

Coronavirus (COVID-19) bulletin

06 July 2020 to 10 July 2020

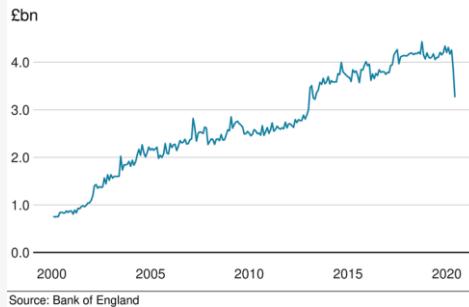
"Is unemployment going to rise, are people going to lose their jobs? Yes. The scale of this is significant"

Rishi Sunak



Credit Repayments slumped in May

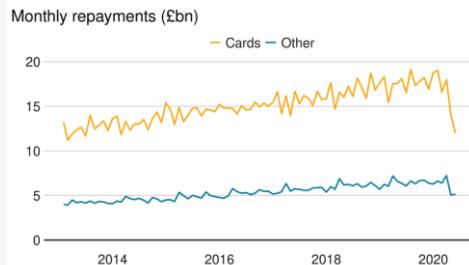
Regular Mortgage repayments



The impact of two million people taking mortgage holidays (around 1-in-6) was more clearly visible in May. Regular payments were 23% lower than in March.

Repayments on redemption remain much lower than pre-crisis as well: credit conditions remain tight and many are finding the re-mortgage market closed. The holiday ends on 31 October.

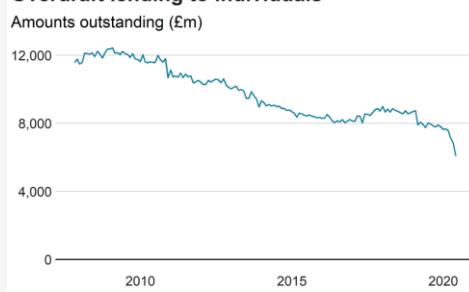
Consumer Credit repayments



A similarly large number of customers have been offered payment holidays on credit card and personal loan repayments, 1.5 million; it is possible that borrowers are choosing not to pay off their cards and rebuild cash buffers.

While many individuals are suffering significant financial distress, at the aggregate level the UK household sector is paying off its overdraft.

Overdraft lending to individuals



This raises the possibility that those who emerge from the crisis with a job may actually be more resilient in risk terms.

Many (mainly better off) households will have a bigger savings buffer against future shocks. But these people are less likely to have overdrafts suggesting there is plenty of consolidation at the lower end of the income scale.

Summer Statement sets out plans for the recovery

The Chancellor's statement was focussed on protecting jobs. But until fear of the virus has abated, human behaviour is unlikely to change:

- The one-off £1000 payment for every furloughed worker retained to end January 2020 feels too small to save many jobs that are at risk and creates another cliff-edge.
- Likewise, the "Eat Out" incentive is not large enough to get many people who believe their health is at risk into restaurants.
- The effectiveness of temporary cuts to VAT for restaurants, accommodation and attractions faces the same challenge. The latest mobility data does not show a rush to pubs on 4 July.
- Many of the active labour market policies announced – particularly the "Kickstart" scheme – are proven to work and reflect the need to find young people new jobs in the economy that emerges. In this vein, the aim to create 100,000 new "green" jobs is welcome.

As at the time of the budget, this feels like a first draft. Further measure are likely as unemployment increases.

Comparisons:
09/07/20 vs 02/01/20

1/1.26
GBP/USD 4%

6050
FTSE 100 20%

-0.09%
2Yr Yield 67bps

3152
S&P 500 3%

FCA extend consumer support

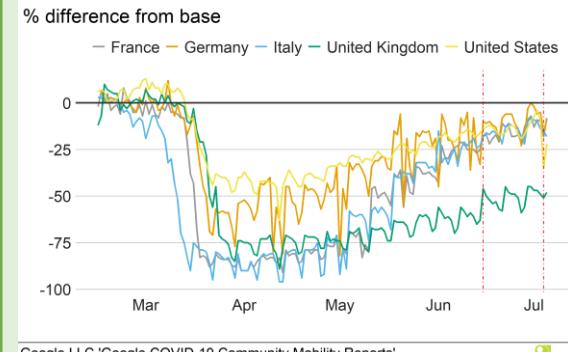
On 1 July the FCA confirmed the extension of credit forbearance for consumer lending (Motor Finance and High Cost Credit 3 July). They highlighted that:

- It may not be best for customers to extend again. Customers who start to pay again who then fall behind in payments should not be required to be re-offered a payment holiday.
- Lenders need to proactively contact customers to help them decide.
- While payment freezes will not impact credit bureau files, they may still influence future credit decisions.
- While interest will accrue during payment holidays, the compounded interest component should be written off subsequently if further forbearance is required post payment holiday.

Mobility trends suggest people in the UK have been slow to get back to shops, pubs and restaurants.

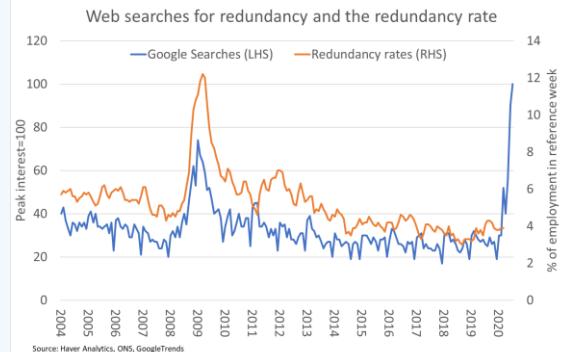
Non-essential retailing reopened on 15 June, pubs and restaurants on 4 July.

Mobility trends: Retail and Recreation



Internet searches for "redundancy" have surged

Searches for redundancy reached their highest ever level in July raising worries about a huge spike in unemployment in the coming months.



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