Threat To Retail Jobs,Says Joint Study By Genworth And BRC

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Lack of mortgage lending to first time buyers (FTBs) is having a major â€œhiddenâ€• impact on British retail and on jobs.

one of the worldâ€™s leading providers of mortgage insurance, and the British Retail Consortium (BRC), say that enabling prudent mortgage lending to FTBs will help reverse declining sales in DIY, gardening, home wares, furniture and floor coverings that accounted for Â£34 billion in sales last year.

Trend analysis over an eight-year period (2005-2012) shows a strong relationship between lack of mortgage lending and falling sales on the high street.

Angel Mas, CEO of Genworthâ€™s mortgage insurance business in Europe, explains:
â€œA lack of lending leads to lack of productive spending thatâ€™s impacting the economy and jobs. Close examination of the data we have on mortgage lending uncannily mirrors falling retail sales on the high street over the same period and this is statistically relevant. In particular, sales of DIY, gardening, home wares, furniture and floor covering products have fallen by five per cent since the start of this year and could have fallen by more than 10 per cent by the end of 2012.â€•

He continued:
â€œFirst time buyers are the lifeblood of the housing market. From an economic perspective, itâ€™s not in our best interests to disenfranchise a generation of aspiring home owners who could afford to repay their mortgages but are excluded because they canâ€™t meet a prohibitively high deposit threshold. â€œWhat needs to happen â€“ and quickly in order to stimula the economy as well as protect jobs â€“ is that lending to FTBs should be increased in a prudent way. Appropriate risk mitigation measures that protect lenders, such as mortgage insurance, can play a fundamental part in minimising the risks of this kind of lending to commercially acceptable levels.â€•

Stephen Robertson, Director General, British Retail Consortium (BRC) adds:
â€œHome ownership and the availability of mortgage credit are crucial to macro-economic recovery, together with the three million jobs in the retail sector â€“ the largest private sector employer in the UK. BRC data demonstrate just how strongly house-buying drives the sales of furnishings and homewares. â€œOur latest figures show housing-related retail sales are the worst in over a year, confirming that renewed weakness in the housing market is having a deep impact on high street spending levels, which in turn affects jobs in retailers and suppliers.

â€œIf measures announced to support construction, by relaxing planning rules, boost the housing market recovery they will also help retail sector.â€• Genworth and the BRC predict that the current depressed levels of mortgage lending will not only lead to more retail casualties but threaten thousands of retail jobs.

These fears were confirmed by a recent poll of MPs commissioned by Genworth that explored their attitudes towards various aspects of mortgage finance and the impact it was having on the economy, where 87 per cent of MPs surveyed said that more needed to be done to help FTBs get on the housing ladder than what was being proposed (May 2012). Â

Both Genworth and the BRC have welcomed schemes such as Funding for Lending as well as other initiatives announced this month, but itâ€™s the private sector that holds the key to kick starting recovery and first time buyers are very important in this regard.

Banks and building societies have an opportunity to acquire new customers as well as have a significant impact â€“ more than any other measure currently being considered â€“ to stimulate retail sales in the DIY and home improvement sector and potentially help create new job opportunities for workers in the UK.

- Whilst the relationship between mortgage lending and household retail spending has always been correlated, it has become inextricably linked since the onset of the liquidity crisis in August 2007. The subsequent 77 per cent fall in mortgage lending volumes immediately led to a 15 per cent decline in household retail spending. The decline in retail spending was exacerbated by the impact that the reduced availability of mortgage credit had on the value of house prices for existing homeowners. According to the Halifax, property prices fell by 23 per cent from their peak in August 2007, diminishing household wealth and directly impacting consumer confidence and spending.

- Similarly, the increase in mortgage lending volumes that occurred throughout 2009, instantaneously fed though to a surge in retail sales. During this period, the availability of mortgage credit increased and there was a modest expansion in mortgage loans offered at higher loan-to-value (LTV) and loan-to-income (LTI) ratios. This followed the implementation of a number of government measures aimed at reinforcing the stability of the banking system and increasing the capacity

to lend. These were publicised in January 2009 as the UK entered recession.

- The Asset Protection Scheme (APS) was among these policies which provided banks with protection against future losses in exchange for a fee and explicit lending commitments to creditworthy businesses and individuals. This was followed in March 2009, by the announcement of the Bank of Englandâ€™s â€˜quantitative easingâ€™ (QE) strategy to encoura new lending, accompanied by a further interest rate cut to 0.5 per cent. The sustained support for the banking system throughout 2009, served to underpin improved growth in mortgage lending and corresponding retail sales.

- These positive developments were short lived as policy responses were scaled down, asset purchases financed by the Bank of England under the QE scheme halted and the Eurozone crisis emerged. Mortgage lending fell by 37 per cent over 2010, which immediately effected retail spending.

- Continued depressed levels of mortgage lending will likely feed through to higher unemployment, specifically within the household retail sector. So far, large scale redundancies have been avoided with employers instead choosing to reduce the number of hours worked by part-time employees and scaling down contracting work. However, with part-time hours at their lowest levels, the scope for pursing this strategy is diminishing. With loss of employment cited as the primary reason for borrowers falling behind on their payments, deterioration in mortgage performance should be expected, with banks becoming increasingly exposed to mounting losses. Â

- Net mortgage lending has historically been found to be a driver of retail spending linked to property refurbishment. For example, a study by the Bank of Canada demonstrated such a correlation (Household Borrowing and Spending in Canada, Bank of Canada Review 2011-12).

- Angel Mas, CEO of Genworthâ€™s European mortgage insurance business and is available for radio and TV broadcast interviews.

Source: Genworth Financial/British Retail Consortium (2012)

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