

The Opinion

By Charles Curran, Managing Director



Are closer ties with Europe the key?

The spectre of a general election looms as our two main political parties begin testing policies at their respective Conferences over the next few weeks. The bookmakers are already offering odds and Labour is in a clear lead. Whomever wins, the new Government will have to tackle a weak economy with very few fiscal policy options available to them. In this paper we will offer our opinion on the economic climate, what realistic options are available to Government and how the property market in our area, Prime Central London will be affected. We hope that this paper will prompt some debate.

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The Government has not had an easy run over the past 5 years and yet, even giving them considerable latitude for global events, they have not showered themselves in glory. Far from it: from political in-fighting, PPE scandals, the cost-of-living crisis, an inability to secure meaningful trade deals, The Truss fiasco... the list goes on. And it takes away from achievements such as the Northern Ireland deal. Sadly, a Maskells client who recently engaged with a senior member of government likened the conversation to a university debate, where ideology seemed more important than solving problems. Our client found this astonishing at a time where so many people are struggling and concluded that much policy was therefore

likely only conceived within the “Westminster Bubble”.

As an indication of the effectiveness of Government policy, we often look at, amongst other research, the Purchasing Managers Index (PMI). The PMI is, according to Standard & Poors’, an *“accurate and timely indicator of business conditions that help...correctly anticipate changing economic trends... such as Gross Domestic Product”*. The composite PMI for the UK has continued to fall; from 48.60 to 46.80 from August to September 2023 (a figure below 50 implies economic contraction). Of grave concern is that manufacturers noted *“customer destocking had acted as a brake on their output requirements”* and *“there has been a particularly steep decline in backlogs of work, with the rate of contraction the fastest since February 2009, and employment reduced”* (Source: Trading Economics – UK PMI). In the same period, Yeal Selfin the Chief Economist at KPMG wrote in her September publication: *“While worries about a deep recession have largely gone away, the prospect of high interest rates and low productivity are expected to hold back growth”*.

With the Conservatives unlikely to call an Election until the Autumn of 2024 to give time for inflation to be brought under control, they will be faced with further problems according to Ms Selfin: *“The UK economy could struggle to keep its head above water in the second half of 2023. Our*

forecasts show real GDP growth slowing to just 0.4% in 2023 and 0.3% in 2024. And uncertainty around the upcoming general election and strength of demand suggests that risks are skewed to the downside."

The Major European economies are also a mixed bag: German GDP is forecast to shrink by 0.4% next year with contraction in energy-intensive industries and with real wage losses continuing to weigh on private consumption. The Netherlands have also seen an erosion on household spending power but modest wage growth and a decline in inflation coupled with a rise in exports are expected to provide for further growth in GDP by 0.5% this year. France has seen a surge in net exports (aeronautics and transport equipment), despite domestic demand remaining sluggish. As conditions improve through private spending, GDP is expected to grow by 1% this year. Recovery in these countries, are being and will continue to be driven by trade (Source Europa.eu economic surveillance).

The new Government, likely to be Labour, may do well to bear this in mind when guiding the UK economy. However, two items will make life harder for Sir Kier Starmer versus Tony Blair's New Labour. Firstly, Mr Blair inherited a strong economy from the Conservatives in 1997 and secondly at that time the UK could easily trade with the continent. And trade is the key as the UK's public sector net debt to GDP ratio is over 103% which makes borrowing to fund new projects all that more expensive. So what do we think Labour going to do and should we be worried?

In the short term, our opinion is that Labour will say and do very little which is seen as controversial by the electorate. Given their polling, this is their election to lose. Anything they do say will provide ammunition for the Conservatives. We think Labour will bide their time and 12-18 months into Government will likely concede that closer ties to Europe are needed to expand trade and therefore the Economy. And they will likely be correct, and it will likely not be difficult:

The UK remains largely aligned with Europe – it was pointed out to us this week, for example, the Government has announced the decision to extend indefinitely the recognition of the European CE (quality

control) mark for most goods entering the UK Market. The UK's own UKCA has all but been abandoned. It was also pointed out that of the EU laws on our books that with the sunset clause having been abandoned in May 2023, only 17 have been repealed and others (such as laws under the Financial Services and Market Act 2023) are in... consultation. There are many other examples, but the point is we remain extremely aligned with the EU for the time being and it would make sense for Labour to go down this road. Very slowly, and with baby steps.

"Sensible pricing will attract buyers."

Closer ties with Europe is a positive for the Prime Central London housing market. If Labour can find a way to reestablish financial Equivalence, coupled with increased trade with the Continent, then we may well see the property market taking off again. The Times published an article maintaining that the Property Market tends to do better under Labour – and they are correct because Labour have tended to inherit robust economies. This will not be the case for the next election, and we are in uncharted territory. Provided Kier Starmer is more Blair than Corbyn (and it looks like he might be) then the future looks OK. For now, however, property prices are down and whilst they have dropped less in our patch of Prime Central London, it was certain (and as we had previously written) that there would be some contagion from the more heavily levered Prime London market. Sensible pricing will attract buyers and that may mean Vendors have to accept price reductions to sell. This is the way for now and for at least the next 18-24 months in our opinion.

We have been proactive in ensuring our Vendors are aware of our opinion and those who agree with us have found a receptive market to sell into. Those who hold out, may have to wait quite a bit longer to see how the politics plays out, in order to sell at their desired price. In so doing, we would invite them to consider if a lower price today may somehow be offset by either (a) a lower price on their onward purchase or (b) the placing the sales proceeds on deposit at rates which we have not seen since 2008.

Written by Charles Curran



Prior to setting up Conster Capital Ventures, the parent company of Maskells Estate Agents, Charles held senior positions at Bear Stearns, Bank of Scotland and Societe Generale where he specialized in Mortgage Backed Securities (Residential and Commercial), Asset Backed Securities and Structured Credit. Charles assists the teams with market data analysis, asset valuations and deals with the company's financial institution clients.

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