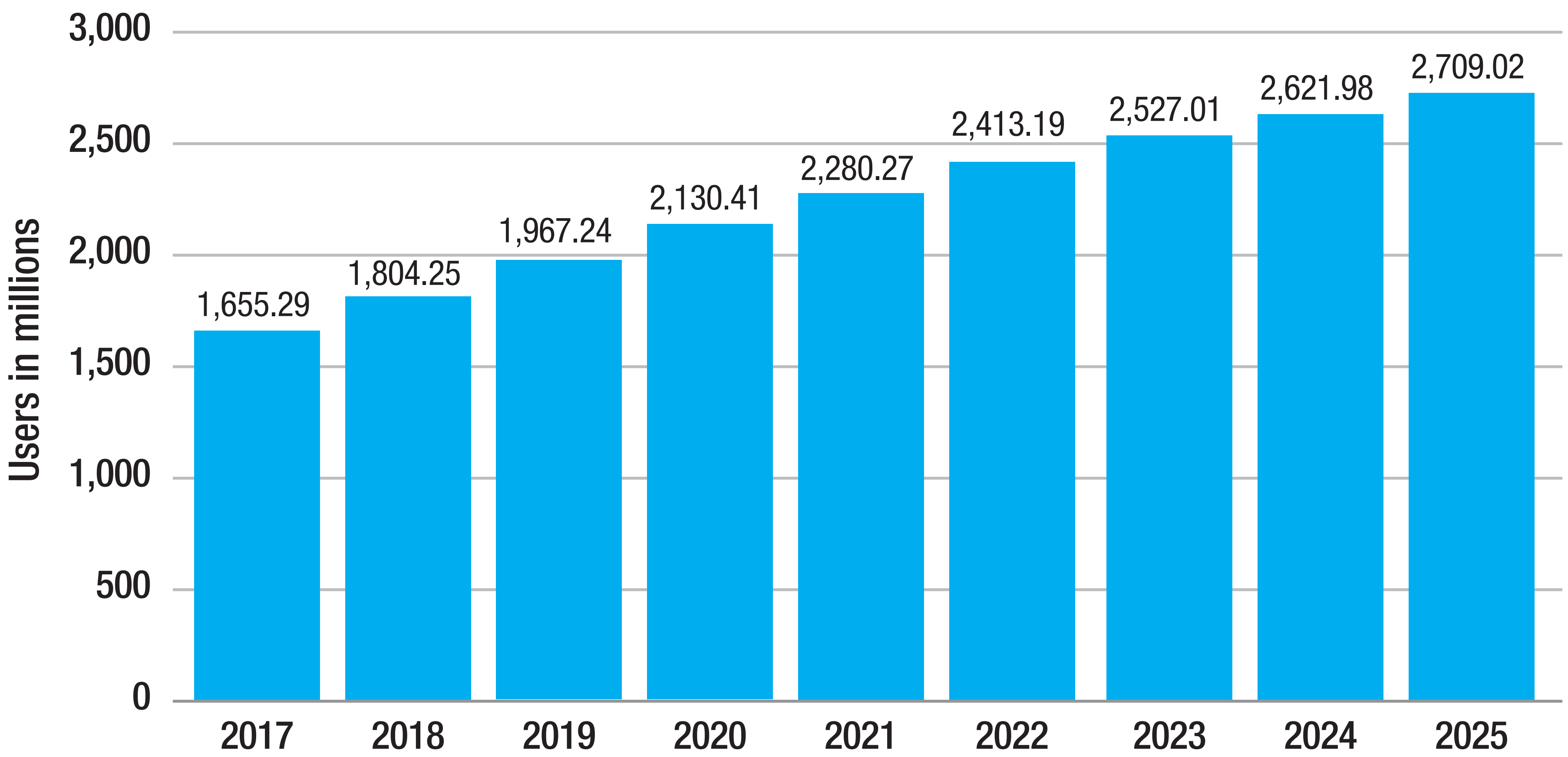
The internet has transformed how we consume video and music services. In 2002, it could take up to an hour to download a 5 minute MP3 track over a dial up internet connection. Today, subscribers to Apple Music and Spotify can stream instantaneously. As broadband connections have improved, consumers have switched their tastes and preferences from traditional types of media such as CDs and DVDs to streaming services. Household names of the past such as Blockbuster and HMV with their physical presence and products have been usurped by the upstarts of Spotify, Deezer, Netflix and Apple's reinvention of the iTunes store - Apple music. Competitors such as Sky TV and Virgin Media in the UK have responded by offering new subscription services of their own or placing an increased emphasis on live events such as sports.

Whilst the video and music industries differ in terms of the new incumbents, there are clear similarities in terms of operations. Services entice customers with low prices or free trials and use subscription based pricing models. In recent years established businesses have fought back to reinvent themselves to respond to the threats of streaming services. Disney launched Disney+ and now boasts over 100m subscribers with none of its content on other platforms.

In 2010, according to the IFPI, there were approximately 8m worldwide users of paid music subscription services. By 2020 this had risen to 443m.

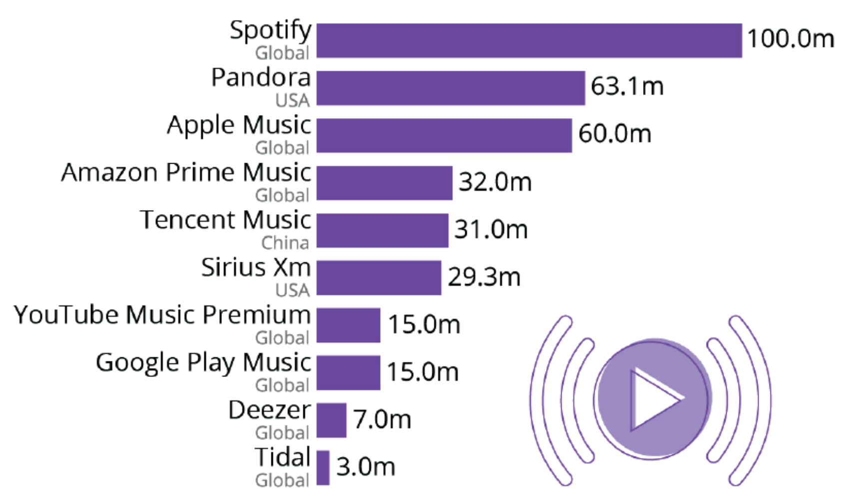
Market size

Global OTT video users from 2017 to 2025 (in millions)



The world's most popular music streaming services

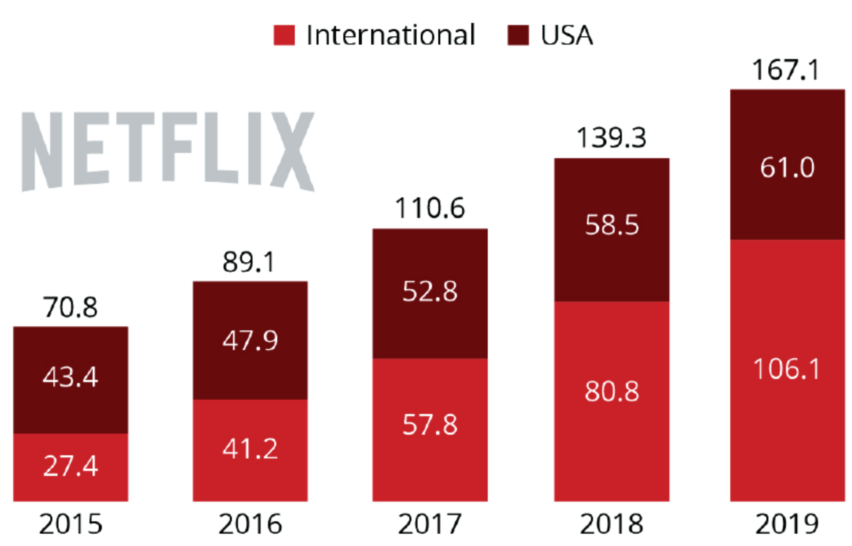
Music streaming services with the most subscribers as of November 2019



Source: FIPP Global Digital Subscription Snapshot

Netflix's International Expansion

Netflix's paid streaming subscribers at the end of the respective year (in millions)



Source: Netflix

ELECTRIC VEHICLES

Important terms

EV (Electrified Vehicle)
A motor vehicle powered solely by electricity

Product Differentiation
When producers sell the same core product but add different features to make it stand out

Hybrid
A vehicle that has a battery which powers an electrified motor as well as a combustion engine

Producer Subsidy
A payment by a government to producers which enables them to reduce costs, increase output and pass on savings to consumers in the form of lower prices

Derived Demand
Demand that comes from a demand that exists for something else e.g. an increase in demand for electric vehicles will result in an increase in demand for electric vehicle charging points

Innovation
Can be process based (doing something differently) or product / service based (producing a new or updated offering

Status Quo Bias
Also called a default bias - people continue to behave in a certain way because it is what they've always done and this requires little mental effort

Market Segment
A sub-group that exists within a given market: a business will identify a specific segment that based on variables such as income, usage and target an electric vehicle at that group

Interdependence
A situation where firms must consider the reactions of rivals when making strategic or tactical decisions

Context corner

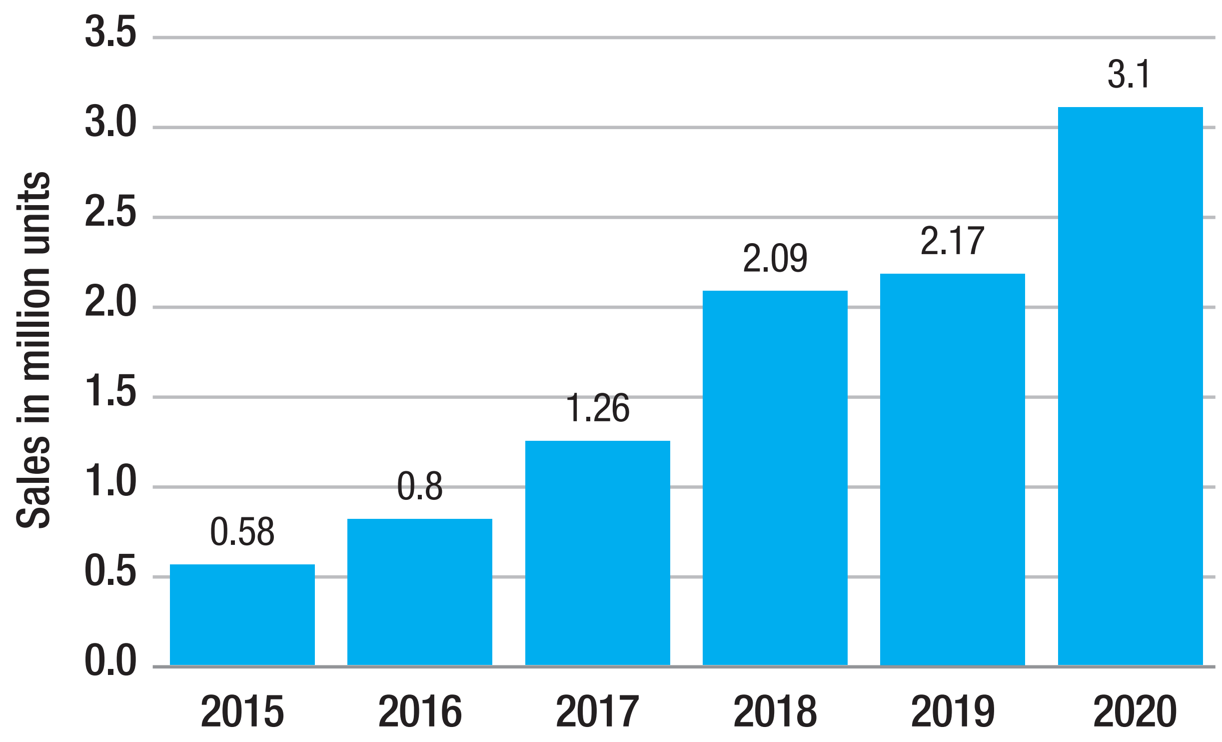
According to a Deloitte report the greatest share of growth in the market has come from the Nordic countries and the Netherlands but China still dominates sales, accounting for almost half all EVs purchased worldwide.

In their infancy, range and charging availability were two stumbling blocks preventing consumer adoption with consumers exerting a status quo bias and preferring to stick with more traditional means such as petrol and diesel powered cars. Recent years have seen a change in sentiments. Improvements in battery technology, demonstrated by the likes of Tesla, have also contributed to increased demand. As manufacturers turn their attention to EV production, this has caused an increase in market supply and availability of models. This has meant more price elastic consumers have been incentivised to adopt EVs given their fall in price.

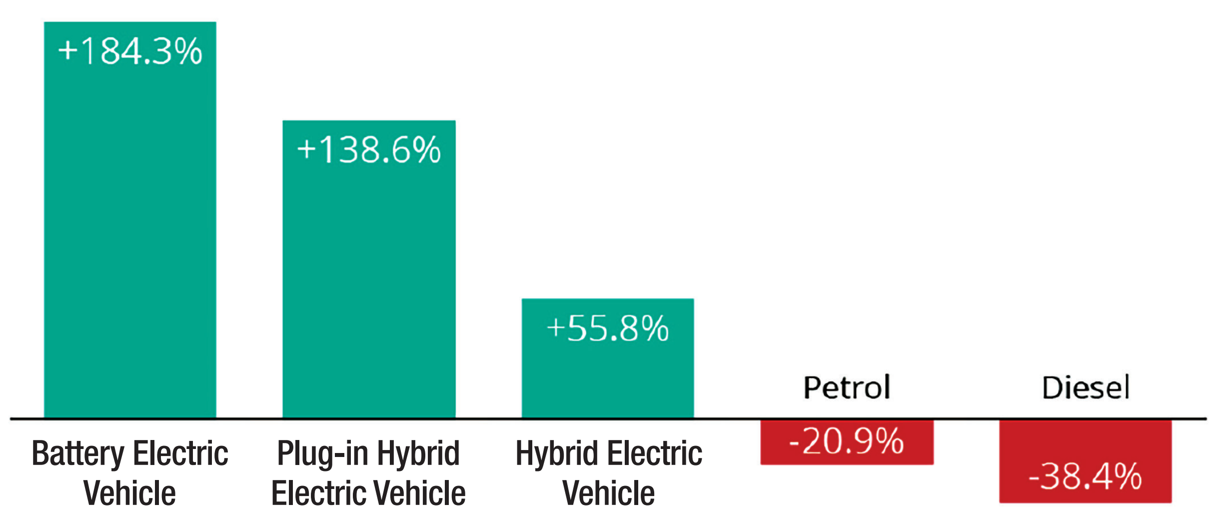
External factors such as government policy will surely have a significant impact on the market. The UK government has announced plans to ban the sale of new petrol and diesel cars by 2030. This should accelerate demand for EVs. There is a clear need for infrastructure to follow to ensure that sufficient charging points and capacity is available. The government plans to invest over £500m in funding.

In July 2021 Nissan announced that it will build its new EV model at its Sunderland plant. This is expected to have significant multiplier effects in the local economy as thousands of jobs will be supported in the supply chain. There will also be a battery plant built on the site.

Plug-in electric light vehicle sales worldwide 2015-2020



UK demand for electric cars growing
Year-on-year change in new car registrations in the United Kingdom in September 2020, by type



Source: SMMT

Factors affecting market demand

- Real incomes
- Corporate demand for new vehicles
- Regulations – ban on sale of new petrol / diesel cars from 2030
- Changing tastes and preferences including environmental concerns

Factors affecting market supply

- Component costs e.g. batteries, computer hardware
- Productivity in e-vehicle manufacturing
- Number of producers
- Producer subsidies