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'Budget' reaction from Patrick Trueman, Portfolio Manager at JH&P

Shock therapy for the UK economy

This summer update was the Chancellor's attempt to apply a defibrillator to the UK economy. Rishi Sunak set out the scale of the challenge facing him: in the past two months the UK has contracted 25%, the same amount it grew in the previous 18 years.

Research recently published by Bank of America Securities suggested that the majority of those people leaving the furlough scheme are finding their role has changed, their pay has been cut or, worse, their job no longer exists.[1]

So, at the same time as saying the furlough scheme will be wound down by October, the Chancellor outlined a badly needed series of programmes to support job retention and creation. This included a bonus of up to £1,000 per employee for those who bring back furloughed staff to qualifying jobs and retain them.

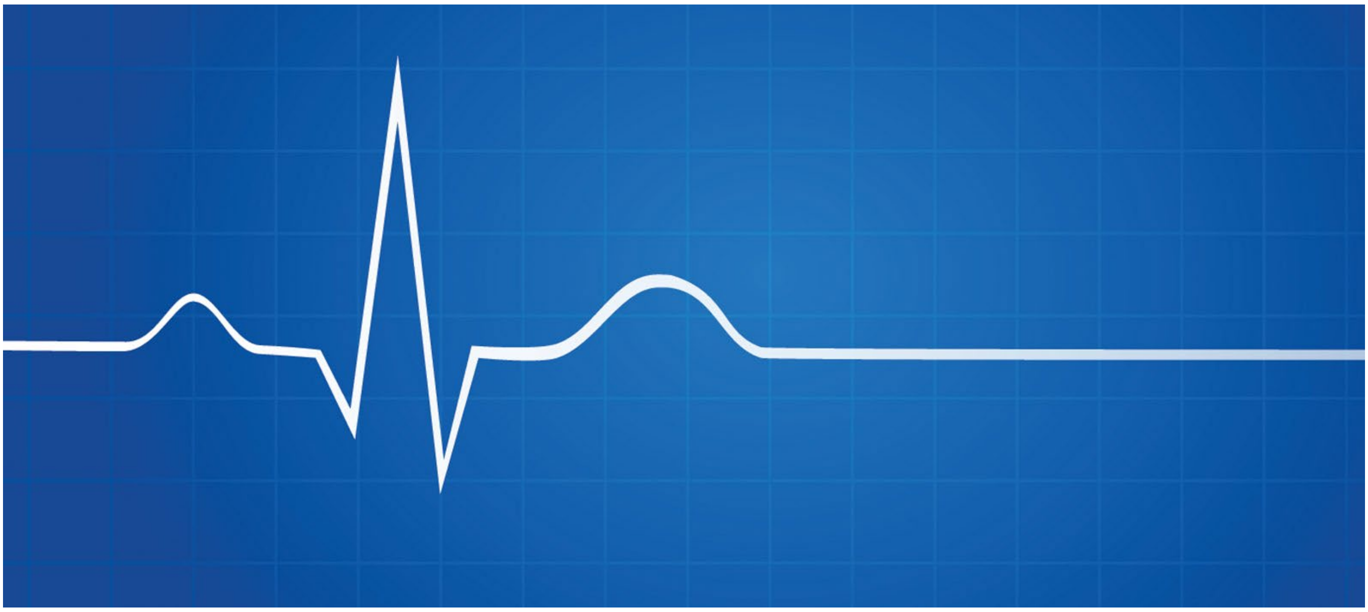
Of his job creation initiatives, the £2 billion Kickstart scheme is the most generous – worth up to £6,500 for each job created for six months. It is targeted at 16-24-year-olds on Universal Credit and at risk of long-term unemployment.

A further £3 billion is being spent to make public sector buildings and 650,000 homes more energy-efficient. This should support 140,000 green jobs and in carbon terms be the equivalent of taking 270,000 cars off the road.

But the most interesting of his announcements were the lifting the stamp duty threshold, selective cuts to VAT and the "eat out to help out" scheme.

The lifting of the stamp duty threshold on residential property from £125,000 to £500,000 up to 31st March next year should jump-start the moribund housing sector. It will encourage action from people who may have been hesitating over whether to buy a home or move up the property ladder. House transactions in May were 50% lower than a year ago, and there were only 9,300 approvals for house purchases – 86% lower than a year ago. This stimulus should get banks lending, reawaken the mortgage market and revive falling house prices. This is more important than may be first imagined. Rising house prices fill consumers with confidence, and confident consumers spend. And, of course, homebuyers spend more than most, with renovation and DIY projects.

The UK economy is disproportionately dependent on consumption and therefore more vulnerable than most to a cyclical downturn.



Reducing VAT on hospitality and tourism from 20% to 5% for six months should protect 2.4m jobs and benefit over 150,000 businesses. Four out of five jobs in this sector have been furloughed, so, with that scheme closing, this will be welcome news for the industry. It should also please the millions of Britons eyeing up staycation holidays in the coming weeks. The industry may face an uncomfortable shift back to the 20% rate in the New Year, though.

The most unusual announcement today was the Chancellor's plan to give us all the equivalent of up to £10 off a meal out each week in August. As this is only from Monday to Wednesday, will we all rush to take up the offer or stay at home, anxious about the virus? The most interesting aspect of the scheme is its originality. It demonstrates that this is a Chancellor who is prepared to consider radical and innovative options.

At around £30 billion, the scale of Treasury spending on measures to revive the UK economy is impressive. The reaction in the bond markets suggested that investors are not currently concerned by increases to the budget deficit. In the currency markets sterling was largely unchanged, dropping 0.1% against the US dollar in the aftermath of the announcement. Questions around a change in approach to government spending will inevitably ensue, with current forecasts indicating that the country will end the year with a significant deterioration in the budget deficit. A political party that until recently preached the importance of fiscal conservatism at all costs is now following a different path.

Charities – still facing the perfect storm

The Chancellor's statement did not contain any announcements specifically aimed at the charity sector, although the Prime Minister's announcement earlier this week of £1.6 billion of funding to support the Arts and Culture sector will have an important impact on many organisations.

The sector remains in an extremely challenging position, with many charities reporting an increase in demand for their services while also having had to furlough staff to protect their financial position. A number of reports have also highlighted a drop in funding as the economic impact of the lockdown has hit people's incomes. The Institute of Fundraising reported a survey of members that suggested voluntary income could decline by around 48% and overall incomes by around a third.[2] The sector will be hoping that the measures announced today act to stimulate the economy as a whole and that the recovery looks more like a V than the U that many fear.

Conclusion

So far the British economy has been on life support – the aim has been to simply keep it alive. Today was another shot of adrenaline to get the heart beating again. At some point the patient will have to leave intensive care. It will be a few months before we see whether the plan has worked. It is likely that some areas will need more treatment still. Economic rehabilitation is likely to take time and is by no means assured. However, today's announcement is to be welcomed and has highlighted a willingness to take decisive action and to act quickly.

1. Bank of America Securities, UK Economic Viewpoint 01 July 2020.
2. Institute of Fundraising https://www.institute-of-fundraising.org.uk/news/coronavirus-impact-survey-results-charities-cannot-meet-the/
