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Technical Update No. 18 21st September 2018

Saver / Investor / Retired

99% of savings accounts pay less than the rate of inflation

Savers are being left at the mercy of inflation eroding their savings, despite a boom in the number of rate rises in the market. Just 1% of all savings accounts in the market right now are paying enough interest to beat inflation, figures show. Currently, 99% of standard savings accounts are failing to match the current level of inflation – with less than a handful able to offer a return of 2.7% or more. This means many are losing out because the cost of living is outstripping how much they are earning on their savings. The Consumer Prices Index (CPI) – which measures inflation – rose to 2.7% in August in the highest rise in six months. However, across the savings market, including ISAs and bonds, there are just 4 accounts (based on a £10,000 deposit) that can match or beat this rate.

Saver / Retired / investor / Property Owner

Slowdown in house price growth

Falling London house prices have helped drag annual growth in UK property values down to a five-year-low, according to official figures. House prices in London fell by 0.7% annually in July – the biggest tumble there since September 2009 when there was a 3.2% decline, according to figures released jointly by the Office for National Statistics (ONS), the Land Registry and other bodies. The report said London has shown a general slowdown in its annual property price growth rate since mid-2016 – hitting a recent peak of 14.8% in March that year. Across the UK, house prices increased by 3.1% in the year to July – the lowest annual growth rate since August 2013. The average UK house price stood at £231,000 in July. Earlier this week, property website Rightmove said it has recently seen some signs of confidence returning to the London market, but of course the spectre of a no-deal Brexit scenario looms large.

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Saver / Investor / Business Owner

4 day Market streak – what next?

Investors seemingly shrugged off the latest round in the trade dispute between the US and China. Earlier this week, President Donald Trump announced the US would impose tariffs of 10% on $US200 billion worth of Chinese imports. China responded in kind, of course, but there is relief the new duties are not as high as originally threatened (as much as 25% mooted at one point). However, the Organisation for Economic Cooperation and Development (OECD) has warned that escalating trade tensions, financial problems in countries such as Turkey and Argentina, and political risks could threaten global economic growth. And yet, most economists believe protectionist measures will have only a modest impact on global growth — provided the bilateral conflict does not turn into an all-out multilateral war.

Saver / Investor

Regulation coming to the crypto wild west?

Lawmakers have backed calls for greater regulation of cryptocurrency such as bitcoin to bring an element of control to a market that more resembles the Wild West. In a report on digital currencies published Wednesday, the Treasury Select Committee called for regulations to protect consumers and prevent money laundering. The report highlighted a rapidly emerging industry that's been troubled by wild price swings, allegations of fraud and worries it could be used to finance criminal or terrorist activity. In the report, the committee said the British government has taken an ambiguous position on regulation and argued that the industry's voluntary approach is inadequate. As a result, it said, investors have been left open to risks including volatile prices and hacking vulnerabilities.

Saver / Investor / Retired / Employer / Employee

Pensions watchdog bears its teeth

The Pensions Regulator has introduced a new supervision regime, which includes one-to-one supervision of 25 of the largest schemes in the UK and will aim to monitor all schemes more closely. As part of its new approach published on Monday, the watchdog will be working more proactively with schemes. A variety of new interventions are designed to address risks more quickly, clearly set out its expectations and take action where necessary. The changes are part of its pledge to be clearer, quicker and tougher. It comes following a major review of its regulatory approach, which the regulator published in July last year.

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Property Owner

Stealth tax on landlords

Local authorities will collect a whopping £79million from 77,000 landlords this month as new licensing rules come into effect. HMO licensing – which stands for houses in multiple occupation – already applies to landlords who rent their properties to five or more tenants from two or more different households where the property is three or more storeys. But from 1 October, any property let to five or more tenants from two or more households will be caught by the rules – regardless of the number of floors. The changes to the law are set to affect over 160,000 properties in England and Wales, with 77,194 landlords being expected to apply for the new licence. Licence fees alone will hit English landlords with a bill for £1,027 each (£495 per property). Experts also estimate landlords will have to spend around three hours per property applying for licences, familiarising themselves with legislation and taking time out to facilitate property inspections.

All

Brexit: Deal or no deal?

A coming Brexit reckoning has left the UK economy facing slow growth at best, as negotiations struggle to progress between Britain and the European Union. However, a new report suggests the UK economy also has significant issues to resolve domestically, with stagnant wages seeing the nation failing to move beyond a productivity gap which is holding growth back even before the UK has completed its divorce proceedings. With six months left to broker a deal, while the UK Government and negotiators from Brussels remain at an impasse, the one thing that can be said with any confidence about Brexit is that nobody can be sure what the future holds for the project. In recent months, reports have suggested that small businesses in Britain remain bullish about their post-EU prospects, while studies on its impact on the civilian populace found Brexit will cost households an additional average of £134–£758 every year, even if the UK strike free trade deals with non-EU countries, while that figure could rise by 20-45% without the deals, at £245–£961.

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Ten years after the crash

It may not feel like it, but ten years on from Lehman's, there is plenty of good news to point to. Most positively, employment is at record levels in most developed countries outside the eurozone (despite ongoing fears that we will imminently be replaced by robots), global economic growth has been solid and Asset prices have recovered, too – stockmarkets around the globe have largely regained or beaten their pre-2008 highs, as have house prices. However, ultimately, the financial crisis was all about debt. And the news on that front is not so good. In 2007, global debt amounted to 179% of global GDP. Ten years on? Global debt in 2017 stood at 217% of global GDP, according to the BIS. And it's worse in companies, where the quality of debt has also deteriorated quite sharply. The sense from most economists is that the next crisis won't look the same as the last one, but irrespective, current debt figures hardly represent what anyone would call real progress.

Business Owner

Warnings for the self-employed

The growing army of self employed in the UK have, again, been warned about the dangers of getting drawn into companies purporting to enable workers to pay as little as 10% of their income in tax. Umbrella companies are structures who process payrolls for the self-employed effectively allowing, in some instances, contractors to take home 90% of their pay. But the HMRC has been on the war path again, warning that many could be thinly-veiled tax avoidance schemes, on the basis that taking as much as 90% is impossible without bending the rules, given the basic rate of income tax in Britain is 20%.

All

Charitable giving on the up

People in the UK left £2.85bn to charity via gifts in wills last year – the largest amount ever recorded. The noteworthy figure is the equivalent of the money raised from 39 Red Nose Days!

Health and cancer charities were the biggest beneficiaries with Cancer Research UK, Macmillan Cancer Support and the British Heart Foundation in the top five, according to data from 260,000 wills in 2016/2017. Other popular charities include the Royal National Lifeboat Institution and the RSPCA. The increase has been driven by the rising interest among wealthy entrepreneurs in philanthropy, both during their life and on death. To fund major charitable donations or bequests, entrepreneurs may sell their business or a stake in their business.

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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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