Hey big spender: why the economy needs you

Britons are sitting on £150bn of savings and how they splash out is key to recovery, writes Gurpreet Narwan (Times 10th April 2021)

People are poised to spend billions of pounds in shops, restaurants and pubs this summer but the much anticipated consumer boom may still fall short of expectations. Policymakers are urging the public to splash their cash from Monday when the hospitality and non-essential retail sectors reopen. Households will be able to book self-catered accommodation for domestic holidays. With consumer spending driving two thirds of the British economy, the way in which households behave over the coming months will be pivotal in determining the shape of the recovery from the worst downturn in 300 years.

Economists have their eyes firmly fixed on a prize: the £150 billion in excess savings that households built up during the crisis, when opportunities to spend dwindled during lockdown. Andy Haldane, chief economist at the Bank of England, hopes consumers will draw on that cash over the coming months, helping the economy to rebound like a “a coiled spring”. Others are more cautious. Lingering fears about the virus and the threat of unemployment may cause people to hold on to their funds.

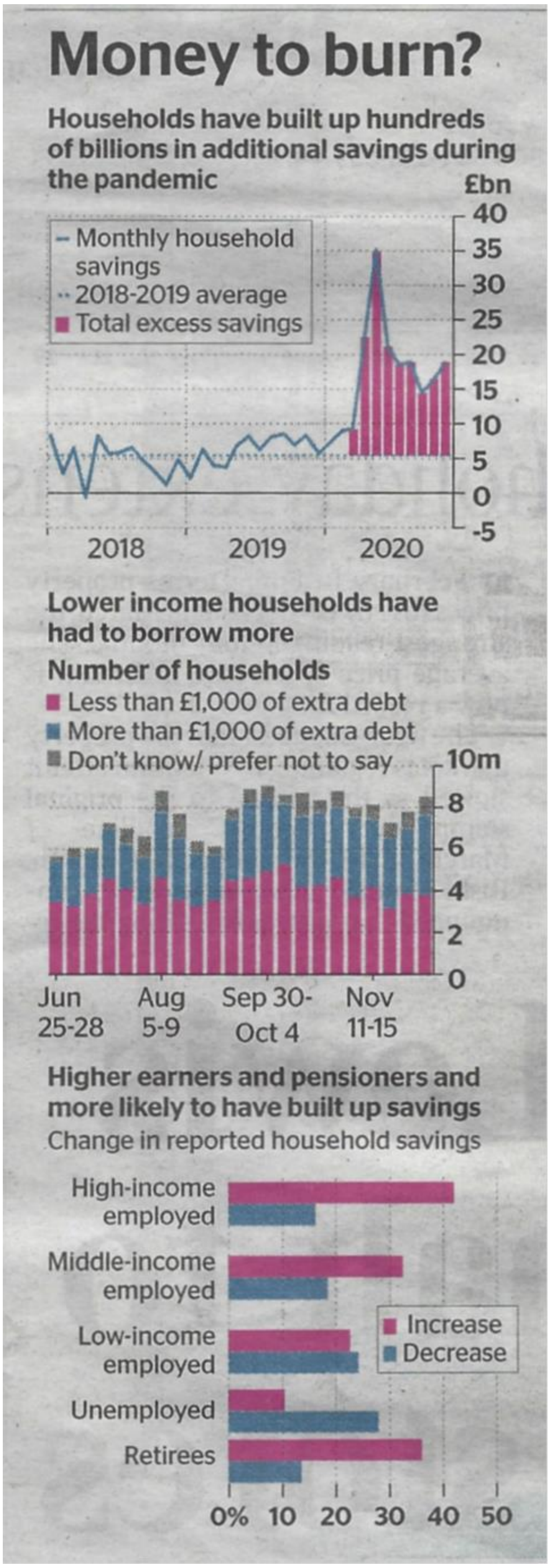
Spending over the next 3 years

The bank expects **anywhere between 5 and 10 per cent of those savings to be spent over the coming three years**. That amounts to £7.5 billion. Analysts at the Centre for Economic and Business Research are more bullish, **expecting that a quarter (£1.875 billion) will be spent over the coming year**.

“We would expect a good chunk of this will be splashed out over the summer, though it is hard to predict how quickly,” Kay Neufeld, economist at CEBR, said. “My best guess is that the losses from international travel will be roughly compensated for with people indulging themselves at home following a tough pandemic and a largely cancelled summer last year.” He said **£22.75 billion of the excess savings would be spent between April and September**.

Consumer spending is expected to climb 4 per cent between April and May and 4.5 per cent in the third quarter of the year, according to Capital Economics. Economists at Jefferies, the investment bank, said the increase in consumer spending over the summer would amount to a 1.5 per cent boost to GDP in both quarters.

There are signs that households are gearing up to spend. Real-time data from Jefferies shows visits to accommodation and hotel sites are at a near six-month high. Restaurants and pubs are reporting a surge in bookings over the coming weeks and the CEBR expects the hospitality sector to receive a £314 million boost next week alone.



A **similar pattern played out last summer**. When shops, pubs and restaurants reopened in July, consumer spending jumped 19 per cent between the second and third quarter of the year.

Pent-up demand was bolstered by the Eat Out to Help Out scheme, which also supported spending in nearby shops and helped to lift retail sales by 3.6 per cent in July.

Paolo Surico, professor of economics at London Business School, said: “There is not such a thing now [Eat Out to Help Out] and therefore **the mini boom on non-essential spending may be lower this time around**.” The slump in spending has also been less severe during this lockdown as businesses have adapted better to the lockdowns and consumers have found new ways to spend, mainly online.

The Eat Out to Help Out scheme encouraged people to leave their homes last summer but lingering fears about the virus held many back. “But now more than 50 per cent of the population has got the first jab and more than five million have received both jabs, the fear of getting the virus is likely lower than in the summer of 2020,” Surico said.

However, the increase in spending will not be enough to take consumption to where it was before the crisis hit. Consumer spending will be down 4.6 per cent compared with the third quarter in 2019, according to Ruth Gregory at Capital Economics and it will take another year to return to pre-crisis levels. In part, this is because some spending will simply be redirected from parts of the economy to others. A mini-boom on non-essentials will partly be funded from falls in supermarket and takeaway purchases.

There is also a cap on how much consumers can boost their spending on non-essentials. Andrew Bailey, governor of the Bank of England, recently said households would “go for it” when restrictions lift but few will feel the need to have their hair cut twice. If they choose to spend on foreign holidays or imported goods, such as new cars, the boost to GDP will be minimal.

Although the rate of savings will fall not all economists are convinced that the stock of savings will be used. The Bank of England has emphasised that **much of the excess savings are in bank deposits, of which households have tended to spend more in the past**. However, some has ended up in the property market, which does not add to consumption in the national accounts.

Simon French, chief economist at Panmure Gordon, said: “If you look at recent activity in the housing and equity markets and more formalised savings products, a lot is going to go into stores of wealth, either in property or in pensions, or personal savings products. “If that proves right, then we’re not going to get a massive consumer led rebound, we’ll get a reasonable one . . . and the Government might look to encourage through tax those households to go out and spend rather than save.”

Differing levels of saving

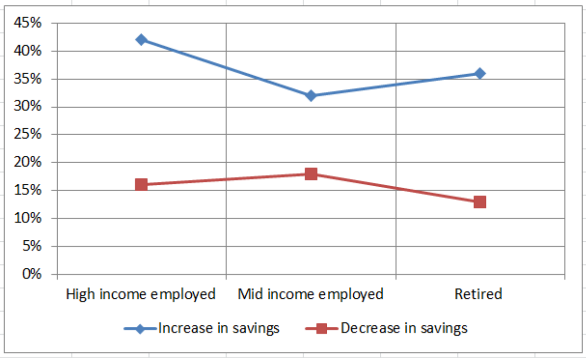
Economists hope the extra billions saved over the past year will fuel a consumer boom but not everyone is so flush. **Savings have been concentrated in high-income households** while the poorest families are more likely to have fallen into debt. Research by the Resolution Foundation shows that while **37 per cent of those in the highest income quintile banked more money last year**, 54 per cent of families in the lowest income quintile were forced to borrow more to cover everyday costs such as housing and food.

So **any spending boom will have to be driven by higher earners, a group that typically has a lower marginal propensity to spend**.

The Bank of England says lower and middle-income households that have not accumulated a buffer of savings might aim to do so, which could weigh on consumer spending. The Bank’s central forecast is that 5 per cent of these savings will be run down over the coming three years. Many economists believe it is being too cautious but comparisons with other countries indicate the final figure will come close to 5 per cent.

High earners and pensioners built up savings

The data in the table (change in reported household savings) on page 1 is set out below as a chart.



Key question is whether some of the expected spending from these increased savings may be used to buy classic cars?

This possible additional demand factor in the classic car market could have an impact on prices. A report on the next page says six of the "biggest classic car auctioneers in the UK have seen higher sales rates, stronger avaerage prices and increased sales totals which point to a s stronger UK market and more buyer confidence." The auction houses adapted rapidly by developing their websites with good quality online displays of classics they have on offer at auction. The cars are well photographed and described and this has surprised many by stimulating a wider interest and demand which built over the last 12 months or so. The report notes "many sellers are deciding to wait which is causing a lack of quality supply".

CCW article on 7th April 2021

MARKETS

EVERYMAN CLASSIC SALES SURGE DURING LOCKDOWN YEAR

THE COVER STORY

Classic car experts believe that online auctions played key role in weathering the COVID-19 storm – and they've got the evidence

Auction figures crunched before and during the COVID-19 pandemic reveal a classic market in rude health – and one that has sold more cars during the pandemic than in the months leading up to it.

Results from the final sales held before the pandemic by six of Britain's biggest auctioneers, and their most recent sales, show higher sale rates, stronger average prices and increased sales totals, pointing to a stronger UK market and more buyer confidence.

Hagerty Price Guide editor, John Mayhead, said: 'The onset of the pandemic was affecting the market in February 2020 and decimated it in March 2020; a year later, and many companies have had the chance to consolidate.'

Happily, the sub £20k and project markets have proved remarkably strong in the face of demand for affordable classics as enthusiasts found the time to restore cars, with modern classics and freshly restored cars also doing well.

CCW's car valuations guru, Russ Smith, said: 'Everyone worried about the switch to live online sales, but if anything they've produced better results. Auctions have been astounding, especially those at Historics, Anglia Car Auctions (ACA) and South Western Vehicle Auctions. I ran out of superlatives before Christmas and the sell-through rates and prices achieved have both been incredible. Historics, for instance, sold more than 80 per cent of the cars for three sales running; they used to average around 70 per cent. SWVA has hit as high as 98 per cent, and ACA scores have been in the 90s, again well up on previous sales.

'The biggest winner over the last year has been the sub-20k market, with values having risen almost across the board. Things have held steady in the £20-30k bracket... the biggest jumps have been for the best examples, though restoration projects have also surprised.

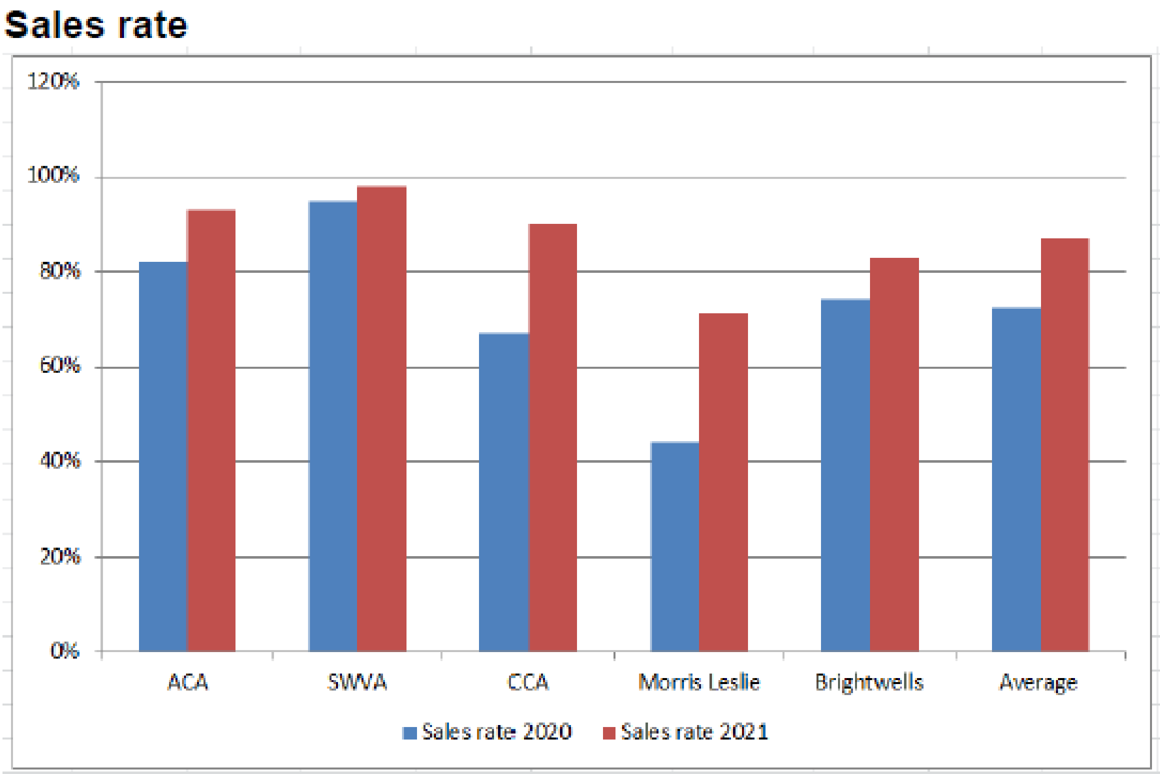
Market expert and former Top Gear presenter, Quentin Willson, was similarly impressed by the effect online sales had on lockdown trade: 'I think online has actually stimulated the market by widening it to buyers who couldn't or wouldn't travel across the country to auction sites. As long as cars continue to be honestly described and well photographed there's no reason why online old car auctions would revert to the "old normal".';

Mayhead, added that, from the figures to hand, online sales favoured the cheaper end of the market, helping to drive a boom in that sector. He said: 'There's undoubtedly an enthusiast boom going on, which we saw build throughout last year. Many sellers are deciding to wait, causing a lack of quality supply.'

Jon Burgess

HOW THE MARKETS PERFORMED

	SALE RATE		AVERAGE PRICE		TOTALS	
	2020	2021	2020	2021	2020	2021
ACA	82%	93%	£10,145	£10,719	£1.84m	1.7m
SWVA	95%	98%	£5350	£9816	£794,228	785,294
CCA	67%	90%	£14,153	£14,323	£1.23m	£1.69m
S'stone Aucs	56%	76%	£77,452	£85,162	£4.57m	£8.68m
Morris Leslie	44%	71%	£6101	£9601	£427,058	£374,428
Brightwells	74%	83%	£9909	£8996	£1.45m	£665,683



The **data for Silverstone Auctions has not been included in our three charts** because their average price of the cars they handle is significantly greater (very nearly eight times higher at £85,162) than the other five which on average is £10,691. The **average sale prices for each auction house below illustrates the level of activity in the sub-£20,000 market highlighted in the CCW report**.