

The Chancellor's Winter Economic Plan

Introduction

In December 2019, the Conservatives won an 80 seat majority in the General Election and three months later, new Chancellor Rishi Sunak presented his first Budget. But by then there was a large cloud on the horizon – the outbreak of Covid-19.

The Chancellor used his Budget speech in March to present a raft of measures to support businesses and jobs, promising to do “whatever it takes.” A week later he was back with more emergency measures and on Monday 23rd March, the UK went into full lockdown.

Six months on from lockdown, the Treasury announced that the Chancellor's traditional Budget speech had been cancelled for this year and instead he would present a Winter Economic Plan on Thursday 24th September.

What has happened in the last six months?

The last six months for the UK economy can perhaps be summarised in two words: ‘recession’ and ‘redundancies’. Figures released for the second quarter of the year, April to June, showed that the UK economy had shrunk by 20.4%. Early hopes of a ‘V-shaped recovery’ from the downturn quickly vanished.

The pandemic has unquestionably accelerated trends that may otherwise have taken 20 or 30 years to arrive. We may well all have been working from home by 2050 but this week, the Prime Minister told office workers to do it for perhaps the next six months. That will surely have serious consequences for many town centres and the ‘commuter economy’.

These changes have, inevitably, meant widespread redundancies. Figures recently released suggest that UK payrolls shrank by 695,000 in August as the Chancellor's furlough scheme started to wind down.

The Chancellor's Speech

The Chancellor, Rishi Sunak, was at pains to stress that he'd consulted both sides of industry on the measures he was going to introduce. He was photographed before the speech with Carolyn Fairbairn of the CBI, and Frances O'Grady of the TUC.

He rose to his feet in a suitably socially-distanced House of Commons and stated that his aim was to protect jobs and the economy as winter approached, and to try and “strike a balance between the virus and the economy.” We were, he said, “in a fundamentally different position to March.”

Rishi Sunak said that the UK had enjoyed “three months of growth” and that “millions of people” had come off the furlough scheme and returned to work. While ‘three months of growth’ is undoubtedly true, we must remember that the economy shrank by 20.4% in the second quarter. According to the Office for National Statistics, the economy grew by 6.6% in July - but it has only recovered just over half the activity lost because of the pandemic.

The primary goal, the Chancellor stated, was “nurturing jobs through the winter” as we all faced up to the “new normal.” He conceded, though, that not all jobs could be protected and that people could not be kept in jobs that “only exist in furlough.”

So what measures did the Chancellor propose?

Emphasising that he could not protect “every business and every job” the Chancellor conceded that businesses faced uncertainty and reduced demand. In a bid to protect jobs through this period, the first measure he introduced was:

The Job Support Scheme

- This is a six month scheme, starting on 1st November 2020
- To be eligible, employees must work a minimum of 33% of their normal hours
- For remaining hours not worked, the Government and the employer will each pay one third of the employee’s wages
- This means employees working at least 33% of their hours will receive at least 77% of their pay
- The Chancellor also announced that he was extending the support scheme for the self-employed on “similar terms” to the Job Support Scheme

Pay as you Grow

After ‘eat out to help out’, we now have the Chancellor’s next catchy slogan: pay as you grow.

- Businesses which took loans guaranteed by the Government during the crisis will now be able to extend those loans from six years to ten years, “nearly halving the average monthly repayment”, said the Chancellor.

- There is also the option to move to interest only payments, or to suspend payments for six months if the business "is in real trouble", with no impact on the business's credit rating.
- Coronavirus Business Interruption Loans (CBILS), taken out by a reported 60,000 SMEs, can now also be extended to 10 years.
- The Chancellor also promised a new government-backed loan scheme, to be introduced in January.

VAT Deferral

- Businesses who deferred their VAT during the crisis will no longer have to pay a lump sum at the end of March next year.
- They will have the option of splitting it into smaller, interest free payments during the 2021-2022 financial year. "This will benefit up to half a million businesses", claimed the Chancellor.

Income tax is deferred – but it still needs to be paid

As we all know, death and taxes are inevitable. The Chancellor did at least delay one of them for many people...

- He announced extra support to allow people to delay their income tax bill, which should benefit millions of the self-employed.
- Those with a debt of up to £30,000 will be able to go online and set up a repayment plan to January 2022.
- Those with a debt over £30,000 should contact HMRC and set up a plan over the phone.

The planned VAT increase is postponed

- The Chancellor's final move was to give direct, targeted help to the tourism and hospitality sectors.
- These two sectors had benefitted from a lower VAT rate of 5%. This lower rate was due to end in January, but will now remain in force until 31st March 2021.

What was the reaction to the speech?

As with all Budget speeches, the reaction was mixed. Carolyn Fairbairn of the CBI praised the Chancellor for "bold steps which will save hundreds of thousands of viable jobs this winter".

Manufacturing group Make UK said the Chancellor 'deserved credit' for looking at action taken in other countries such as Germany and France and copying their successful ideas.

The Adam Smith Institute was more cautious: the Chancellor's plans were "sensible – but not costless". Matthew Lesh, head of research at the free-market think tank said, "The Government must resist becoming addicted to spending. Temporary spending is sensible to keep struggling businesses afloat, but in the longer run we are going to have to get the national accounts in order".

There was, though, plenty of criticism, especially from the retail sector. Lord Wolfson, boss of Next, warned that 'hundreds of thousands' of retail jobs may now become 'unviable' in the wake of the crisis. "I wouldn't want to underestimate the difficulty", he said, "I think it is going to be very uncomfortable".

Where do we go from here?

As we have commented above, six months, roughly to the end of March, now seems to be the accepted next phase of the fight against the pandemic. As people worry about whether they'll be able to see their families over Christmas, many will also be worrying about their jobs.

In his speech, the Chancellor more than once stressed that he could not save 'every job and every business' and a sharp rise in unemployment through the winter seems inevitable, which will lead to more Government spending on benefits and lower tax receipts.

The Treasury is already facing a significant shortfall and the Winter Economic Plan, although the level of Government support has been sharply scaled back, will only add to that. At some point, all the support will need to be paid for, either by increased taxes or more optimistically, a resurgent economy.

What does this mean for my savings and investments?

Many world stock markets have proved remarkably resilient to the pandemic and are showing gains this year. Unfortunately, the UK's FTSE-100 index is not one of them: it ended 2019 at 7,542 and closed March as the country went into lockdown at 5,672. As we write this commentary (Friday morning), it is standing at 5,823, up 2.66% on the end of March.

As we have stressed many times, saving and investing is a long-term commitment and, while there will undoubtedly be plenty of bumps in the road ahead, Governments and central banks around the world remain committed to an eventual economic recovery. Yes, the pandemic has accelerated trends and certain sectors of both the UK and world economies have suffered serious damage; but as we never tire of saying, new companies will find new ways to bring new products to new markets.

We can, in the long term, still face the future with confidence but we appreciate that some clients may have understandable short term concerns.

If you have any questions on this report, or on any aspect of the current situation, please do not hesitate to get in touch with us.

The Chancellor has, we think, taken sensible and prudent action. As he said, “life can no longer be put on hold” and let us hope that economic activity in the UK – and the wider world – quickly reflects that.

Thank you for reading the report

0161 975 6700
askus@cullenwealth.co.uk
www.cullenwealth.co.uk

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Registered office: 2 Riverview, Vale Road, Heaton Mersey, Cheshire, SK4 3GN

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