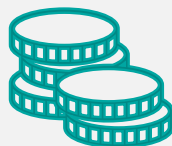


Economics: Squeezing the squeezed Keith Church

Given the rise in petrol prices since Russia invaded Ukraine, it is possible inflation in April was around 9%. That would be the highest rate since the index was first compiled in the late 1980s.

Even before the big rise in energy bills in April, around a third of UK households could not afford an unexpected expense of £850. This proportion has risen since last year; the real income squeeze may be coming to a head now, but the crisis has been building for some time.



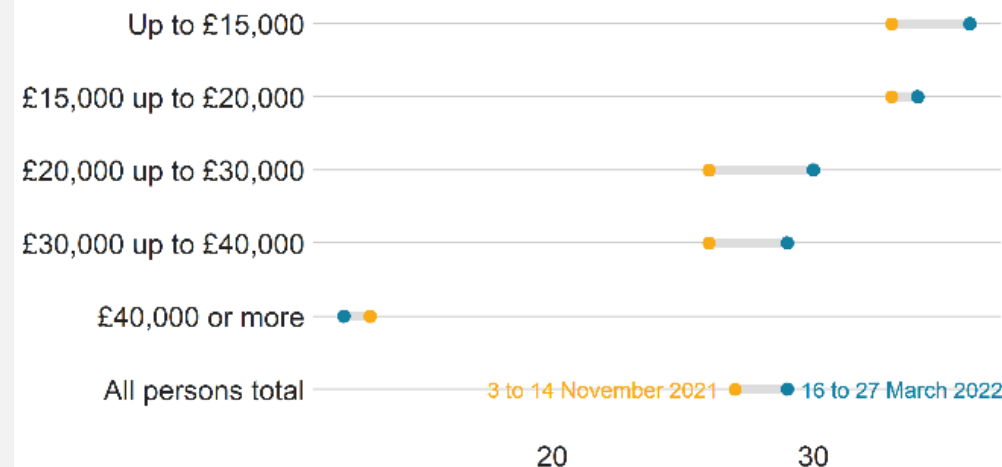
The real income squeeze may be coming to a head now, but the crisis has been building for some time.

Although the Bank of England increased interest rates on 5 May, that will have little impact on the period of stagflation we now appear to be in. And with 80% of residential mortgages on a fixed rate, this rise will not have much impact on the ability of borrowers to make their payments. But over half of renters are already struggling.

There is a hope that pent-up demand for holidays and socialising may keep the economy out of recession.

Household finances are less resilient

% of households that cannot afford an unexpected, but necessary, expense of £850, by income band



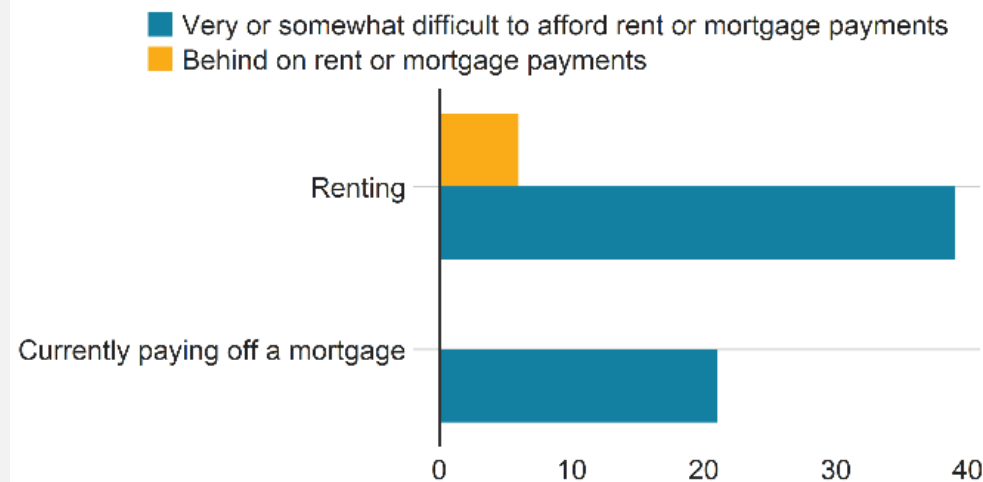
Source: ONS Opinions and Lifestyle Survey



Economics: Squeezing the squeezed Keith Church

Over 50% of renters are behind, or finding it difficult to make their payments

%, 16 to 27 March 2022



Source: ONS Opinions and Lifestyle Survey

Some households built up a financial cushion during the pandemic. There is a hope that pent-up demand for holidays and socialising may keep the economy out of recession. But with consumer confidence similar to levels last seen in the Global Financial Crisis, that case is becoming much harder to make.

Climate change risks Daniel Hensel, 4pi

What's next for climate change risk? Whilst Banks are grappling with estimating Physical and Transition Risks and disclosing their financial impacts on portfolios, it's time to consider how climate risks can be embedded in banks operating models to ensure climate risk is not just white noise.

It's time to consider how climate risks can be embedded...



Climate and environmental risks will need to be incorporated into all areas of risk management, including reporting, disclosures, risk appetite, affordability assessments, credit decisions and policy rules.

Watch out for our article issued next week for our thoughts on the downstream implications and why a climate risk use test could be on its way.

House prices continue to grow Daniel Mclean

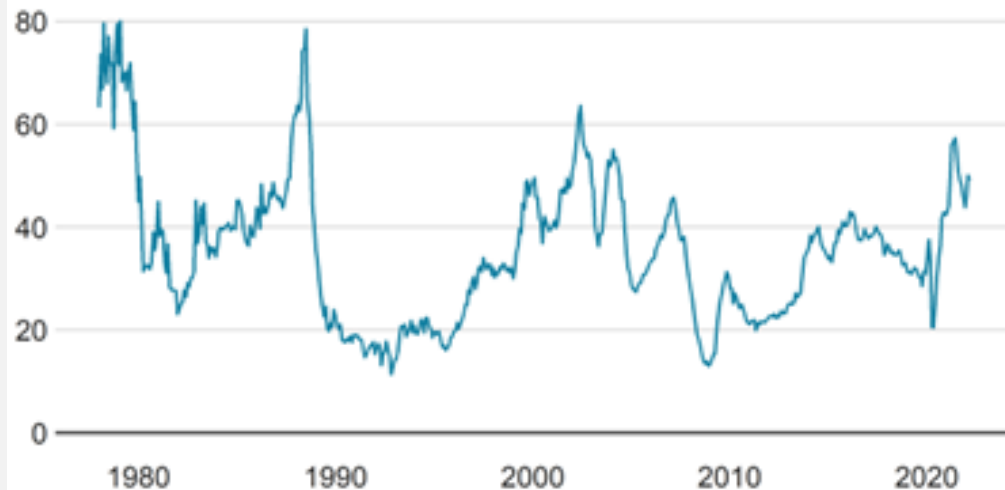
House prices in England and Wales continues to increase in March 2022 with a yearly increase of 8.5% meaning average house price now at £285k...

House prices continue to grow Daniel Mclean

...But how long will it last? Despite the looming cost of living crisis there is still plenty of life in the housing market. There were 112,000 property transactions in March, above the pre-pandemic average and surveys still suggest the near-term is dominated by a lack of available supply. Additionally, the ratio of sales to stock remains high as shown below.

The housing market tightened again at the start of 2022

Ratio of sales to stock of unsold property



Source: Haver Analytics, RICS

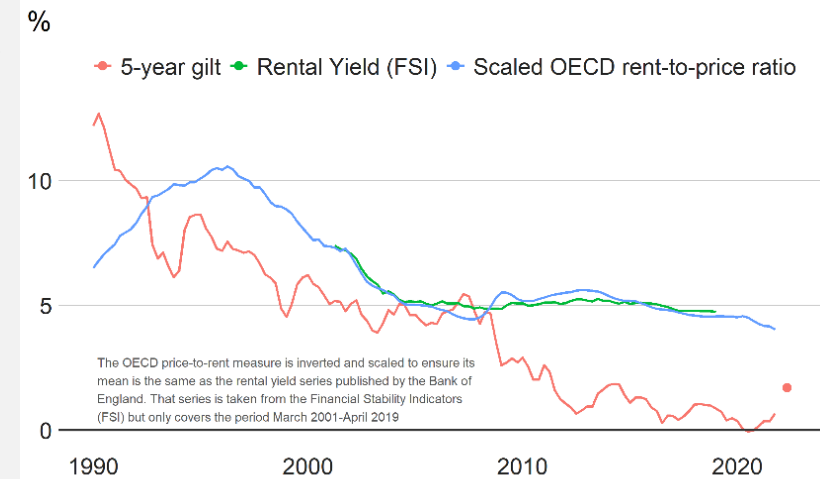
Given the current pressure on incomes and rising interest rates, risks are on the downside. Given the Chancellor's lack of protection for lower income household, rent arrears are likely to soar, putting pressure on landlords' ability to pay their mortgages.

This makes the return on housing as an investment look less attractive.

The return on risk free assets is increasing as the Bank of England increases interest rates.

This makes the return on housing as an investment look less attractive. In an increasing interest rate environment, the danger here is that house prices have to fall to maintain the existing relative level of return compared to risk free assets.

Yields compared



Source: Bank of England, OECD, 4most calculations