

David Smith



THE SUNDAY TIMES

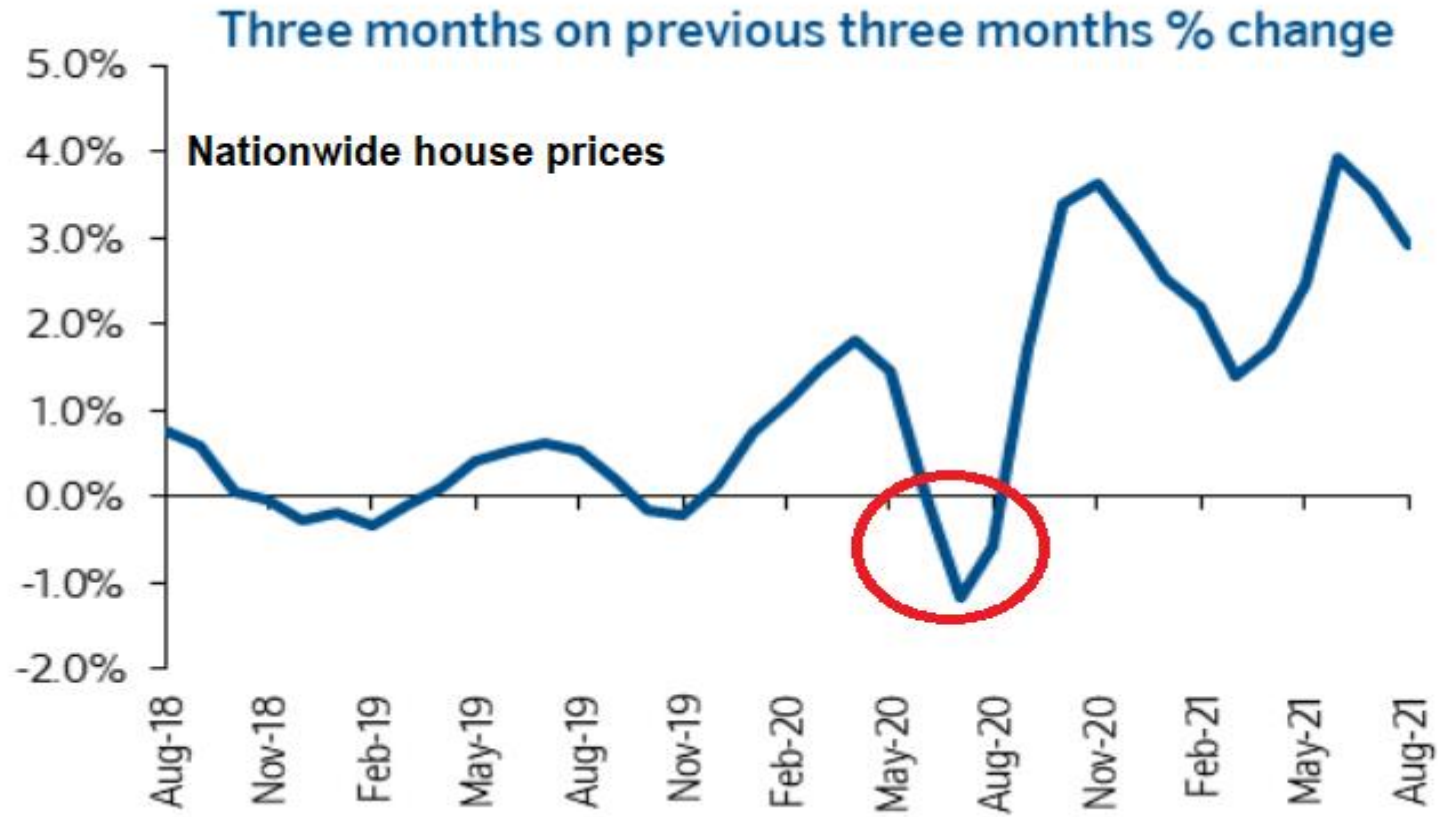
The Economic and Housing Outlook

**A surprising
pandemic story –
but what comes
next?**

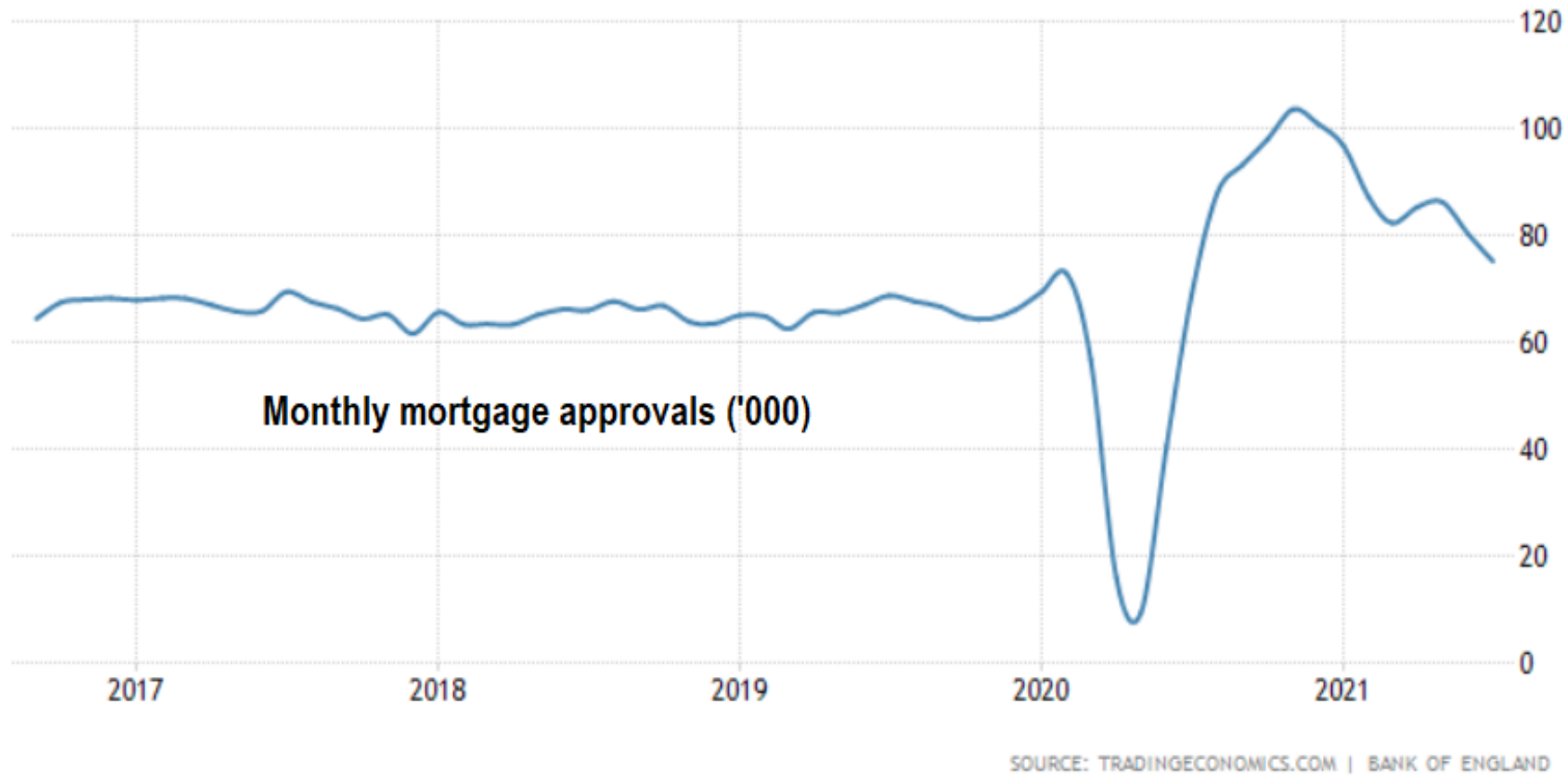
Remember spring last year, the first lockdown

- The housing market closed for transactions for weeks, as did many building sites.
- The Office for National Statistics suspended its house price index.
- Official projections suggested unemployment might be heading for four million, a record.
- A sustained housing slump seemed on the cards – hitting both prices and supply

Prices fell for a short while



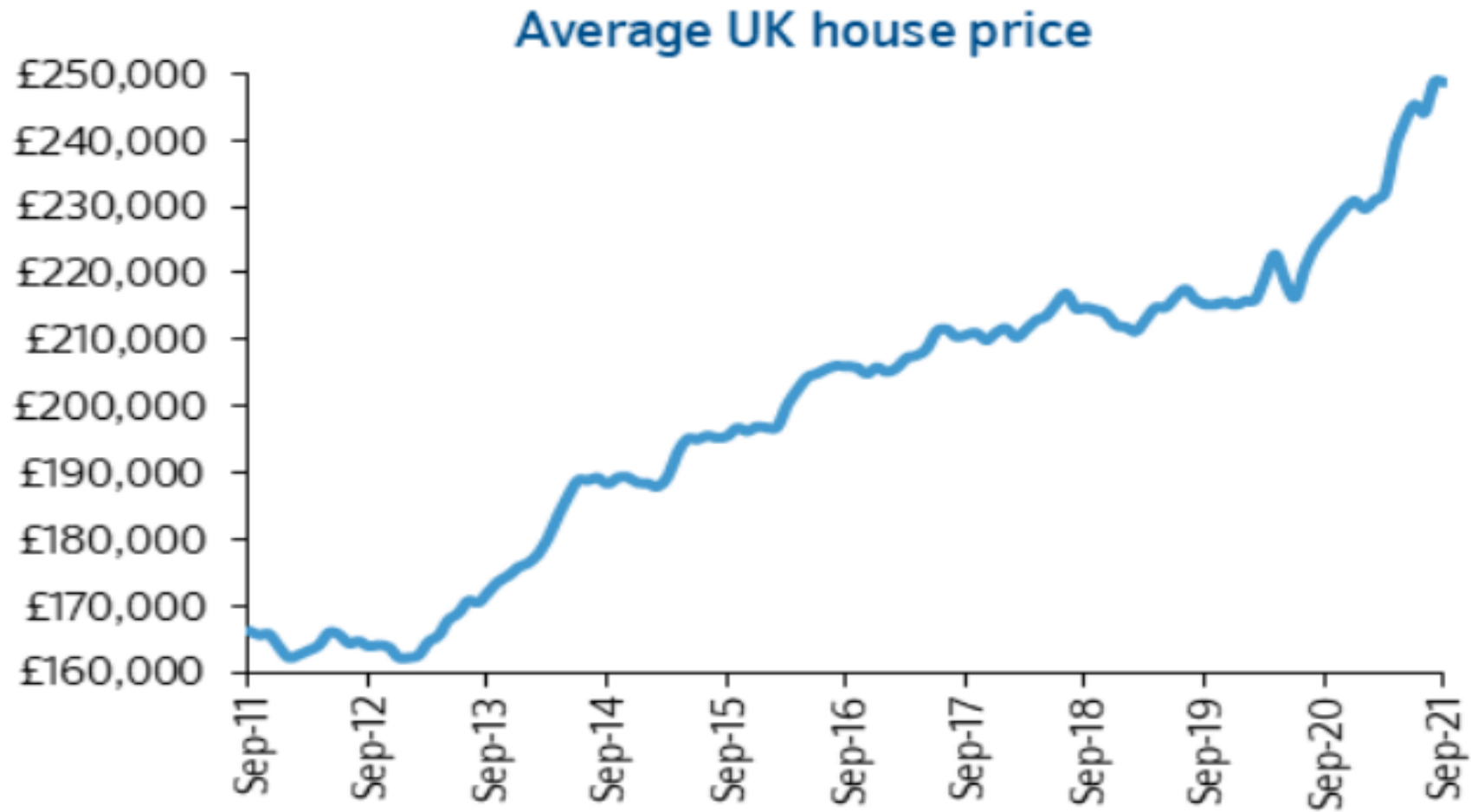
As did mortgage approvals



But then along came the cavalry

- Record low official interest rates – 0.1% - and £895 billion of quantitative easing (QE) announced.
- Rishi Sunak cut stamp duty in his July summer statement last year and, more questionably, extended it in his March Budget this year..
- When working from home, people surfed the online property portals, creating record traffic, and changed their property priorities.
- Huge amounts of involuntary savings – probably £150 billion now – built up, some of which found its way into deposits.
- The furlough scheme reduced worries about sky-high unemployment.

So the only way has been up for prices



Five questions

- Can the strong economic recovery continue, or is it already showing signs of petering out?
- How worried should we still be about Covid, not just in the UK but internationally?
- When will the Bank of England raise interest rates and start reversing its QE?
- Has Rishi Sunak done with tax hikes, or could there be more?
- What will this mean for housing?

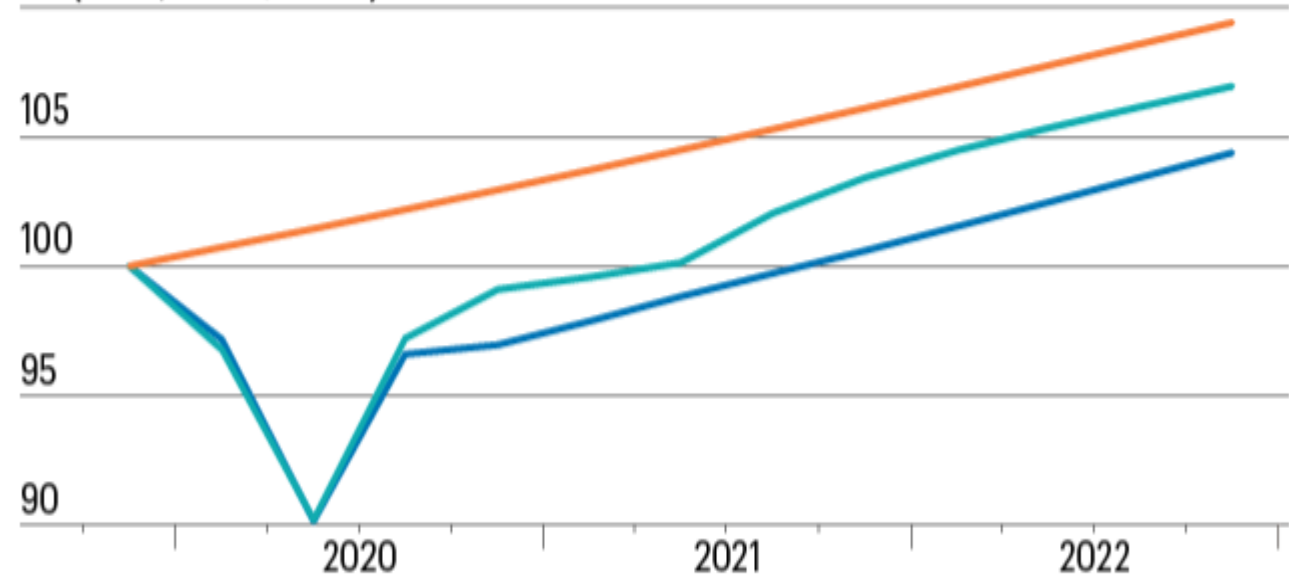
1. The world economy is recovering well

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World GDP

◆ November 2019 projection ◆ December 2020 projection ◆ September 2021 projection

110 (Index, 2019 Q4 = 100)



Source: OECD

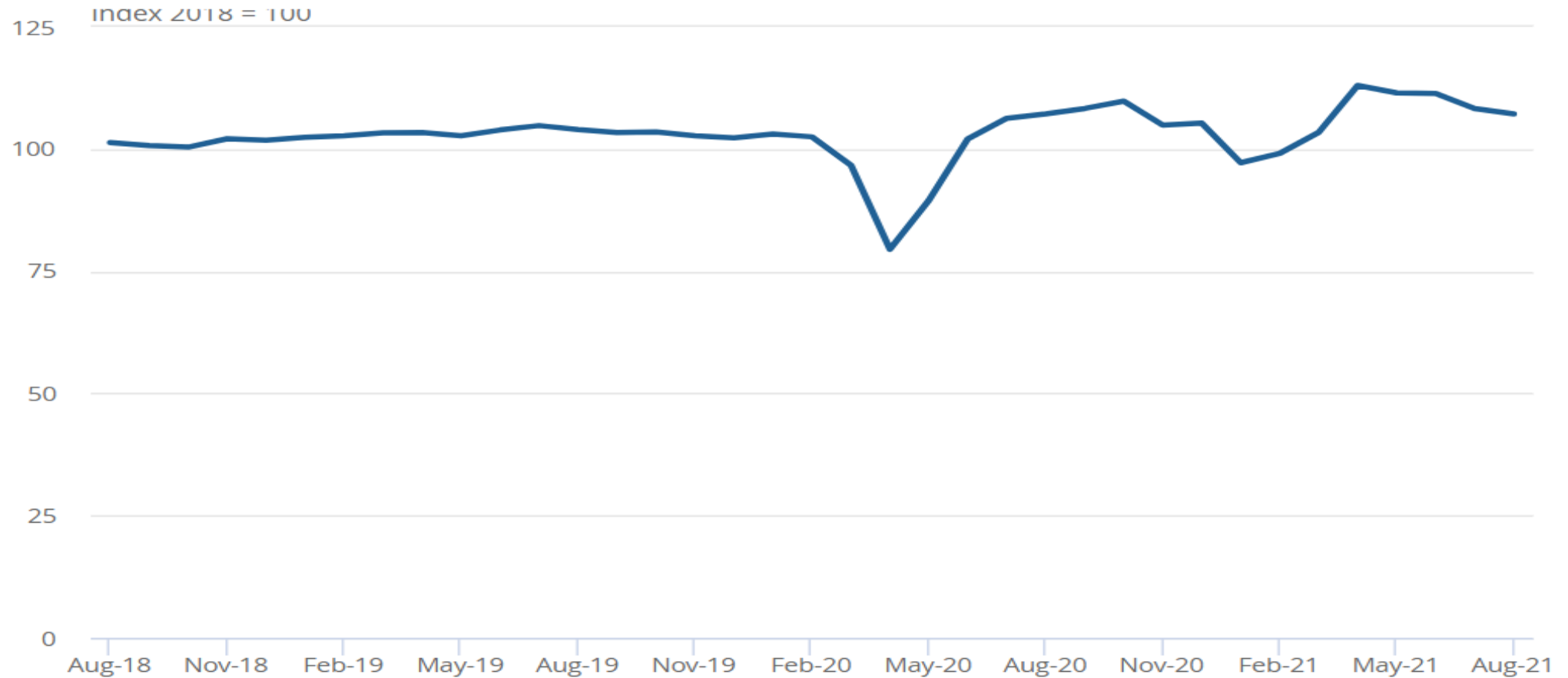
But for the UK the recovery is not complete

Monthly index, January 2007 to July 2021, 2018 = 100



Retail sales have lost momentum

Volume sales, seasonally adjusted, Great Britain, August 2018 to August 2021



As have the business surveys

Private sector output growth eases considerably since July

IHS Markit / CIPS UK Composite PMI Output Index

sa, >50 = growth since previous month



Sources: IHS Markit, CIPS, ONS.

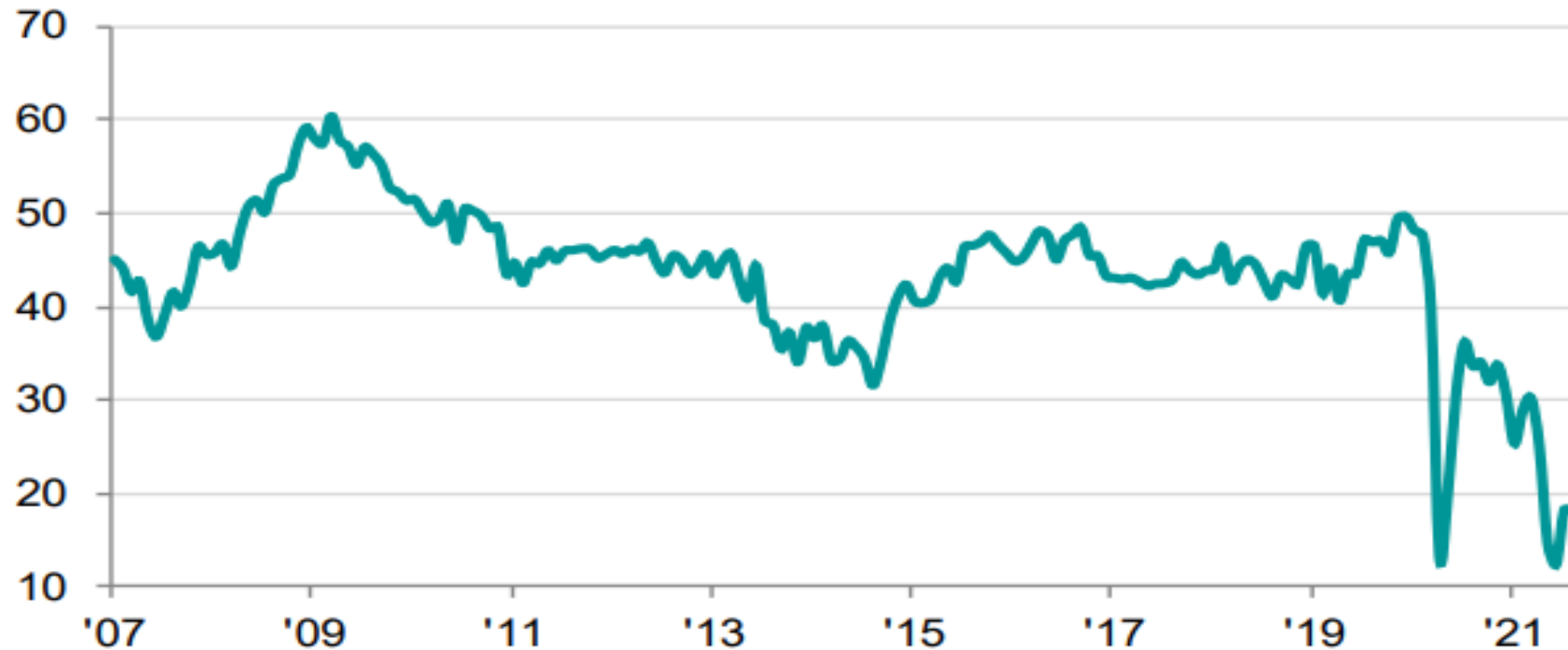
What's the problem?

- Supply shortages and labour shortages are causing problems for many sectors, though their impact should not be exaggerated. There's also a Brexit effect but its scale is uncertain.
- Consumer confidence is still quite muted, amid continued Covid fears, but the weakness of retail sales mainly reflects a shift to other spending. Still some worries about the end of the furlough scheme.
- Business investment has yet to embark on a sustained recovery. It is 15% below pre-Covid levels.

Delivery times are a problem in construction

UK Construction PMI Suppliers' Delivery Times Index

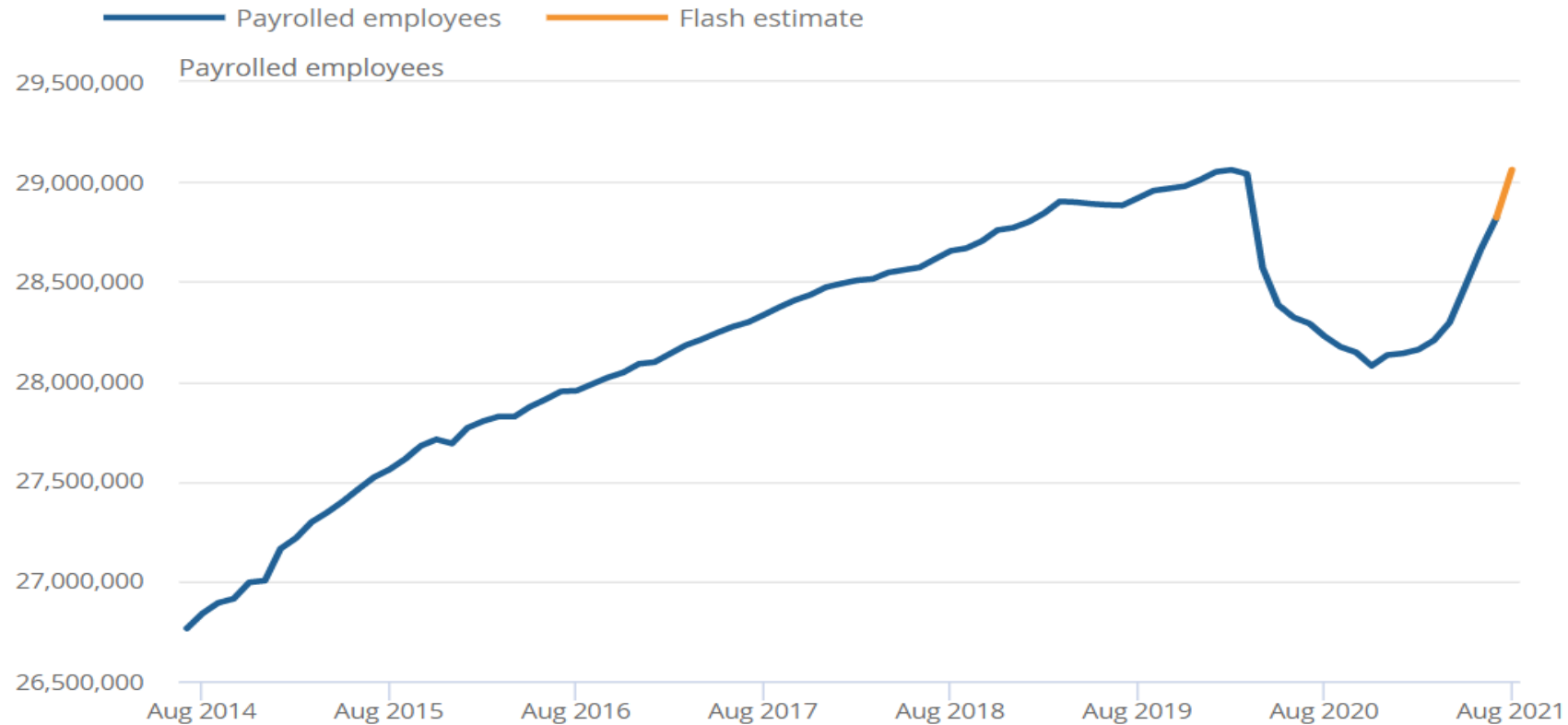
sa, >50 = faster times since previous month



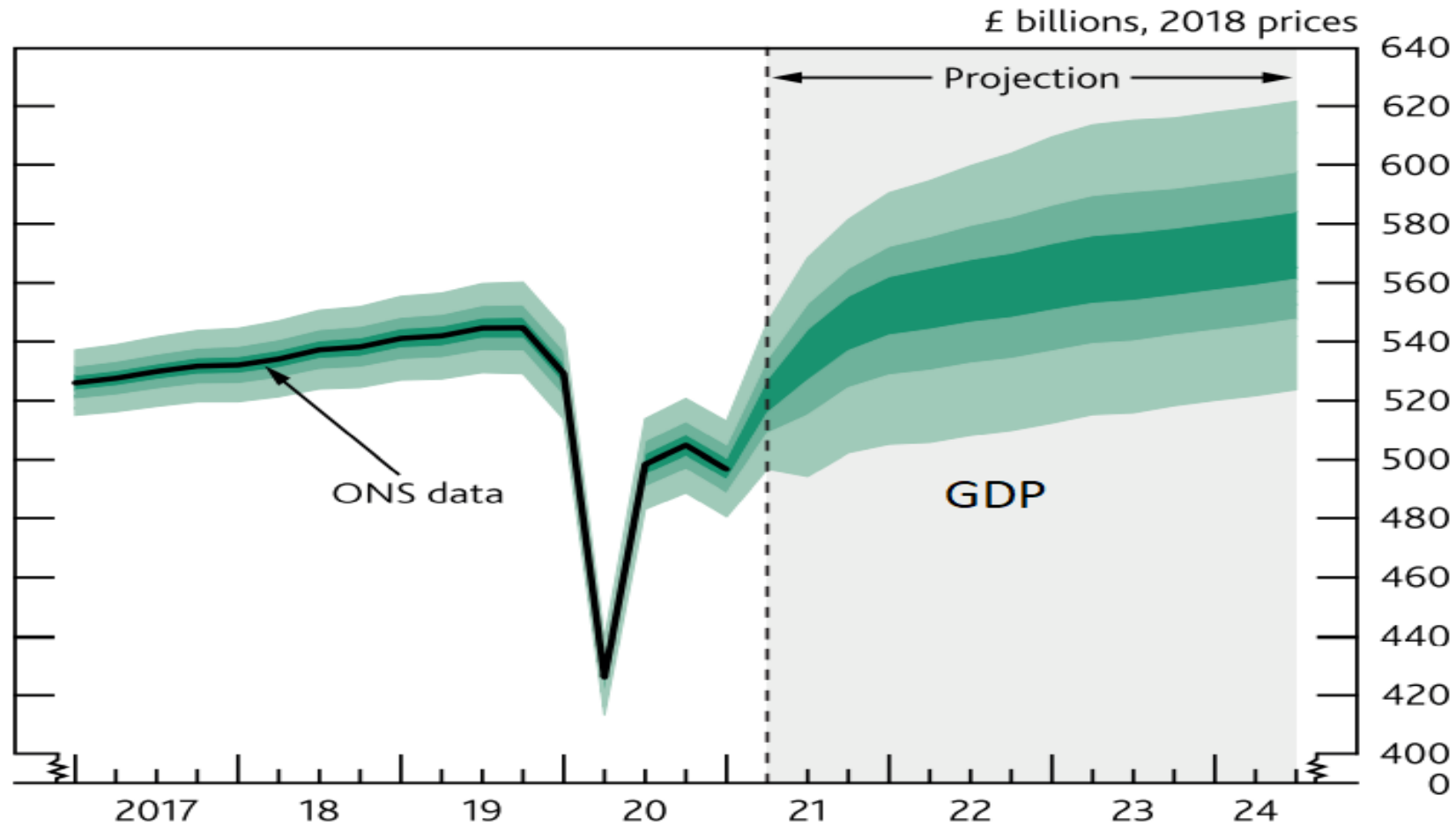
Sources: IHS Markit, CIPS.

But employment is rising strongly

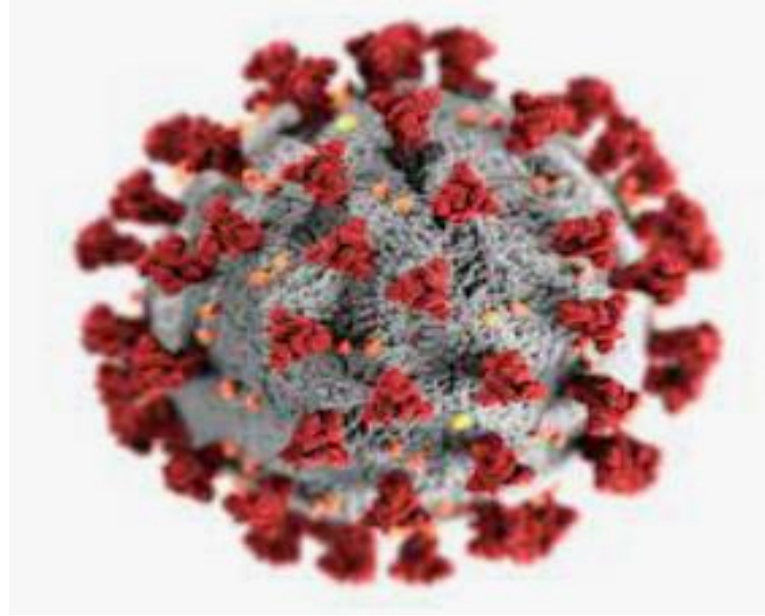
Payrolled employees, seasonally adjusted, UK, July 2014 to August 2021



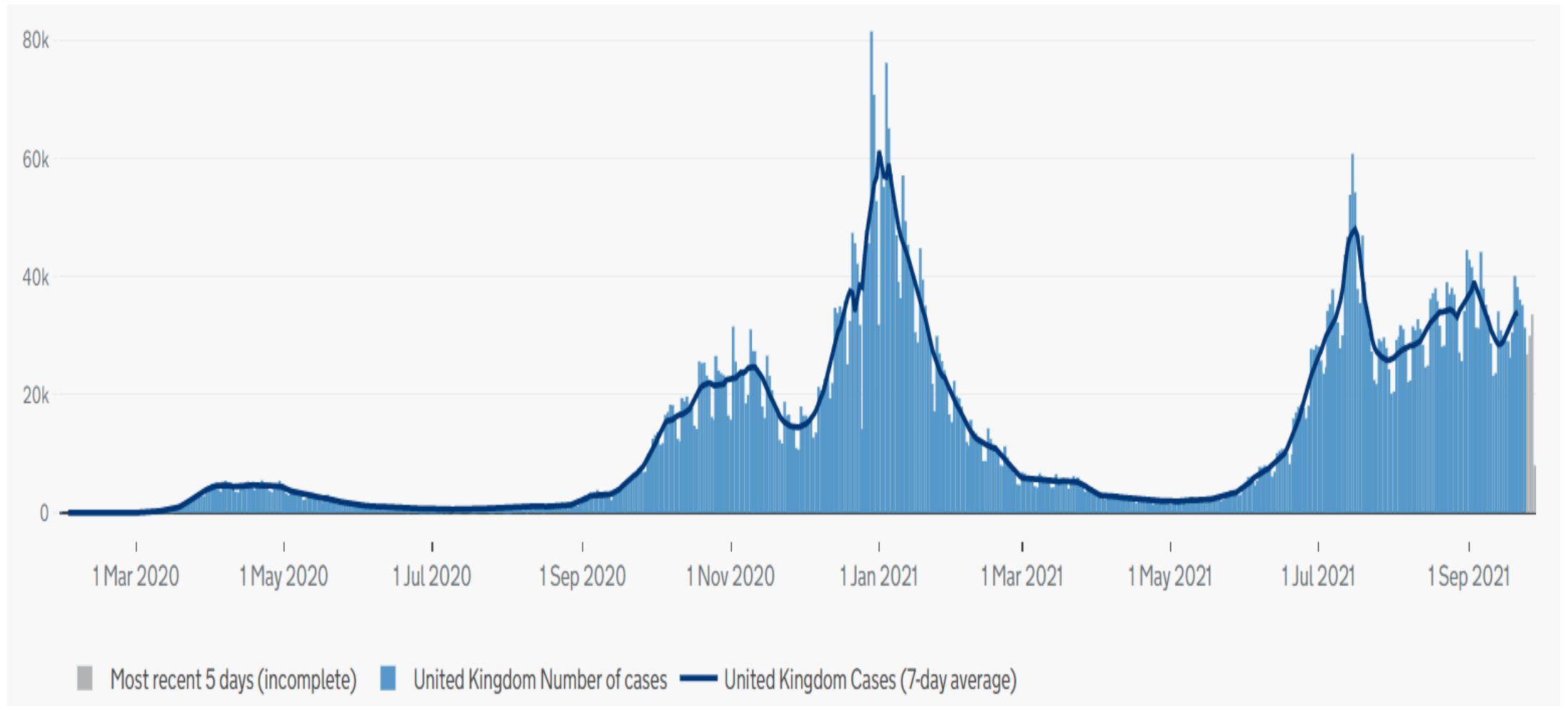
And the recovery should have plenty of legs



2. What about Covid?



The UK still has high case numbers



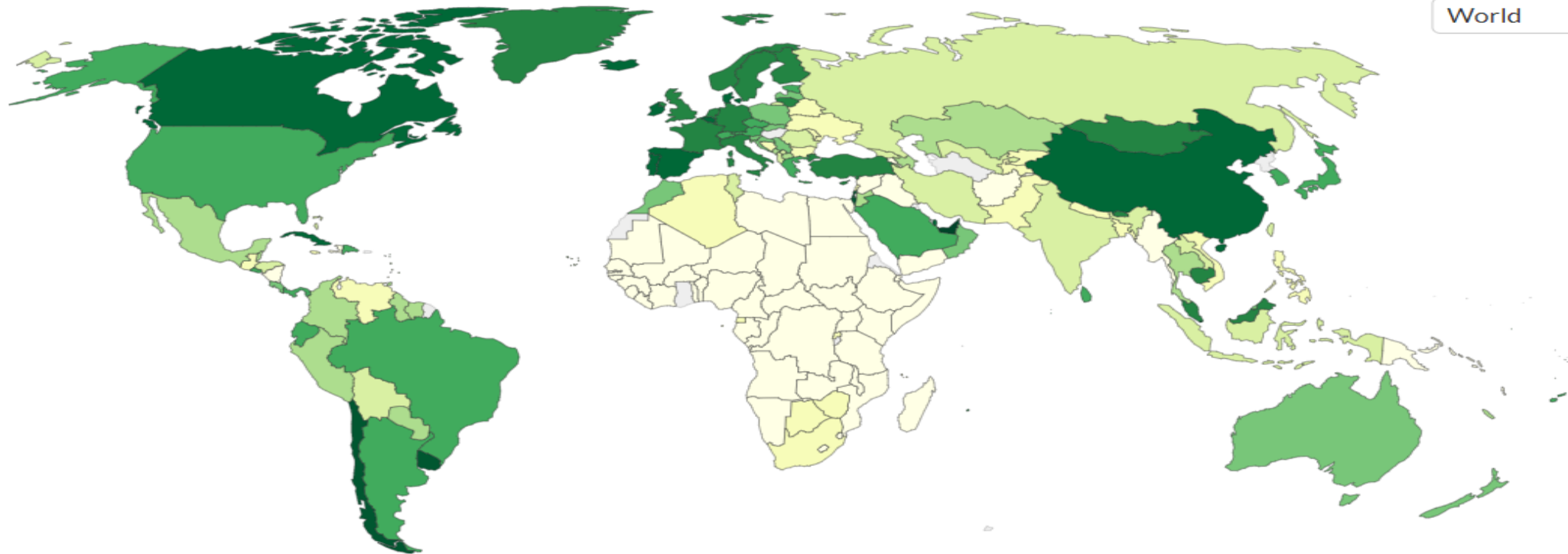
But the problem is with the unvaccinated elsewhere

COVID-19 vaccine doses administered per 100 people, Sep 17, 2021

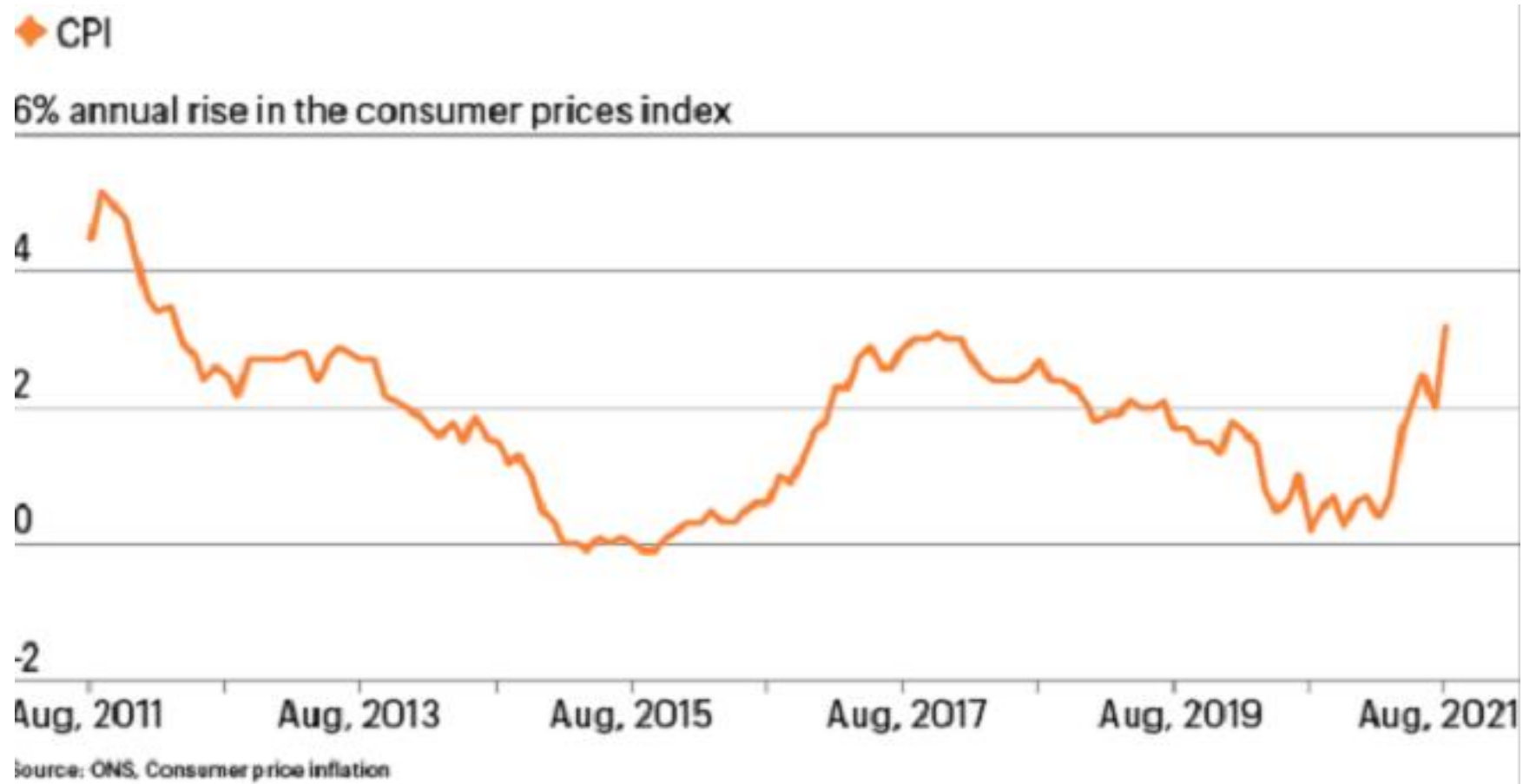
For vaccines that require multiple doses, each individual dose is counted. As the same person may receive more than one dose, the number of doses per 100 people can be higher than 100.

Our World
in Data

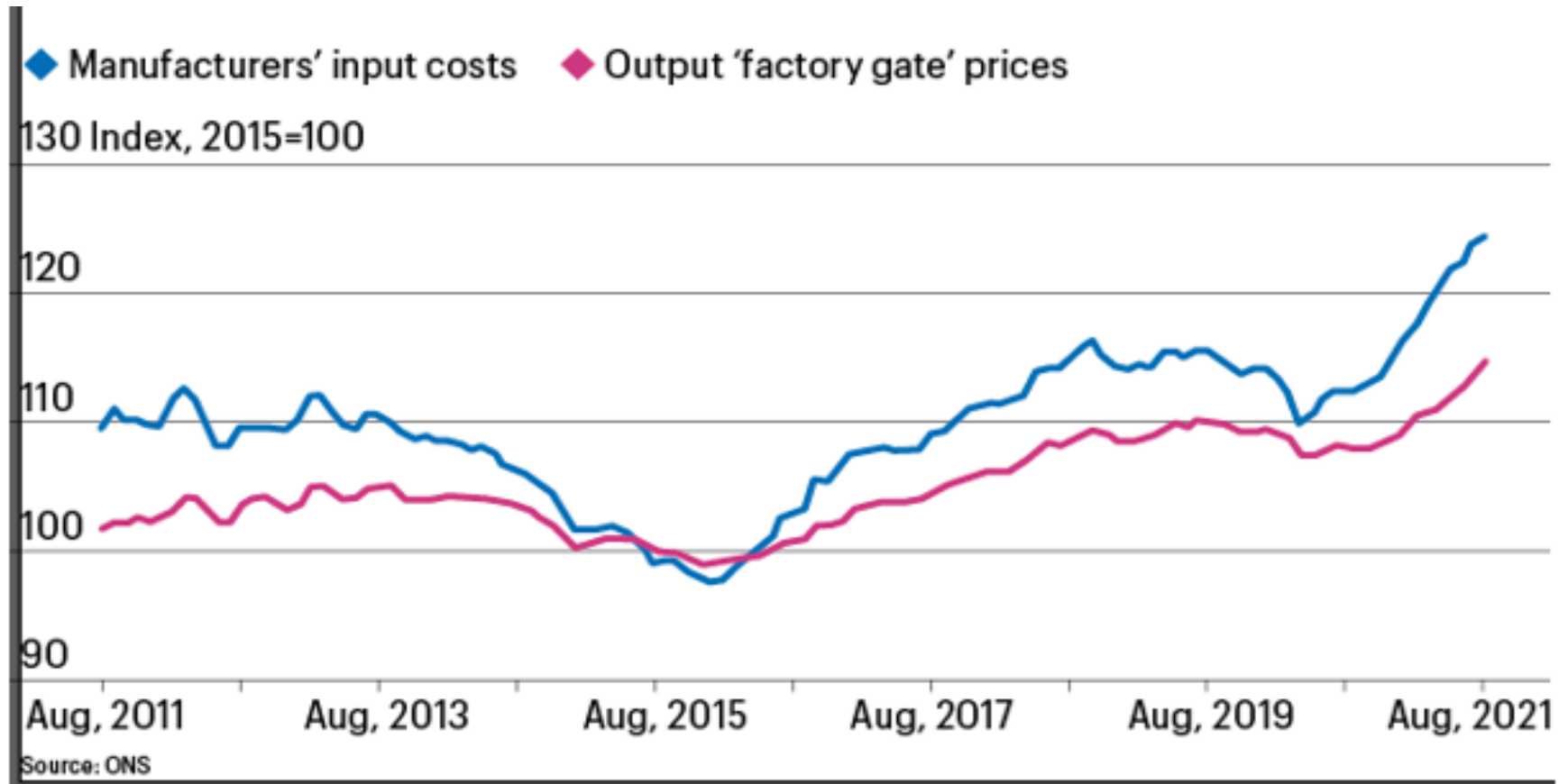
World



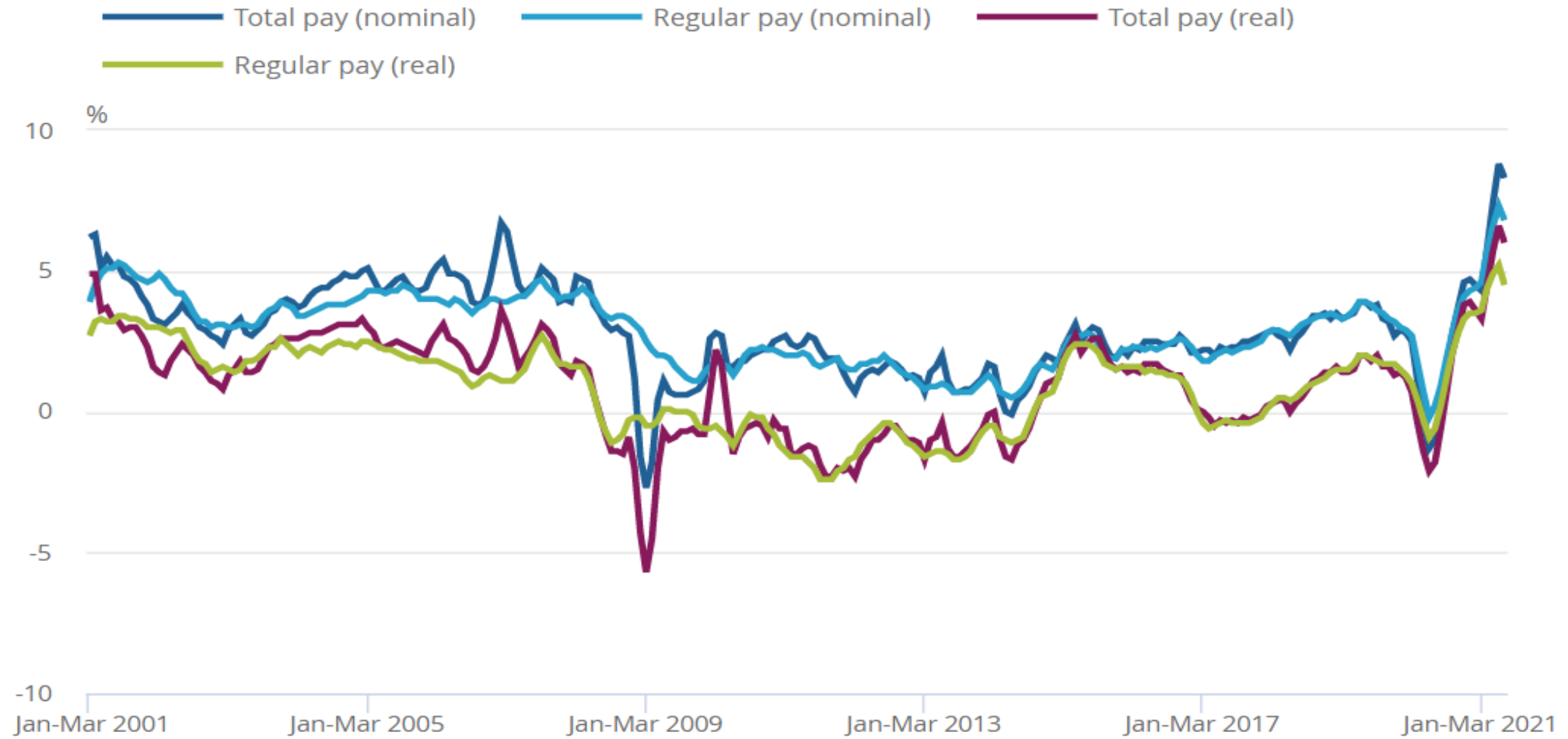
3. Inflation is rising



As are business costs and prices



And wages

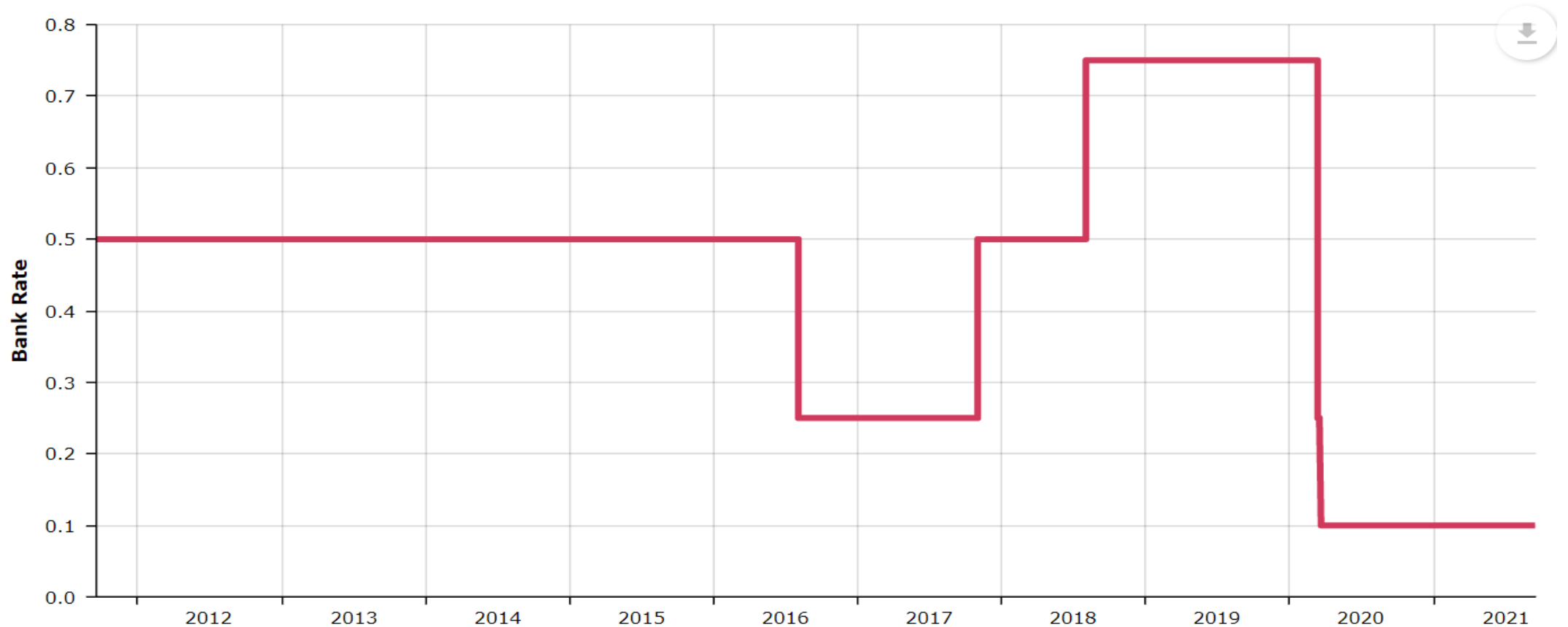


But the Bank of England will be slow to react

- It thinks that most of the increase in inflation coming through is temporary or 'transitory'. But it fears it will stick longer than it previously thought.
- It remains concerned about the vulnerability of the recovery.
- It sees little risk in delay as long as inflation expectations are 'well anchored'
- It does not want to convey panic to the markets, which could result in a sharp rise in bond yields.

So Bank Rate will rise, but not for a while

Official Bank Rate



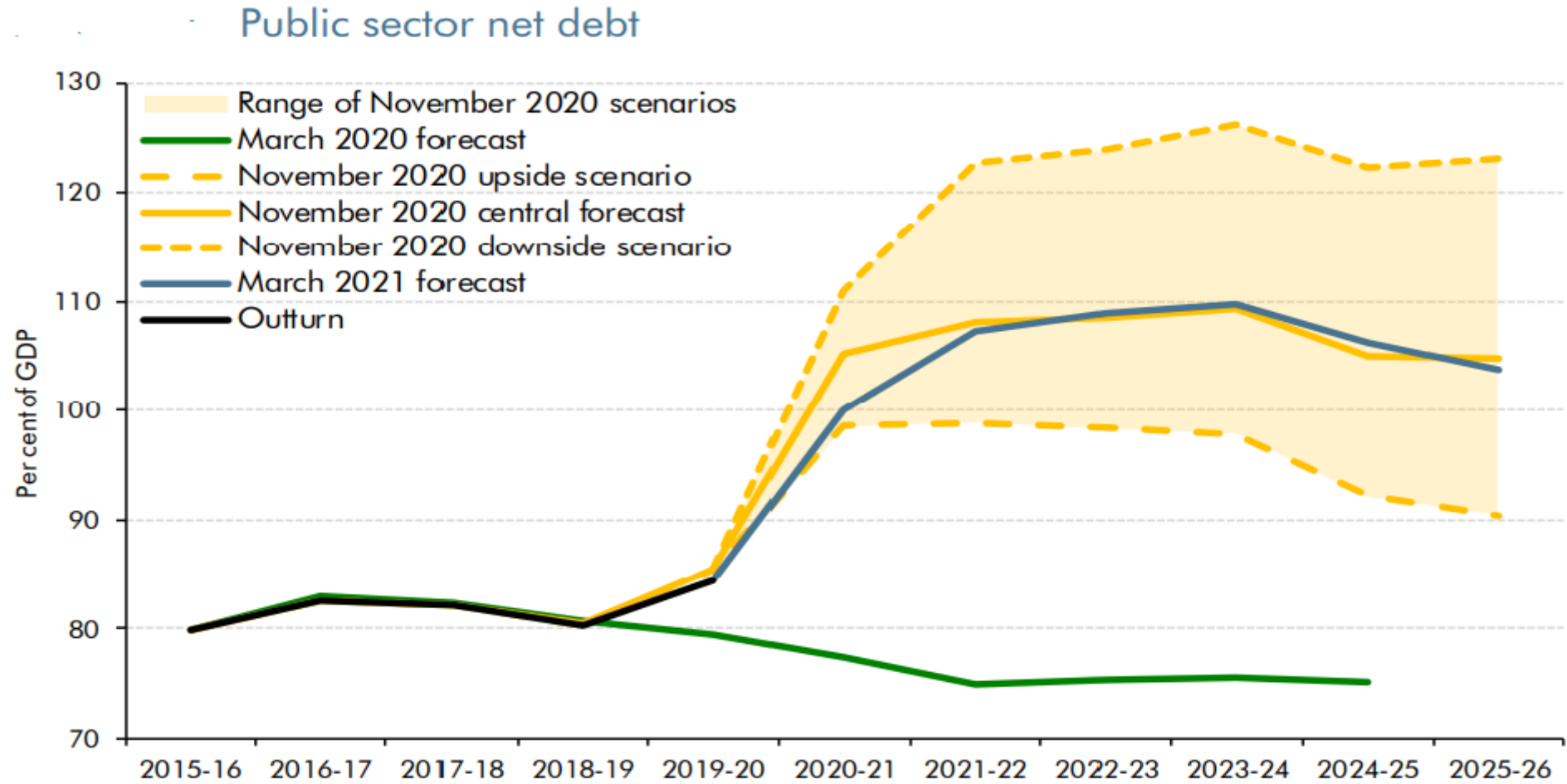


4. What taxes will Rishi Sunak raise next?

This has been an exceptional year for tax hikes

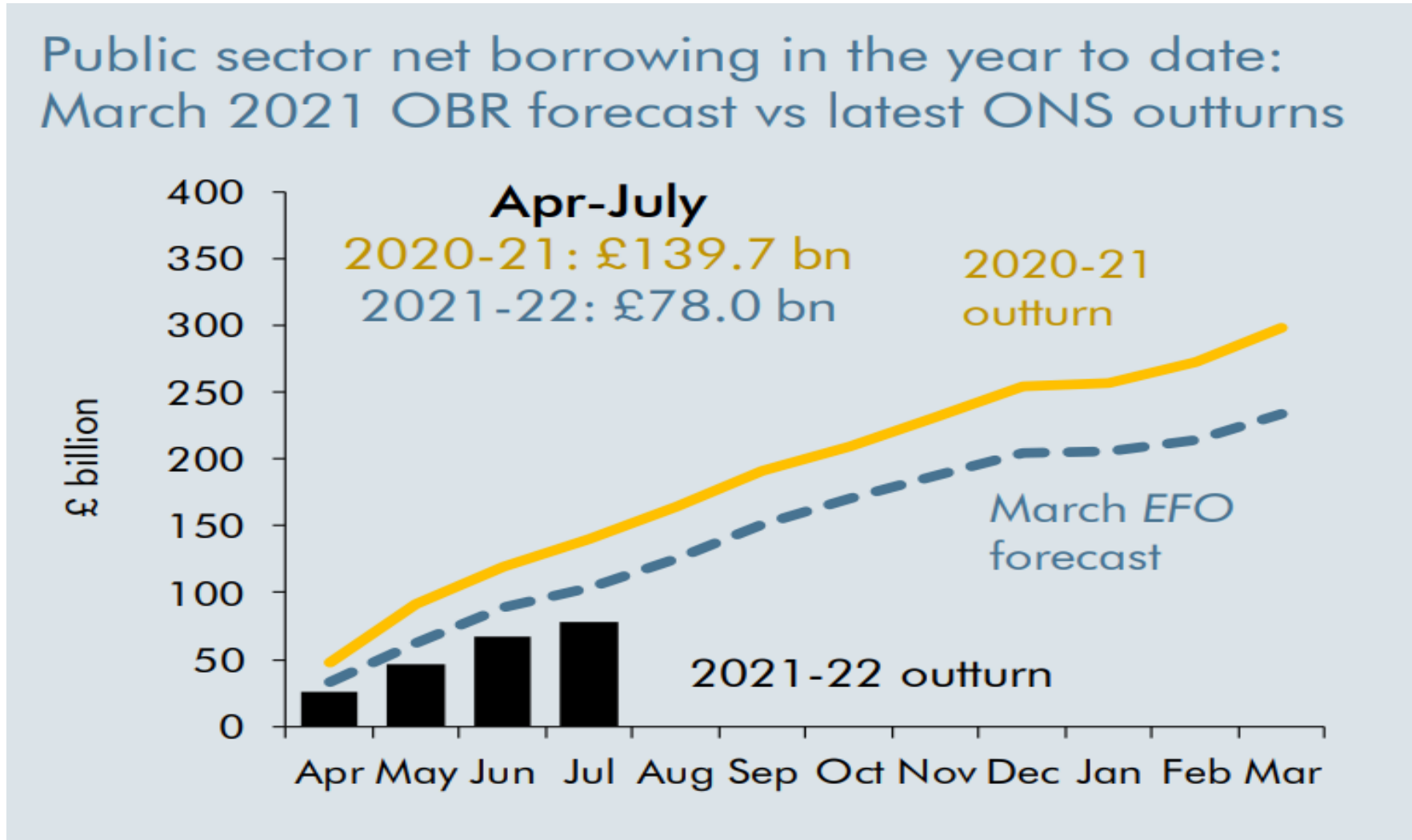
- Corporation tax up from 19% to 25%, though not until April 2023.
- Income tax allowances and thresholds frozen for four years from April 2022.
- National Insurance up from April next year, 1.25 points on employer and employee NICs.
- Adds up to a £36 billion annual tax hike, when fully implemented.

The chancellor wants to keep debt under control



Source: ONS, OBR

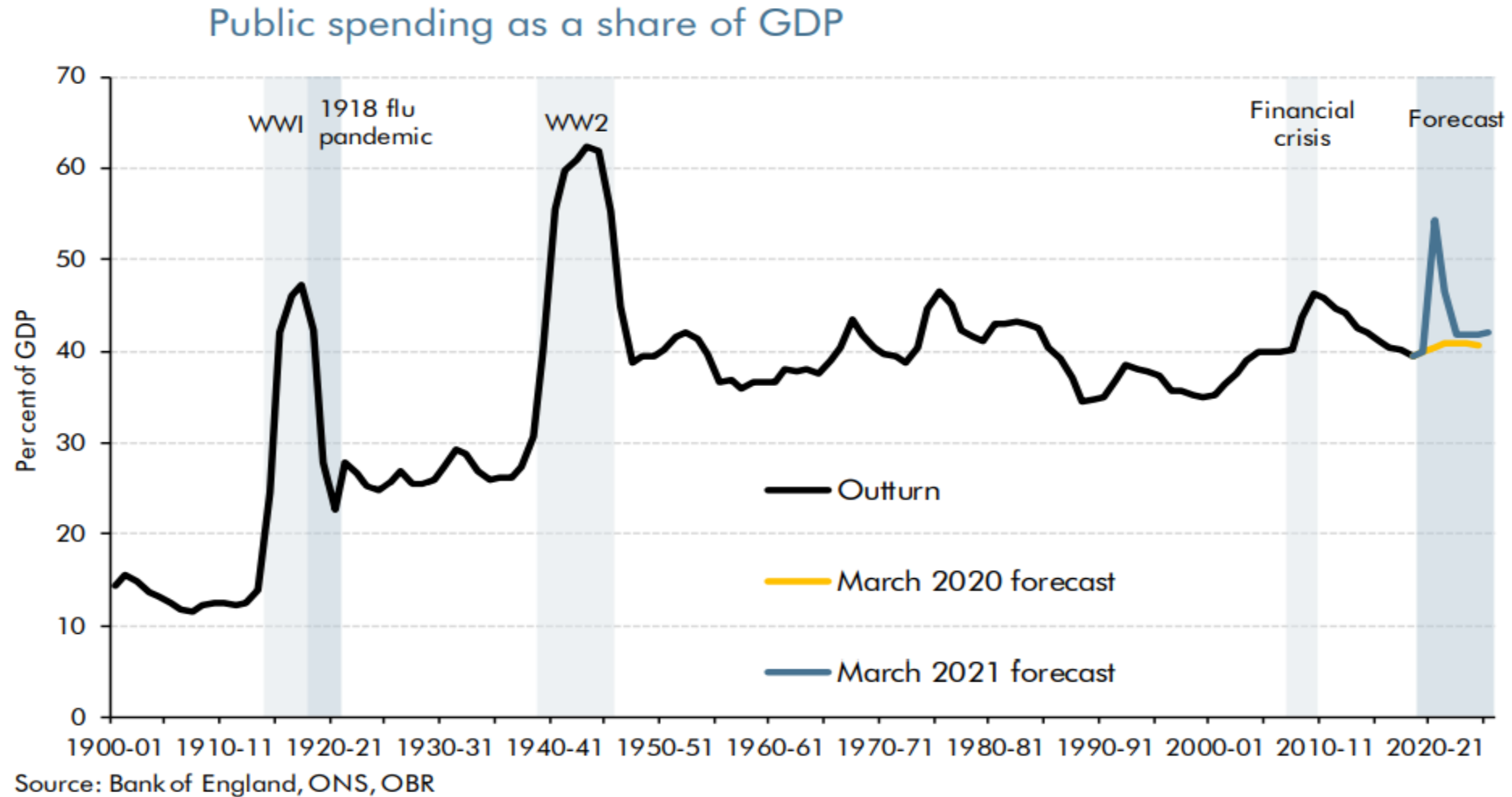
A deficit undershoot should mean no new tax hikes on October 27



But there's still some unfinished business

- Green taxes, and taxes to replace those lost from the shift to net-zero.
- Equalising the tax treatment of capital gains and income.
- The reform of business rates.
- Bringing the tax treatment of the employed and self-employed into line.
- Responding to the demographic pressures for significantly higher public spending.

If we want a low tax economy, we'll need a smaller state



5. What does this mean for housing?

- Some softening of the housing market is likely now, as the stamp duty cut is reversed and the reality of any post-furlough unemployment comes through.
- The course of the pandemic remains uncertain through the autumn and winter.
- But a big fall in house prices looks unlikely, which makes this the oddest economic & housing cycle in history.
- The WFH effect on housing choices may have run its course, and some people may discover that they have made the wrong choices.
- Structural problems in the market have not gone away.

But finally, don't forget to count those skips

