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ECONOMICS

Britons cut back on spending as their assets sink £600bn

By Lucy Barnard

BRITONS are £600bn worse off than a year ago as the economy veers perilously close to recession, leading accountants have warned.

According to PricewaterhouseCoopers, the year-long global credit crisis has slashed housing wealth by £400bn, while the value of other assets has plummeted by £200bn due to share price falls.

Plunging house prices, down 9pc year-on-year, are forcing consumers to cut back on discretionary spending on goods and services.

PwC predicts that consumer spending will fall by between £12bn and £16bn – up to around 1pc of the country's entire GDP – over the next year-and-a-half, with knock-on effects for both employment and economic growth.

"The fall in wealth will mean that UK household spending growth is likely to slow to just 0.5pc in 2009," said John Hawksworth, head of macroeconomics at PWC.

"However, that will not be enough in itself to push the UK into recession. We are sailing pretty close to recession but it will take something else to push us over the edge."

On Wednesday, the Bank of England is expected to warn that Britain is on the brink of a possible recession when it publishes its quarterly inflation report.

The Bank is likely to slash its economic growth forecast for this year and 2009 to the lowest level since it was granted independence more than a decade ago and warn that inflation will rise to close to 5pc over the next few months.

Richard Lambert, director general of the Confederation of British Industry, admits in a letter being sent to CBI members that his organisation had been "consistently over-optimistic" about the state of the economy and that things are actually much worse than he had thought.

Mr Lambert, who had previously been relatively optimistic about the British economy, warned that growth prospects through 2009 and into 2010 look "no better than anaemic".

He added: "There is no doubt that the mood has darkened in the past two or three months."

There are also signs that the seemingly healthy employment market is now suffering under the strains of the credit crisis as employers try to cut costs.

A survey by the Chartered Institute of Personnel and Development and financial services group KPMG found that more than a quarter of all employers now plan to make redundancies over the next three months.

The survey also revealed that the number of employers looking to take on staff this September – traditionally the most buoyant time for recruitment – dropped to only 29pc, nearly 10 percentage points lower than for the same period last year.

John Philpott, chief economist at the CIPD, said: "The jobs market has been one of the few bright spots in the UK economy.

"But cracks are appearing in the face of an increasingly uncertain economic outlook."

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