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Technical Update No. 7 9th April 2018

Saver / Investor / Retired

Continued slump for London house price growth

The headline rate of house price growth across London boroughs has slowed to 1%, down from 4.3% a year ago. This is the lowest annual rate of growth since August 2011. In contrast, regional cities such as Edinburgh, Liverpool and Manchester are registering house price growth in excess of 7% per annum. The weakness in London's housing market has been building since 2015 on the back of numerous tax changes aimed at overseas and UK investors and growing affordability pressures facing homeowners. As commentators are quick to point out, sales volumes are first to be hit when demand weakens and housing turnover across London is down 17% since 2014. Sales prices are next to follow but with few forced sellers the level of price falls remains low.

All

Bitcoin bullies and border controls

Bitcoin is threatening to destroy the ability of governments to manipulate their own currencies, as the cryptocurrency creates a new way to evade official controls and move money across borders. The loophole could have significant implications across the world, upending currency wars, hampering efforts to manage crises and challenging traditional ideas of economic development – all of which frequently include restrictions on taking money abroad. As a result, the entire practice of artificially moving exchange rates up or down to suit politicians or central bankers could be rendered untenable.

Saver / Investor / Retired / Estate Planner

Retirement income warning

While retirement certainly brings about its share of unknowns, perhaps the most daunting prospect associated with this stage of life is the potential to run out of money. That fear is so widespread, in fact, that 60% of baby boomers are more worried about depleting their nest eggs prematurely than actually dying. Since pensions freedoms approximately 700,000 people have removed their savings and invested them into some sort of income drawdown product. The complexities of navigating the multiple risks (longevity, interest rate, behavioural, market to name just a few) and doing it tax efficiently make it doubly worrying that a third of that 700,000 invested their funds without seeking advice first.

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Gender pay gap

So first, interesting (and sad) to report that only half of those UK companies required to submit data on their gender data on gender specific pay have done so with under a week until the deadline. But more than that, there have been entries with zeros in all fields or submission of mathematically impossible gaps. The Guardian picked up the phone to some of the offenders who either declined to comment or claimed 'error'. All rather school kid. FYI the data submitted so far indicates a median pay gap of 9.7 percent, which compares to an ONS gap of 18.4 percent gap for full and part-time workers.

Saver / Investor

VCT growth

A combination of aggressive reductions in the lifetime allowance (LTA), as well as restrictions on the pension annual allowance – such as the tapered allowance for high earners – has had a positive impact fuelling interest in VCTs as an alternative option for tax-efficient investing. According to HM Revenue & Customs' VCT statistics, 2016 to 2017 tax year saw £570m invested in VCTs. This was an increase on 2015 to 2016 – and was the highest amount invested in one year since the heady pre-financial crisis days of 2005 to 2006. Of note – though figures are not yet available – 2017 to 2018 looks to be on course to overtake 2016 to 2017.

All

Britain a nation of borrowers

A decade of ultra-low interest rates has made Britain a nation of borrowers rather than savers, official figures showed last week. The Office for National Statistics said households became net borrowers in 2017 for the first time since records began in 1987 as spending exceeded incomes. Households spent £14.4billion more than they earned last year, the statistics agency said. Households also borrowed £4.6billion more than they saved. The report also showed saving levels fell to their lowest since at least 1963 as families failed to set money aside for the future.

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The lipstick effect – warning signs for the economy?

If you want to know where the economy is heading then a look at inexpensive treat items is often a good indication that things are not all well. The boss of John Lewis last week pointed to a return of "the lipstick effect" – when a rise in sales of beauty products heralds a consumer squeeze. With disposable income under pressure, shoppers are holding off on buying big ticket household items like sofas, beds and washing machines. But tough times also encourage shoppers to treat themselves, and history has shown that sales of cheap thrills – from lipstick to takeaway coffee, expensive perfume, skin cream and sparkling wine – can do well in a downturn. Subsequent fears about a slowdown have been sounded.

Saver / Investor / Estate Planner / Retired

More protection for pensioners

Pensioners in final salary schemes look set to get added protection, amid mounting fears that some financial advisers are urging them to transfer their money out in order to benefit from fees. City watchdog the Financial Conduct Authority (FCA) is looking to clamp down on final salary switching, insisting most should stick with their scheme. It is also considering a ban on controversial "no transfer, no fee" charging structures, where the adviser earns nothing if a client decides against transferring out of a final salary pension. These "contingent" fees, as they are known in the industry, give the advisor a clear financial incentive to encourage people to ditch their plan.

Saver / Investor / Parent / Business Owner / Employee

Auto-enrolment – what next?

The big question is will workers stand for a tripling in pension deductions from wage packets, or rebel against auto-enrolment increases? Millions of workers auto-enrolled into pensions will see deductions from wages triple in April – in 2012 levels were set at 2 per cent of banded earnings, split between employer and employee. Next week, that will rise to 5 per cent, with employers typically paying in 2 per cent and employees 3 per cent. It will be a huge test for this so far successful experiment into 'nudging' workers to provide for their own retirement. Though this kind of hit to monthly income could well overcome people's natural inertia and cause a spike in opt-outs, media coverage has possibly been a touch too focussed on the possible negatives (opt-out rates, affordability issues, pay rises not keeping up with inflation and so on). These are all important considerations, but such messages should not drown out the significant positives.

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Business Owner

International Women's day good for SME's moods

The UK's small businesses were markedly chipper around International Women's day. Interesting data from the Daily Telegraph Business Tracker (which analysed 40,000 tweets sent by 25,000 UK firms and businesspeople between Feb 21st and March 26th) analysed the sentiment in social media posts by small businesses: 21 percent of their Twitter posts contained positive sentiment, while 4 percent were negative. If we remove the three quarters of messages that were neutral (i.e. those without any opinion or sentiment attached, such as sales offers), it means that 84 percent of small business Twitter chatter over the four-and-a-half-week period was positive.

Saver / Investor / Property Owner

BTL – the secret of success

Warning signs ahead for landlords. A new study from Savills shows that landlords have profited significantly in the decade since the financial crash, but that a raft of taxation reforms are starting to push them away from an increasingly bleak buy-to-let market. And there's a big gap between the best and worst performing BTL investors when we factor in analysis from Countrywide, which highlights that, when it comes to overall returns, buying well matters much more than letting well - the difference in rental income between a landlord in the top-yielding 30 per cent of properties in a neighbourhood and the lowest 30 per cent was just £20 a month; but there was a gap of £41,000 between what the two groups paid on average for the home.

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If you have any questions related to this update or indeed anything else then please contact your adviser at Champain.

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