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| Equity Research; UK Autumn Budget 2021 | | ../../../../Downloads/css-logo.png |
| |  | | --- | | Research Report | | Report Date | | 27th October 2021 | | Analyst | | Ravi Lockyer MSc Llb ASCI  Collins Sarri Statham Investments Ltd | | Key Risks to Price Target | | Not applicable  *Please note the risk warnings and disclaimers on the last page of this document.* | |  | | UK Autumn Budget  Chancellor Rishi Sunak’s autumn budget was well flagged in the media. Indeed the government was reprimanded in the House of Commons by the Speaker, Sir Lindsay Hoyle for the unprecedented leaking of specific Budget details on Monday.   * Economic Forecasts:- * Inflation in September was 3.1% and is likely to rise to average 4% over next year, OBR says * UK economy forecast to return to pre-Covid levels by 2022 * Annual growth set to rebound by 6.5% this year, followed by 6% in 2022 * Unemployment expected to peak at 5.2% next year, lower than 11.9% previously predicted * Wages have grown in real terms by 3.4% since February 2020 * Borrowing as a percentage of GDP is forecast to fall from 7.9% this year to 3.3% next year * Borrowing as a percentage of GDP will then fall in the following four years to 1.5% * Foreign aid spending projected to return to 0.7% of GDP by 2024-25   COMMENT: The Chancellor now accepts that the inflationary spike seen over 2021 will continue over 2022 hence the pressure will be on the MPC of the Bank of England to respond to persistent inflation. The rate of wage increase is likely to embed inflationary expectations.  On the UK’s fiscal management, the drop in public sector borrowing to just 3.3% in 2022 and 1.5% in 2023 looks optimistic. I cannot recall a deficit reduction on that scale in a similar timeframe.  2) Taxation & Wages  Whitehall departments to receive rise in overall spending, totalling £150bn over the course of this Parliament   * Universal Credit taper rate will be cut by 8% no later than 1 December, bringing it down from 63% to 55% * Business rates retained and reformed * New 50% business rates discount will apply in the retail, hospitality, and leisure sectors, up to a maximum of £110,000 * Planned rise in fuel duty to be cancelled amid the highest pump prices in eight years * £24bn earmarked for housing: £11.5bn for up to 180,000 affordable homes, with brownfield sites targeted for development * A 4% levy will be placed on property developers with profits over £25m rate to help create a £5bn fund to remove unsafe cladding * Funding will rise by an average of £4.6bn for the the Scottish Government, £2.5bn for the Welsh Government, and £1.6bn for the Northern Ireland Executive * Levelling Up Fund will mean £1.7bn will be invested in local areas across the UK * Government backing projects in Aberdeen, Bury, Burnley, Lewes, Clwyd South, Stoke-on-Trent, Ashton under Lyne, Doncaster, South Leicester, Sunderland and West Leeds * Extra £2.2bn for courts, prisons and probation services * Tax relief for museums and galleries will be extended for two years, to March 2024 * Core science funding to rise to £5.9bn a year by 2024-25 * Consultation on an online sales tax * National Living Wage to increase next year by 6.6%, to £9.50 an hour   **COMMENT**; Shares in housebuilders are mostly higher in response to the move to levy a 4% tax on profits over £25m to create a £5bn fund for removing unsafe cladding. This is a major step towards tackling an issue that has dogged the sector since Grenfell Towers. The builders are also encouraged by the plans for 180k new homes on former industrial land. Other measures are inkeeping with the UK government’s levelling up agenda in particular the rise in funding of the devolved governments. **Children and education**  * Schools to get an extra £4.7bn by 2024-25 * There will be nearly £2bn of new funding to help schools and colleges to recover from the pandemic * Schools funding to return to 2010 levels in real terms - an equivalent per pupil cash increase of more than £1,500 * £300m will be spent on a "Start for Life" parenting programmes, with an additional £170m by 2024-25 promised for childcare   **COMMENT**; Education was hit hard by C-19 and will now get help in the form of extra funding over 2022-2025. **Air travel**  * Flights between airports in the UK nations will be subject to a new lower rate of Air Passenger Duty from April 2023 * Financial support for English airports to be extended for a further six months * A new ultra-long haul band in Air Passenger Duty for flights of over 5,500 miles will be introduced from April 2023   **COMMENT:** The UK government is clearly trying to help its airports recover from C-19 and the death of international travel. The rise in departure tax on long haul flights should hit mainly Far Eastern visitors.  line break **Alcohol**  * Planned rise in the duty on spirits, wine, cider and beer will be cancelled * Simplification of alcohol duties will see the number of rates drop from 15 to six * Stronger red wines, fortified wines, and high-strength ciders will see a small increase in their rates * Rates on many lower alcohol drinks including rose wine, fruit ciders, liqueurs, lower strength beers and wines to fall * All sparkling wines to pay same duty as still wines of equivalent strength * New, lower rate of duty on draught beer and cider will cut the rates by 5%   **COMMENT:** The measures to simplify duties will be well received as will cancelling the planned alcohol hikes. The Chancellor is trying also to encourage the English cider, wine and craft beer industry at the same time.   * Conclusion   The planned hike in national insurance will impact anyone above £30k and clearly this has been seen as sufficient for now. By handing 6% pay rises (£9.50/ hr) to the 7% (2m people) of the workforce on the minimum wage the Chancellor has ensured the lowest paid are not seeing a pay cut in real terms.  There is nothing in the Autumn Budget too earth shattering and this should build on the Chancellor’s reputation as having a steady hand in what remain quite testing times. | |
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