APPENDIX 8

MARKET COMMENTARY

Savings surge as families stay home

Households are paying down their debts with spare cash as Covid restrictions keep them at home

By Tim Wallace
1 March 2021 • 1:37pm

Families paid down another £2.5bn of consumer credit in January as the latest lockdown left workers with little opportunity to spend.

Instead of shopping with the credit card, households put their resources into building up savings and buying houses.

Bank deposits surged by £18.5bn in the month, compared to a usual pre-pandemic level of less than £5bn.

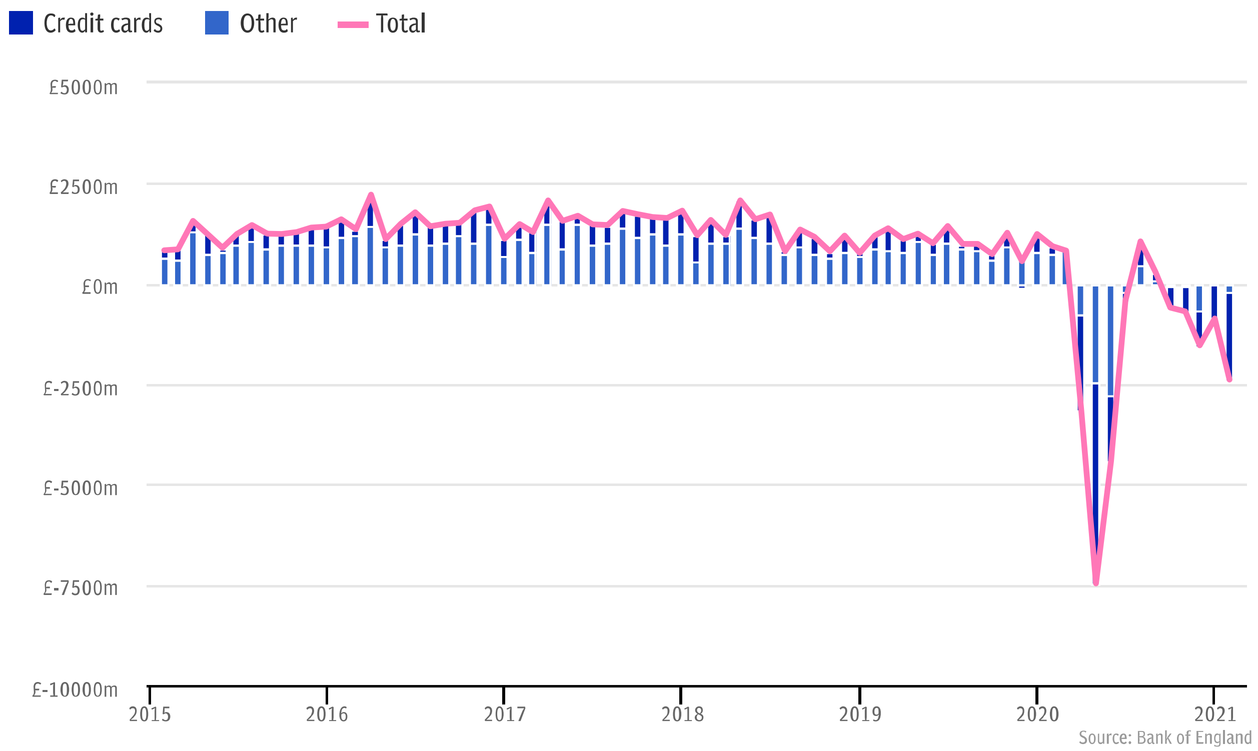
Another 99,000 mortgages were approved in January, down a touch from more than 100,000 in both November and December but still the third-highest level since the years before the financial crisis, according to the Bank of England.

Tumbling consumer credit underlines the extent of the economic harm of lockdown.

“That was a faster pace of deleveraging than during November’s lockdown and so is another reason to think that the economic hit from January’s lockdown will be larger than November’s 2.3pc month-on-month drop in GDP,” said Ruth Gregory at Capital Economics.

Households paid down debts at the fastest rate since the first lockdown in January

Consumer credit, monthly



The sustained rise in savings gives hope that families have the resources to spend vigorously once they are allowed, with Andy Haldane, the Bank of England's chief economist, describing [the economy as "a coiled spring"], with "accidental savings" ready to be splurged on renewed social lives post-lockdown.

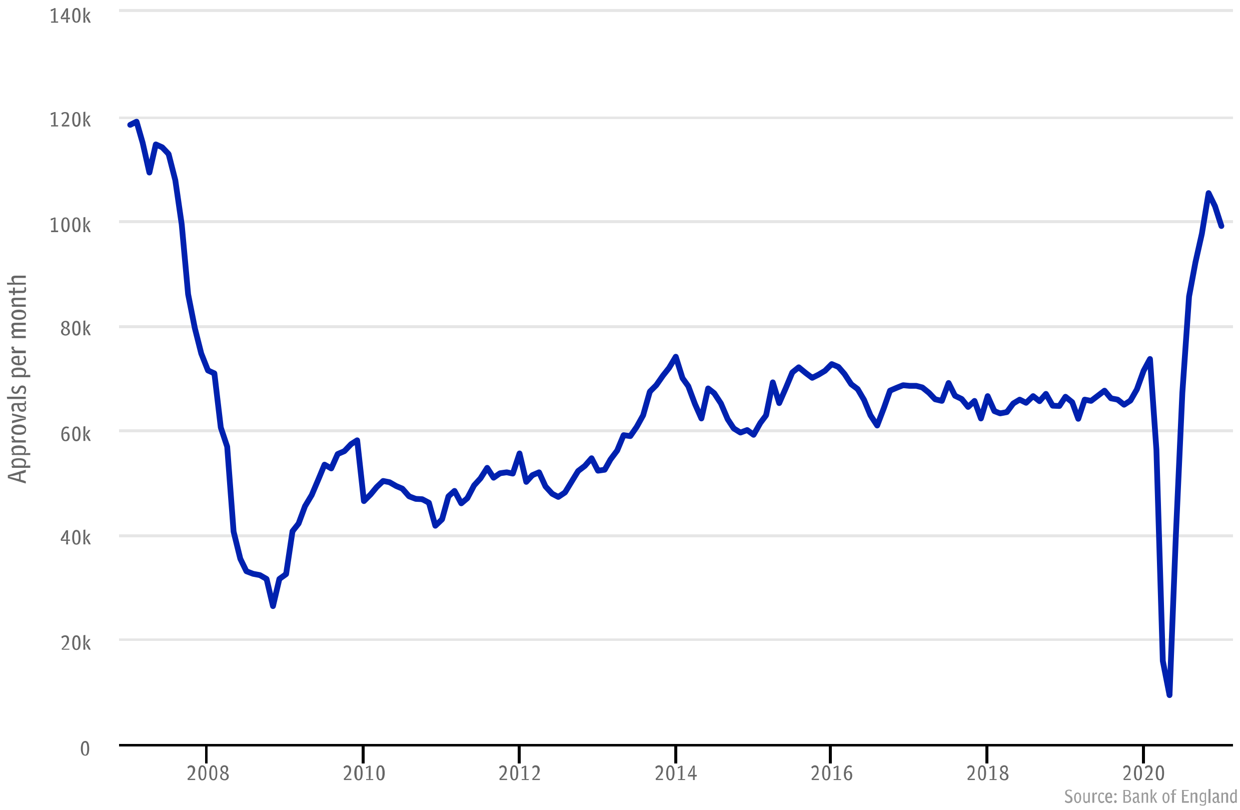
It is possible that more will stay in savings, however, as the accumulation of cash has largely gone to those in higher paying jobs, while those on lower earnings, who spend a greater share of their incomes, are more likely to be furloughed or to have lost their employment.

“We doubt that much of this stockpiled cash will filter back into the economy over the next year,” said Samuel Tombs at Pantheon Macroeconomics.

“Households’ total financial assets merely have grown at an average rate over the last year, due to the decline in UK equity prices. Many households, therefore, might top up their underperforming pensions.”

Holding high

Mortgage approvals remained near a post-financial crisis high



Buyers have been happy to borrow heavily to purchase homes, however, taking on an extra £5.2bn of debt in the month.

"The support to the housing market coming from [the rise in the Stamp Duty threshold] through to 31 March has recently started to wane. However, there are reports that the Chancellor will extend the raising of the Stamp Duty threshold to the end of June in the Budget," said Howard Archer, chief economic advisor to the EY Item Club.

"While an extension of the Stamp Duty threshold to the end of June would likely provide near-term support to housing market activity and prices, the housing market is likely to come under mounting pressure over the coming months. The recent strengthening in the housing market has been disproportionate given the economy's contraction over 2020 and rising unemployment."

London flats prices collapse 16pc as demand shifts to suburbs

Only 60pc of central London sales were flats in final months of 2020, the lowest share since 2007

By Melissa Lawford
25 February 2021 • 6:00am

From surveying the many house price indices, it may seem that there is a property market boom across the country. But the effects of the pandemic have hit London's market hard, in particular demand for flats.

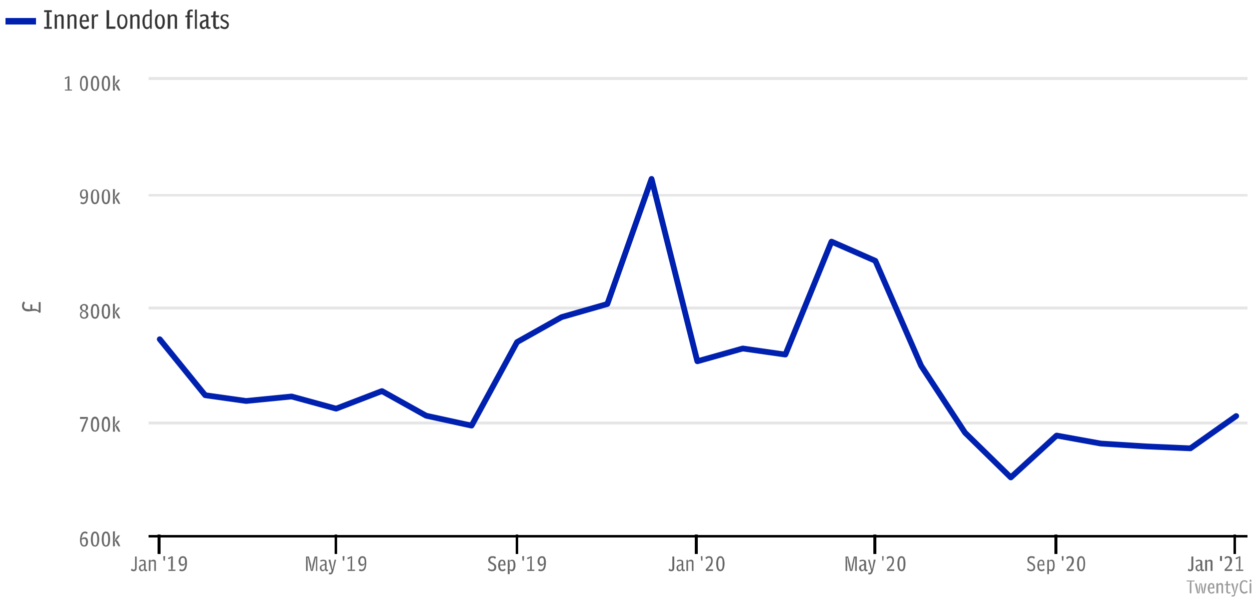
A new desire for more space after lockdown, combined with panicking landlords selling up and travel restrictions shutting out international buyers, has created a toxic cocktail for those trying to find a buyer for their flat. As a result, they have had to slash their prices as demand has crumbled and their properties languished on the market amid soaring supply.

In January, asking prices for inner and outer London flats were down 16.2pc and 6.7pc respectively compared to May 2020, according to data company TwentyCi. But prices for houses in London's outer reaches were up 4pc.

The proportion of flats sold has fallen too, as consumer demand quickly changed, favouring a house with a garden in the outskirts over a small flat in a handy location.

In the last three months of 2020, flats accounted for 60pc of all sales in central London, according to Hamptons International estate agents. This was a fall of nine percentage points from the same period in 2019. The cladding crisis may also have played a role: there are now simply fewer flats on the market, as so many of them are currently unsaleable due to lenders requiring fire safety checks.

Sellers have cut asking prices for inner London flats 16pc since May



Demand for flats has dropped just as more central London homes are coming up for sale, helping to push prices down further. At the start of January, the number of properties in the most expensive areas of the capital going under offer fell 5pc year-on-year, according to LonRes, a data company. Yet there were 51pc more of these homes on the market.

Cory Askew, of Chestertons estate agents, said landlords have rushed to sell as the pandemic dried up their sources of international and student tenants. “People are offering 10pc below asking price, and agreeing 5pc under,” he said.

In Knightsbridge, where the market is largely dependent on Middle Eastern buyers who have been unable to travel, demand in January and February was down 30pc compared to the first two months of 2020, said Mr Askew. In Mayfair, the drop was 50pc. The introduction of a 2pc stamp duty surcharge on overseas buyers in April will be a further blow.

Despite the headwinds facing the London flat market, pent-up demand from the shutdown last year, and the added incentive of the stamp duty holiday, have still boosted sales.

But this gain is on shaky footing, largely dependent on the tax break. TwentyCi found that in December, agreed sales for inner London flats were up 40pc. But in January, when buyers thought they had little chance of completing in time for the tax break, agreed sales were up only 8pc year-on-year.

This underlines the importance of the tax cut to this part of the market. Chancellor Rishi Sunak is expected to announce a three-month extension to the stamp duty holiday in the Budget next week. Once the it ends for good, any growth in sales will recede fast.

House sales in central London have been similarly dependent on the tax break, but the data suggests that unlike in the market for flats, there is much larger underlying demand.

Related Topics

House prices, London property

3. The impact of the coronavirus on the public finances

The coronavirus (COVID-19) pandemic has had a substantial impact on the economy and subsequently on public sector borrowing and debt.

Central government tax and National Insurance receipts (combined) in the 11 months-to-February 2021 fell by £36.8 billion (or 5.7%) compared with the same period a year earlier, while government support for individuals and businesses during the pandemic contributed to an increase of £187.6 billion (or 27.9%) in central government day-to-day (or current) spending.

The latest official forecasts, published by the Office for Budget Responsibility (OBR) on 3 March 2021, indicate that the £278.8 billion borrowed by the public sector in the financial year-to-February 2021 could reach £354.6 billion by the end of March 2021.

Although the impact of the pandemic on the public finances is becoming clearer, its effects are not fully captured in this release, meaning that estimates of accrued tax receipts and borrowing are subject to greater than usual uncertainty.

It should be noted that the OBR borrowing forecast for the financial year ending March 2021 (April 2020 to March 2021) includes an estimated £27.2 billion in write-offs of the business loans under the government's coronavirus schemes whereas Office for National Statistics (ONS) outturn data does not yet include any estimates for these write-offs.

Figure 1: Figures published by the Office for Budget Responsibility[1] suggest borrowing could increase to £354.6 billion for the financial year ending March 2021

Public sector net borrowing excluding public sector banks, UK, cumulative financial year-to- February 2021 compared with official estimates