

# David Smith



**THE SUNDAY TIMES**

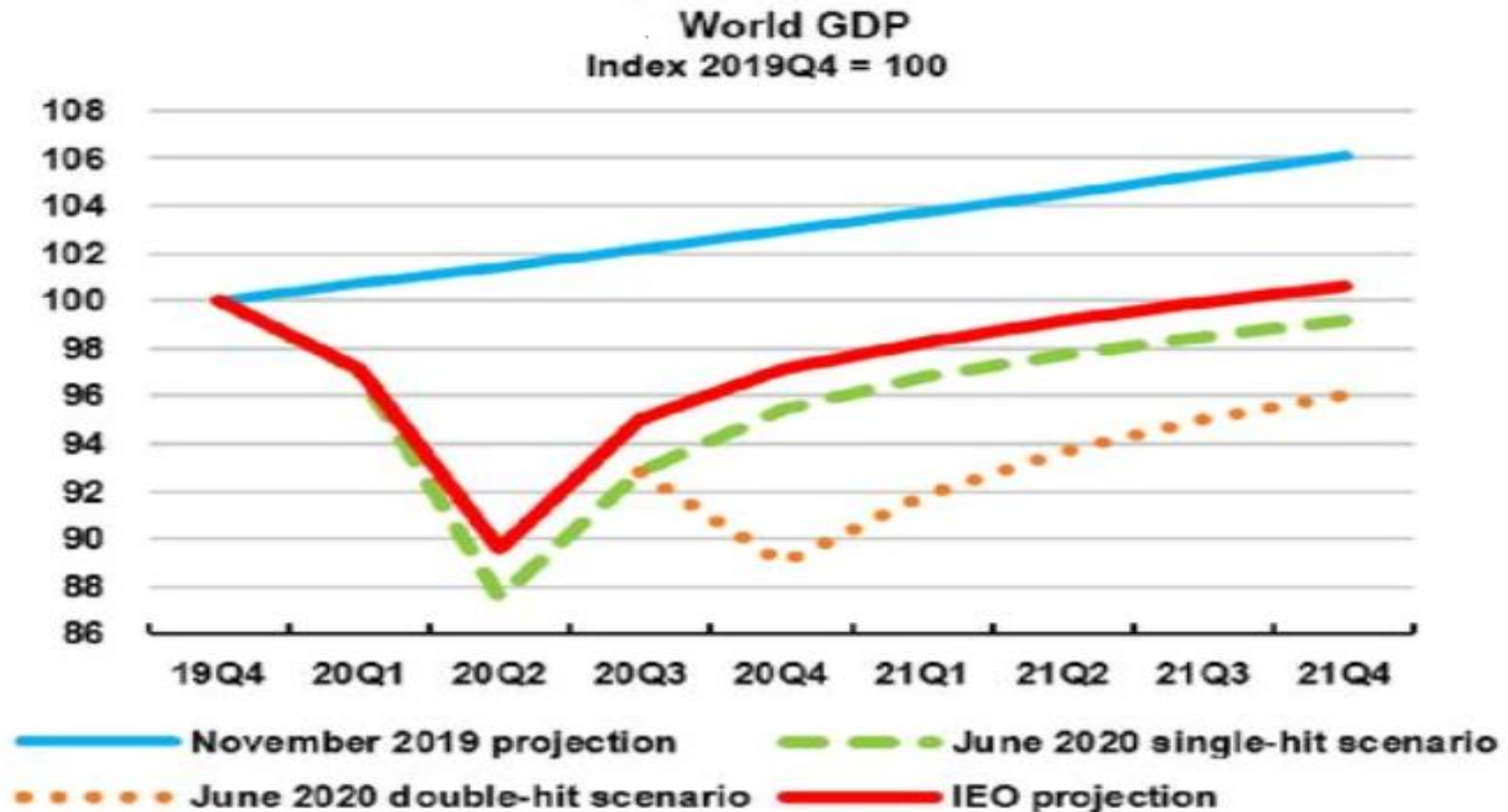
# The Economic and Housing Outlook

**The road out of  
this new kind of  
crisis**

# Four sets of questions

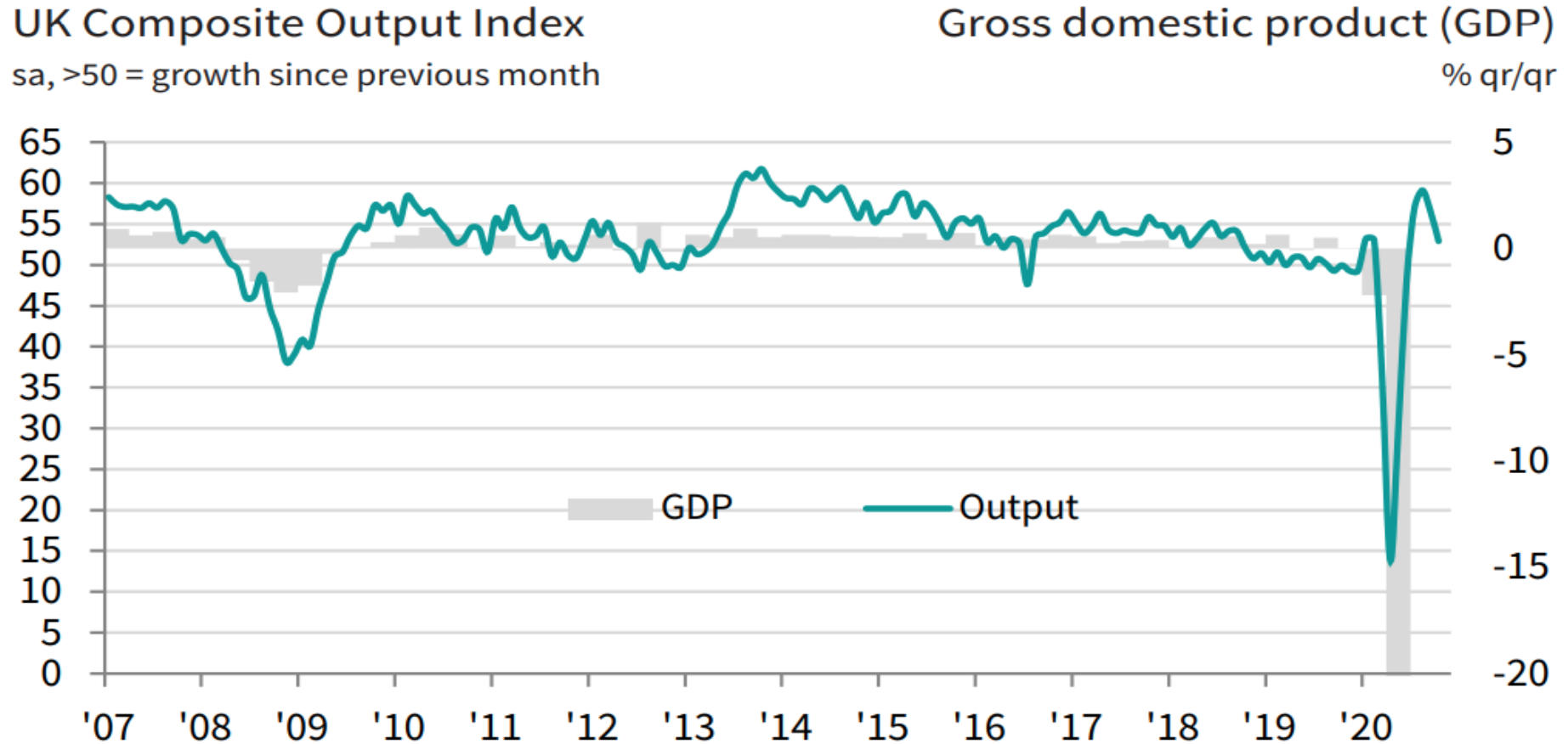
- What kind of recession and recovery? Will it be a V, a W, a U, a Nike swoosh, a “K”, or something entirely different? Can the UK recovery survive this second wave and the second lockdown? Can the housing market survive it?
- Have central banks done their job, or will we see more QE, or even negative interest rates?
- How will we pay for all this? The UK budget deficit may top £350 billion this year and Rishi Sunak is already signalling tax hikes. Will he do them, and what will they be?
- What about Brexit, and the risk of no deal?

# 1. A big hit to the global economy



Source: OECD Economic Outlook database.

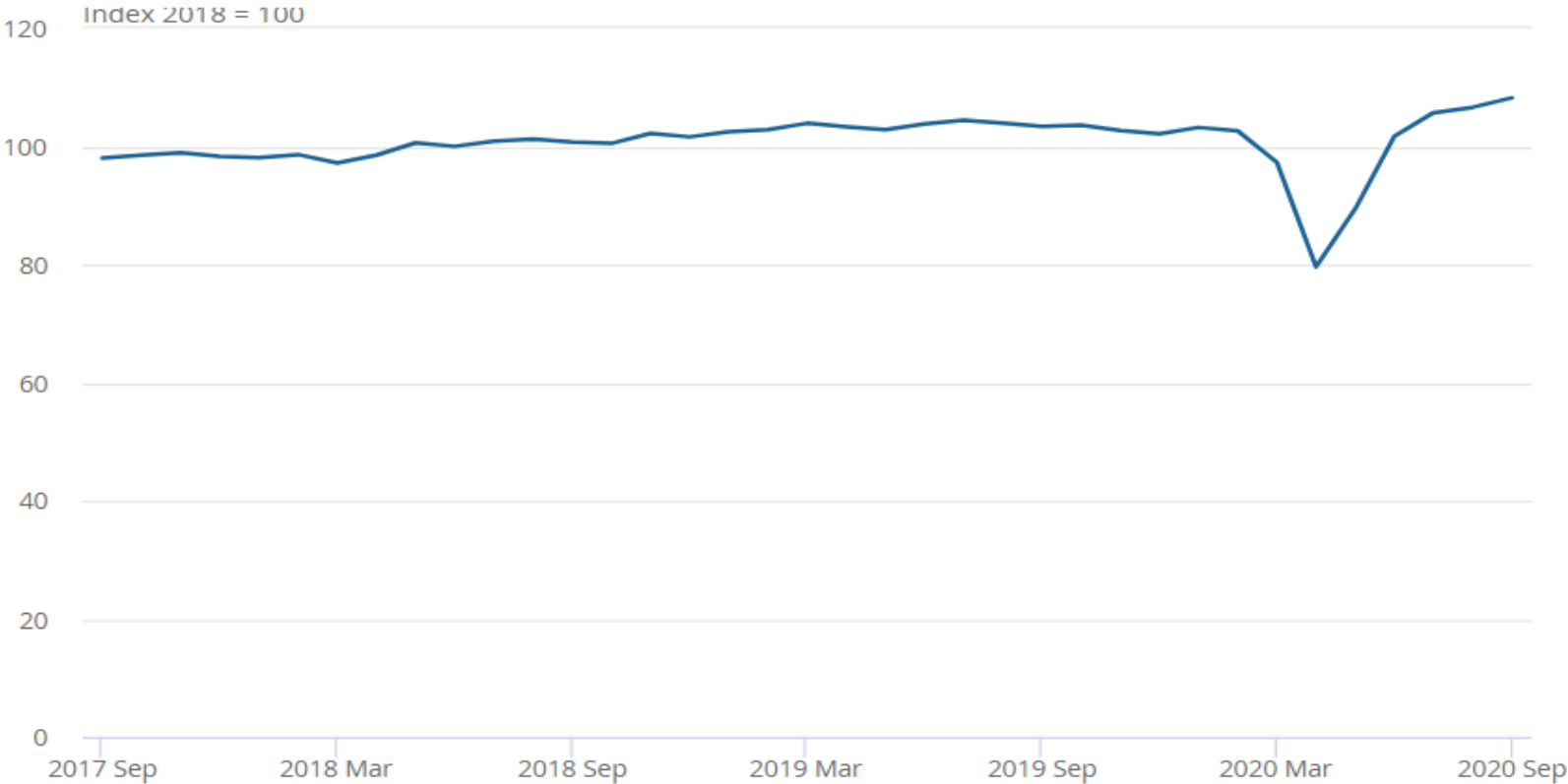
# UK purchasing managers' surveys suggested a V-shaped bounce



Sources: IHS Markit, CIPS, Office for National Statistics.

# Retail sales are also a V

Volume sales, seasonally adjusted, Great Britain, September 2017 to September 2020

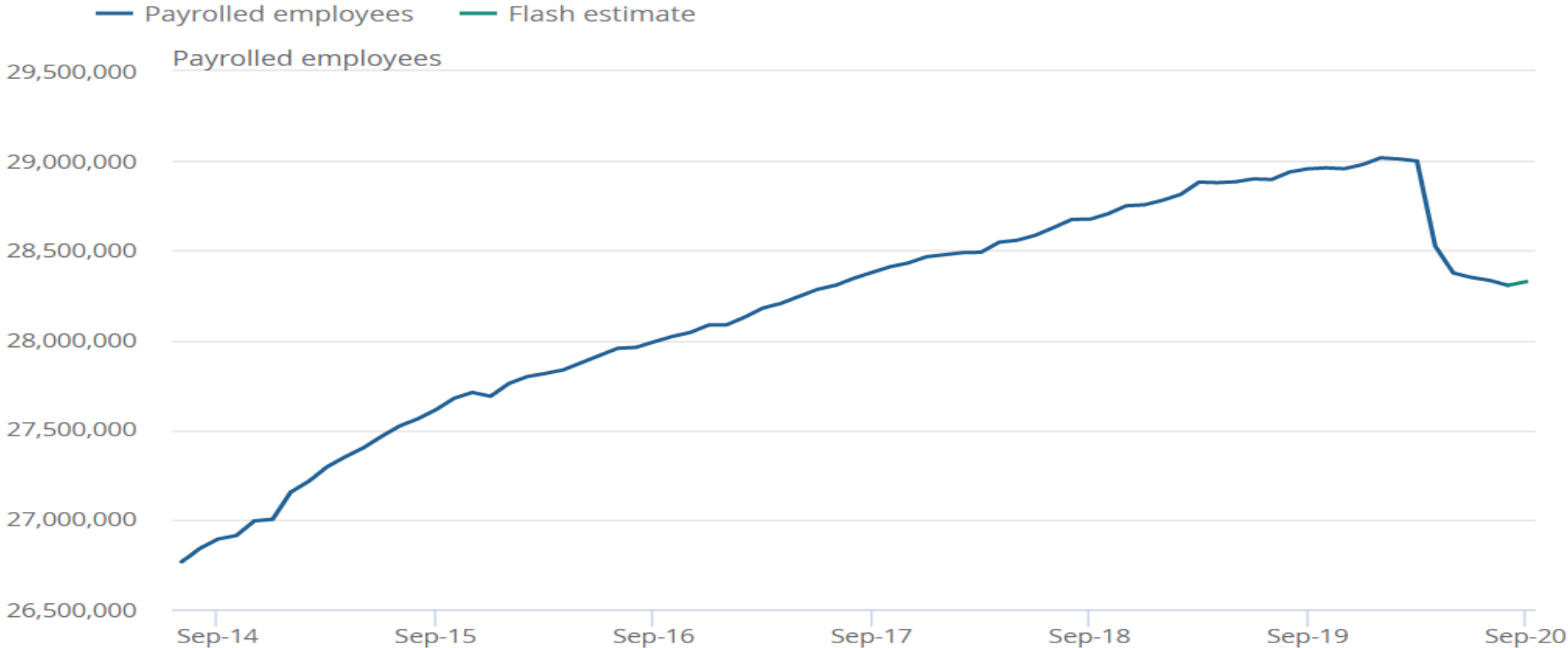


# The bounce was quite logical

- This the deepest recession in modern times – GDP down 19.8% in Q2 – and perhaps 11% for 2020 as a whole, but also the shortest.
- Downturn concentrated in March and April, from which recovery has occurred as lockdown is eased.
- But a new downturn this month, from lockdown, though not as big as the first.

# But employment has fallen sharply

**Payrolled employees, seasonally adjusted, UK, July 2014 to September 2020**





# And the new lockdown is a huge threat

- The new national lockdown, announced by Boris Johnson on Halloween, is a huge risk to recovery. If it lasts only until December 2, the damage is containable – about a 5% hit to GDP – if longer the economy is in trouble, and even next year's recovery begins to look like a less than solid prospect.
- The current surge of infections, which is also hitting economic activity in Europe, and causing new lockdowns, needs to abate.
- A big post-furlough increase in unemployment is another key risk.
- So, of course, is a no-deal Brexit.

Rishi has tried to ride to the rescue



# With winter economic plan(s)

- Like Boris Johnson's lockdown U-turn, Rishi Sunak has U-turned by keeping the 80% furlough scheme in place during the new national lockdown. It may have to be around for longer.
- For now it replaces the revised Job Support Scheme in which employees of demand-affected firms need to work 20% of normal hours, paid by employers. For the remainder, employees will receive two-thirds (66.67%) of normal pay for hours not worked, the employer paying 5%, the government 61.67%.
- The VAT cut (the 5% VAT rate on hospitality) has been extended to March – but not much use to businesses which can't trade.
- **A further six-month mortgage holiday.**
- Extending the term on bounceback and business interruption loans from six to 10 years.

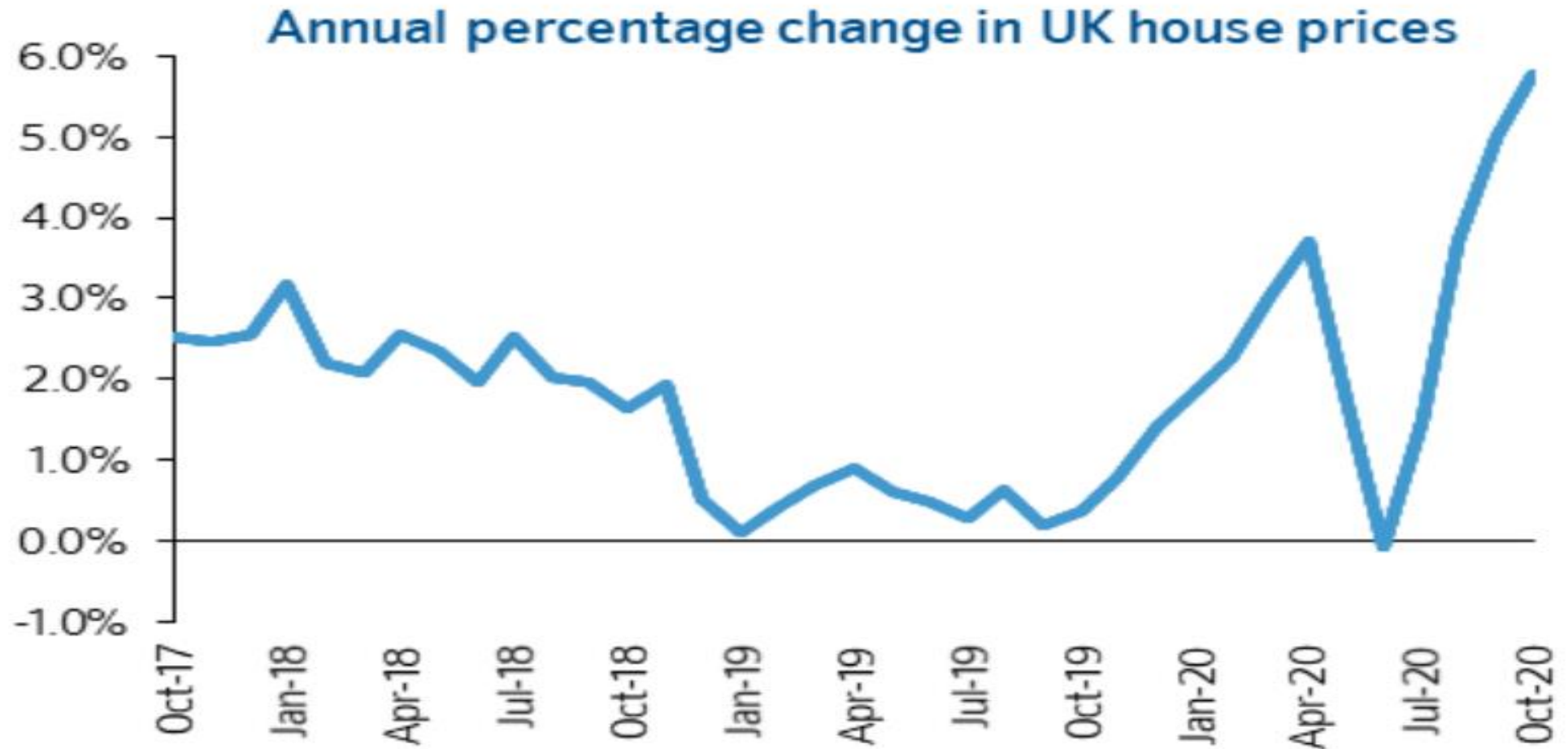
# But even he admits unemployment will rise

“Our economy is now likely to undergo a more permanent adjustment. The sources of our economic growth and the kinds of jobs we create, will adapt and evolve to the new normal.

“As I've said throughout this crisis, I cannot save every business. I cannot save every job. No Chancellor could.”

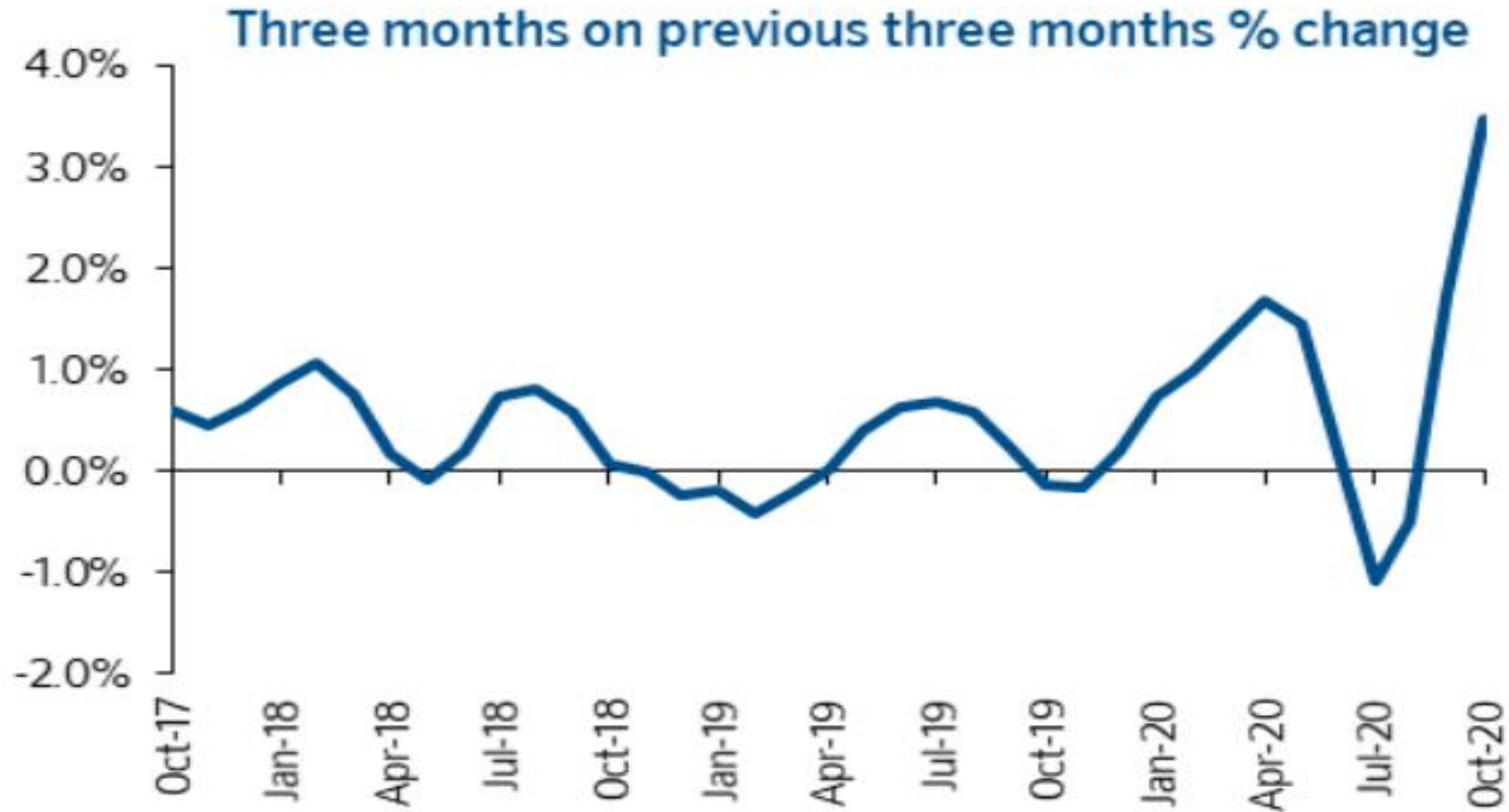
**Winter Economic Plan Commons statement, September 24 2020**

# In spite of which, a strong revival in house prices



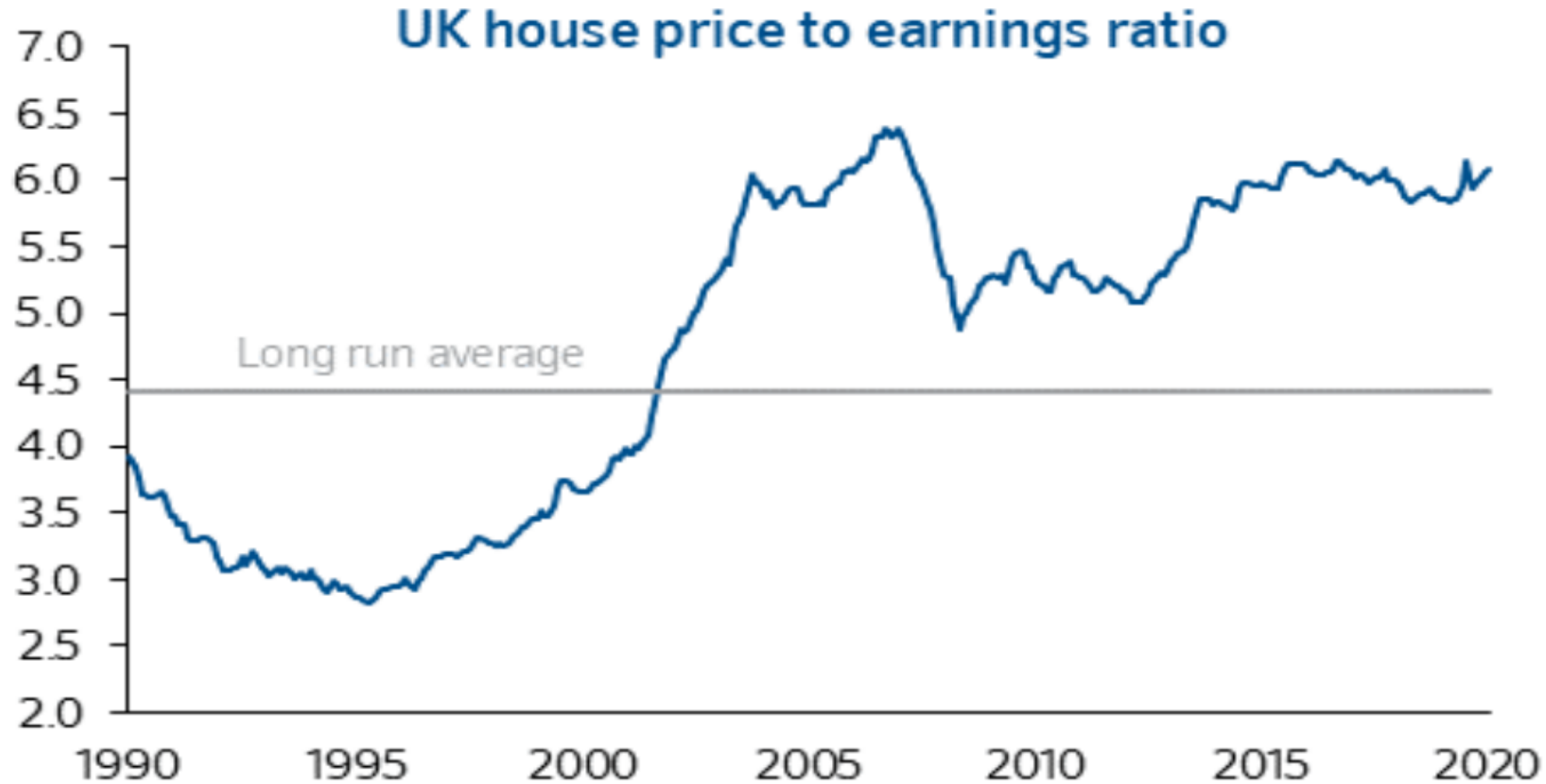
Source: Nationwide

# Only partly as a catch-up from the first lockdown



Source: Nationwide

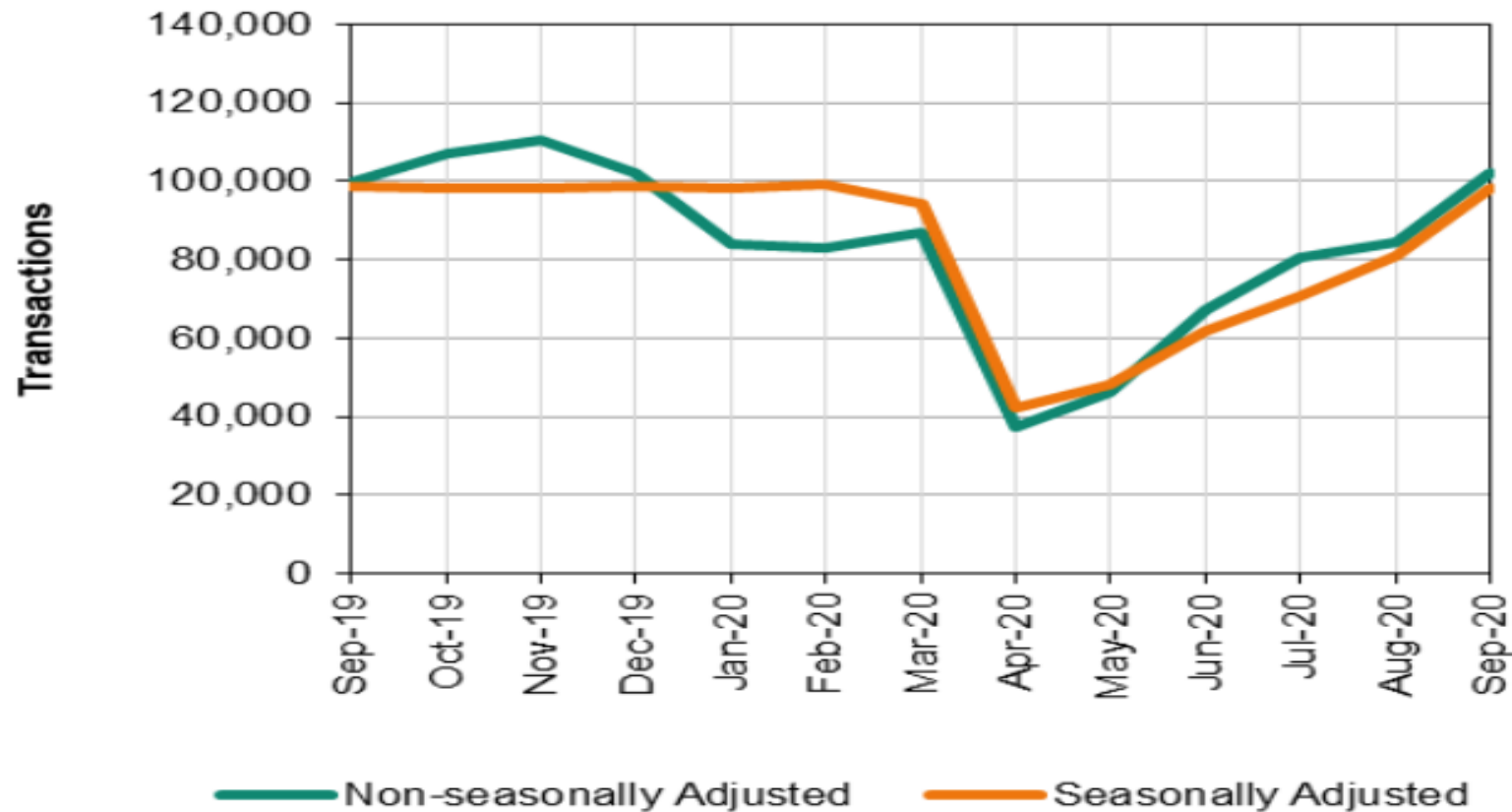
# The house price earnings ratio is steady



Source: Nationwide, ONS

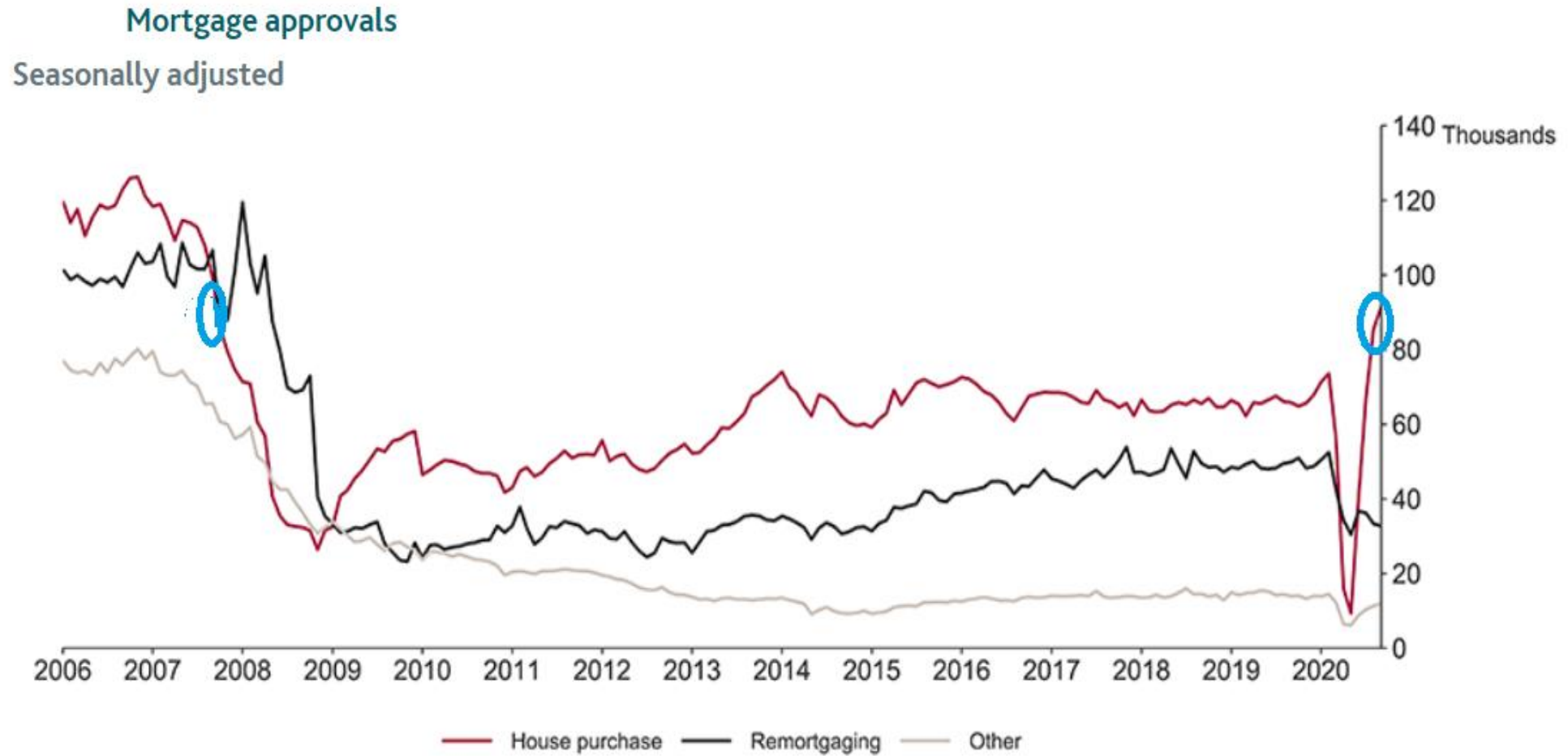
# Transactions are up as well

Total UK residential property transactions by month.



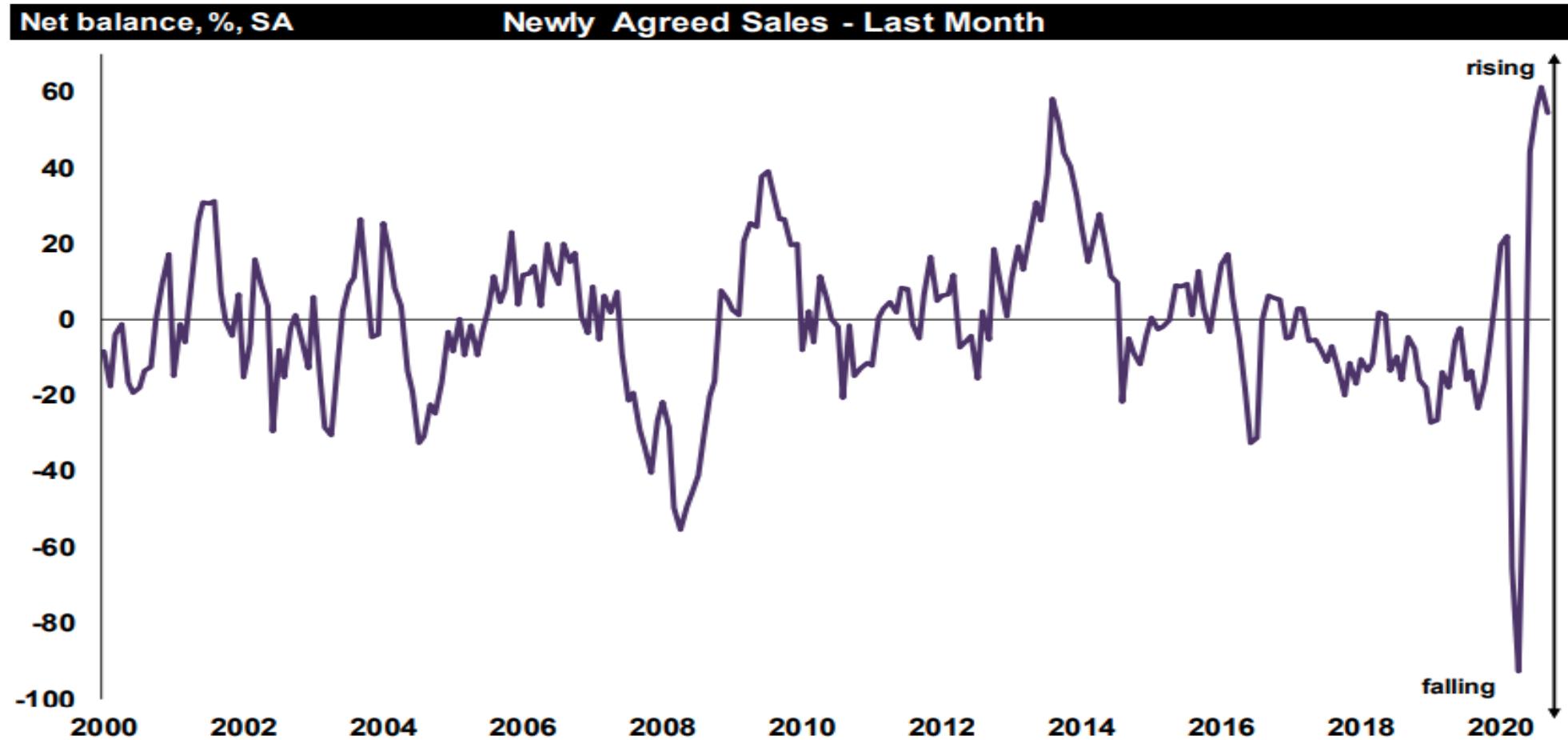


# As are mortgage approvals



# And even the RICS' survey is upbeat

National Newly Agreed Sales - Past month



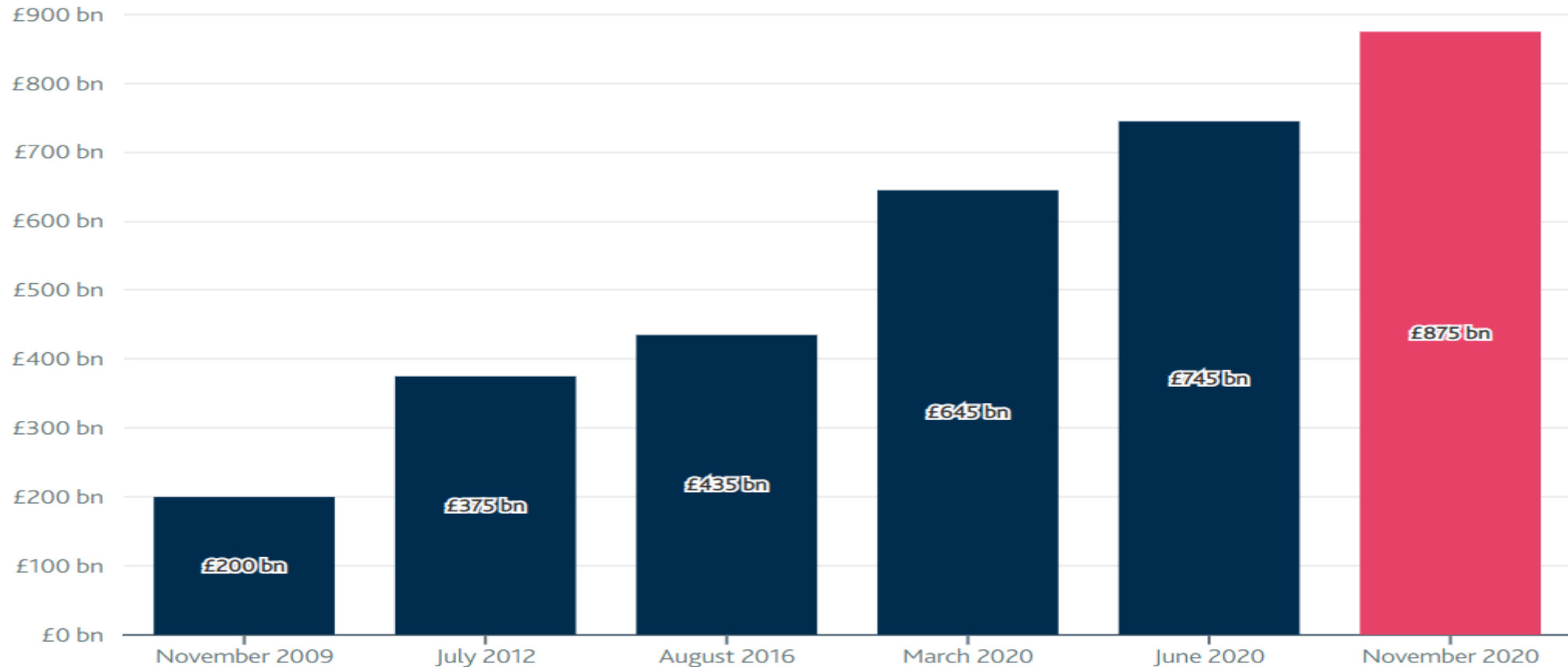
# Can it last?

- Stamp duty cut, introduced in response to the spring slump in transactions, has been vital and could be extended beyond March 31.
- Unemployment rise so far concentrated among those in their early to mid 20s and over-65s, not core home-buying age groups.
- Additional government measures will limit the overall unemployment rise.
- Housing market will slow over the winter but unlikely to go into sharp reverse.

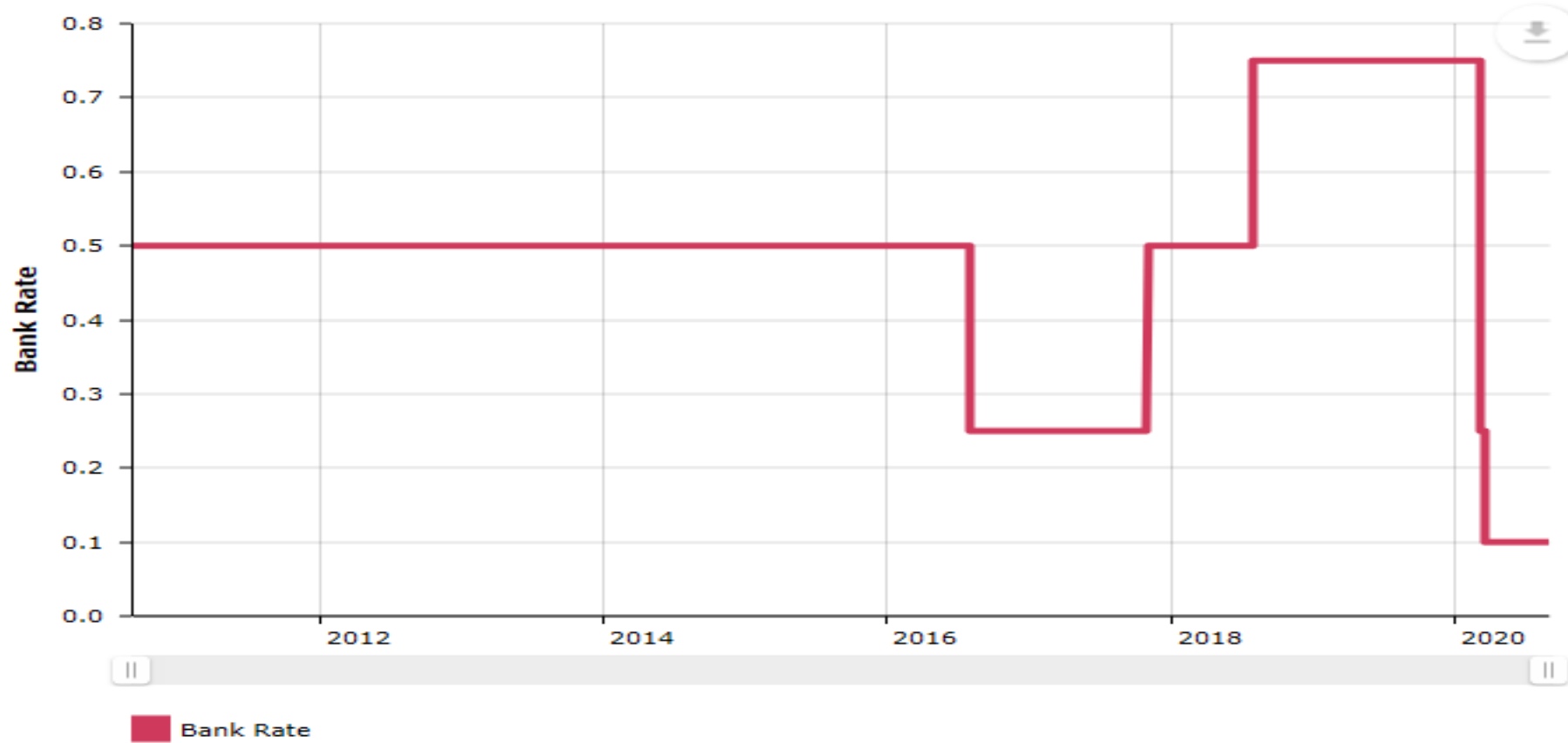
## 2. There's been a lot more QE

### We have been increasing the amount of Quantitative Easing

Bank of England purchases of government bonds in £ billion



# Bank Rate is just 0.1%



# And negative interest rates are part of the toolkit



**Andrew Bailey:** “I think there is a close relationship between the effectiveness of negative interest rates and the structure of the banking system, particularly the amount of retail funding. And also, the point in the economic cycle at which they have been used in different countries.”

“Looking at that and looking at our situation, it makes sense to say: Look, we need as many tools in the box as we can get at the moment because obviously, we are in a constrained position with interest rates as low as they are.”

# What will happen?

- More QE announced this month - £150bn and more is possible.
- It will happen if the economy shows signs of faltering after the new lockdown.
- Negative interest rates much less likely, rightly in my view. Should be seen very much as a last resort.



3. Will we see a tax bombshell from Rishi Sunak?



# He wasn't keeping it a secret



## Sunak plans triple tax raid on the wealthy

Budget to hit pensions, second homes and businesses

Tim Shipman Political Editor

Treasury officials are drawing up plans for a £30bn tax raid on the wealthy, businesses, pensions and foreign aid - to plug a hole in the nation's finances caused by the coronavirus crisis.

Under proposals that are due to face the criticism of the budget by November, the government is planning to raise both capital gains tax and corporation tax.

Under Sunak, the chancellor, is also considering a proposal to increase corporation tax from 19% to 24%, a move that would raise £2.8bn a year, rising to £3.8bn in 2023/24, but would put the government on a collision course with businesses and the public.

Sunak will argue that 24% is the global average rate for the business and would still be lower than other developed economies such as Germany, France, Italy and Spain.

Treasury officials are also examining ways of squeezing cash from the foreign aid budget. As a result of COVID-19, £2.5bn has already been cut from the £5.8bn due to be paid out in foreign aid this year. Going further could mean repealing legislation that dictates the UK spends 0.7% of national income on overseas development.



**NEW TERM, NEW TROUBLES**  
POLITICS, PAGES 12-13

opment. A source said: "Fordin all being considered as well."

The budget blueprint would force people to pay capital gains at the same rate they pay income tax, a move that would raise up to £3.1bn a year from the better off.

That would mean second home owners and those who own buy to let properties paying capital gains tax at 40% or 45% instead of the current 28% when they sell these properties. Family businesses that

lose off company dividends rather than a salary would also see their rates rise. However, the changes would not affect a family's main home.

Sunak entered a review in July of how to obtain capital gains and income tax, an official revealed.

When Jerome Corbyn's Labour proposed taxing capital gains and dividends as income at the last election, the move was voted at 54% by the Institute for Fiscal Studies. Labour also proposed raising business tax to 26%. The Tories would both.

Senior Conservatives say Sunak is now resigned to unveiling a number of "socialist" measures to try to get control of the public finances. "The political reality is that the only place you can get the money is from the better off. The policy does this would be popular," a Tory ally said.

Treasury officials are also working on plans to cut billions from pension tax relief, which helps those paying higher rates of income tax save for their retirement at a beneficial rate. A plan to cut a single 70% flat rate relief was worked up by former chancellor

Continued on page 2 >

## BACK GARDEN CARNIVAL



Ms Morris preparing her costume for the Notting Hill carnival in west London, which has gone virtual for the first time in its 54 years. Events are being streamed on the carnival's website today and tomorrow

## Police have name of serial killer suspect

INSIGHT

A confidential report has named a prime suspect in the case of a potential serial killer who may have been straddling closely on the edge of the mid-1990s.

The report, written by the senior counter-terrorism officer for the British, raises serious concerns about the case that it believes could have involved double murders.

In each, police ruled that the husband had murdered their wives before taking their own lives. The report's findings are being reviewed by Cheshire police, which has contacted two other forces.

A male suspect is identified by name in the report. He lives in the north but cannot be named for legal reasons and strongly denies any involvement.

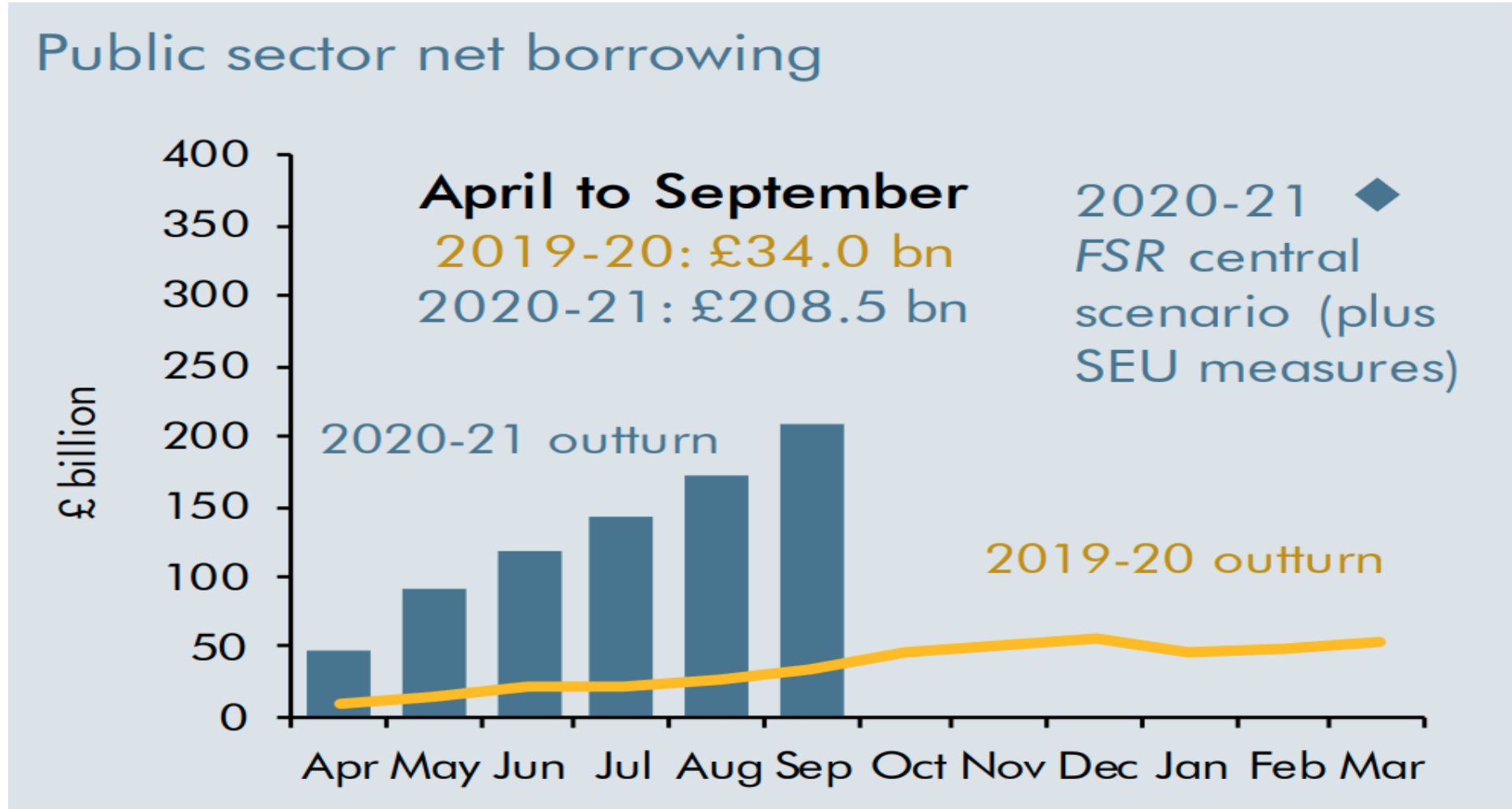
The report has reviewed police files on the first two double killings, which took place in 1990 and 1991 in two miles apart in Winslow. The deaths of Ismael and his 16-year-old daughter and her 16-year-old son were found at Inquests to be murder suicides.

The report also calls for a review of three further cases in the north west, including that of Michael and Victoria Higgins, who were found dead at their home in Etkybury, Manchester, in 2003.

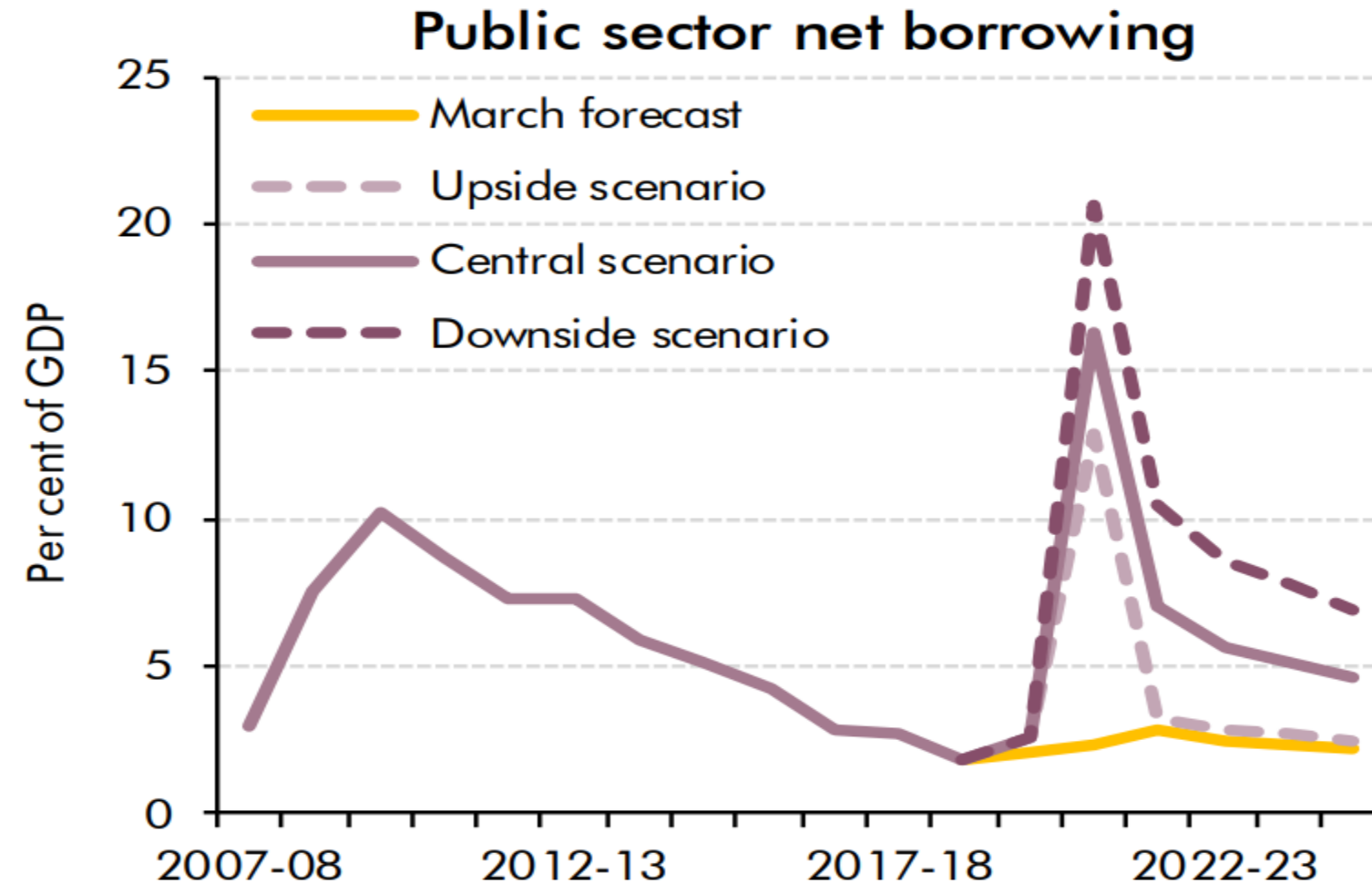
Last week, the family released a statement saying Michael had advanced Parkinson's disease and could not have physically carried out such a violent attack.

Cheshire police sources said the case had gone "right to the top" of the organisation since the Sunday Times revelations last week about

# Government borrowing is huge this year



# And will take time to come back down



Source: ONS, OBR

# Sunak believes in sound money

“We cannot, will not and must not surrender our position as the party of economic competence and sound money. If we argue that there is no limit on what we can spend, that we can simply borrow our way out of any hole, then what is the difference between us and the Labour Party?”

**September 2 , 2020**

# But he is constrained

- Tory manifesto, December 2019, ruled out increases in the the big taxes – income tax, VAT and National Insurance.
- Tory MPs have already made clear their opposition to tax hikes, including fuel duty, expensively frozen since 2011.

# What he would like to do

- Abandon the triple lock on pensions.
- Remove higher-rate pension relief, in favour of a flat rate of 30%, or even 20%.
- Increase corporation tax from 19 to 24%, over time.
- Tax capital gains as income

# What will he be allowed to do?

- Triple-lock looks politically difficult, ditching higher rate pension relief and increasing corporation tax easier.
- Capital gains tax hike would be seen as an attack on Tory-supporting entrepreneurs and landlords
- Either way, he will be under pressure not to increase taxes immediately, and to phase in any changes.

# And not this year

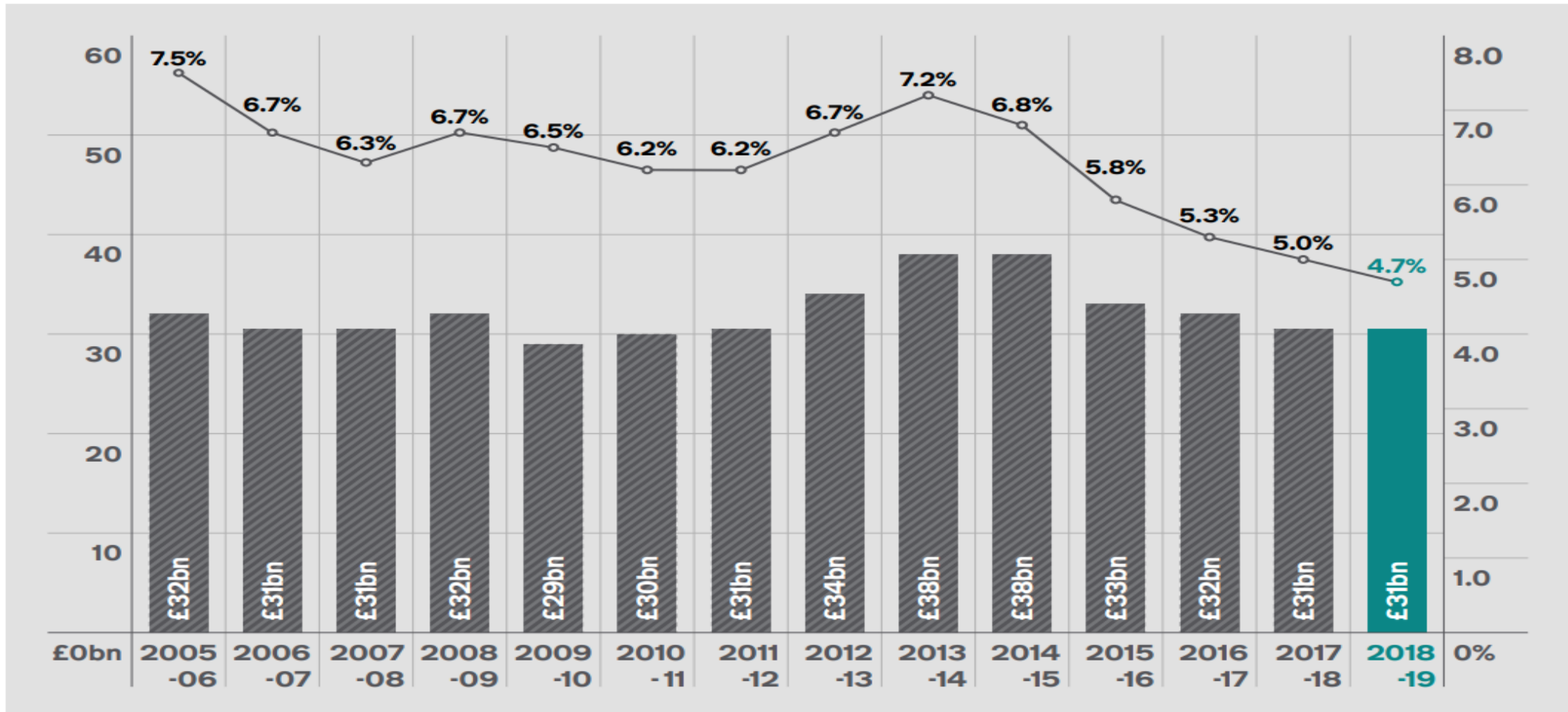
- No Budget in November, because of the virus, though there will be an official forecast and update of the public finances.
- Only a truncated version of the planned comprehensive spending review.





# So he'll want to close the tax gap

Tax gap and percentage of liabilities: tax years 2005 to 2006 up to 2018 to 2019



## 4. Don't forget about Brexit



# They said it would be easy

“The free trade agreement that we will have to do with the European Union should be one of the easiest in human history.

“We are already beginning with zero tariffs, and we are already beginning at the point of maximal regulatory equivalence, as it is called. In other words, our rules and our laws are exactly the same.” **Liam Fox, July 2017**



# Will there be a deal?

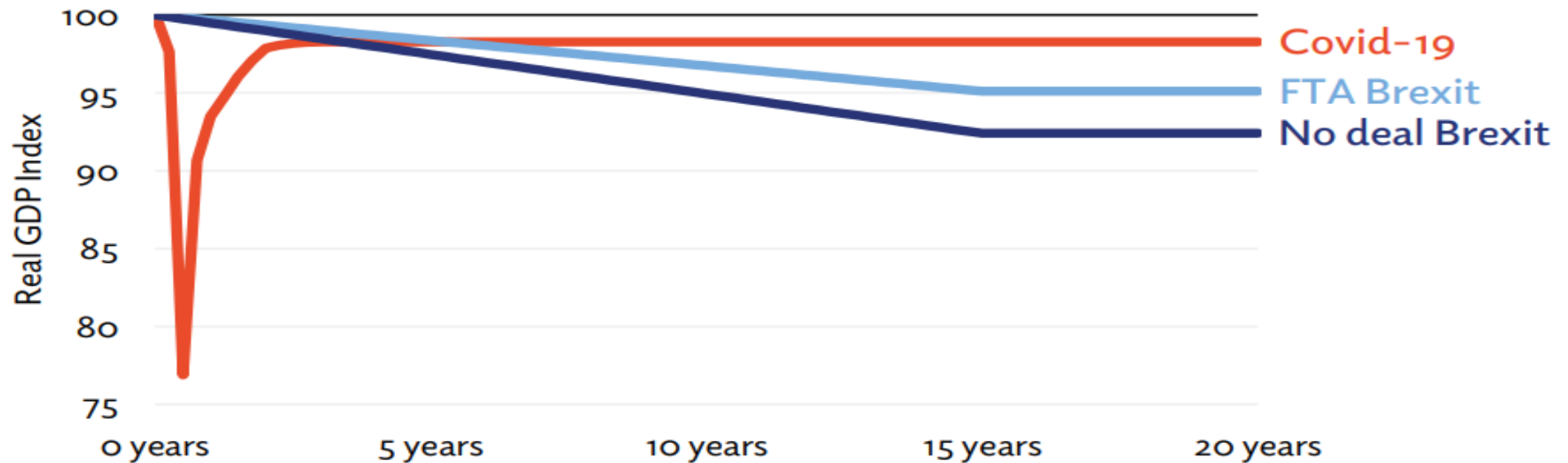
- Government's internal market bill looks to be a miscalculation.
- The chances of a deal are not zero, but they are lower than they were, but better than 50-50
- Both sides want a deal, and the government needs it more than the EU.
- Even if there is a deal, it will be a narrow one.

# We should worry about a no-deal Brexit

Covid-19 has led to a steep economic downturn, but Brexit risks causing longer term damage

Forecast impact of economic shocks to UK GDP over 20 years.

UK IN A  
CHANGING  
EUROPE



Source: UK in a Changing Europe and London School of Economics modelling.

# And not just because of disruption



# So it looks like a challenging autumn



But don't forget to count those skips

