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PRICEWATERHOUSECOOPERS

Credit crunch has wiped £1m a minute from wealth

By James Ablett

The credit crunch has wiped a total of £600bn – more than £1m a minute – from the UK's total wealth since it started a year ago, according to accountants PriceWaterhouseCoopers.

Their analysis focuses on the impact of lost wealth in housing and the collapsing share values of financial firms, the sectors that have been most severely affected by the credit crisis.

In broad terms, the PWC estimates that it comprises a loss of £400bn in residential property and £200bn on the stock market valuations of the banks and other financial institutions.

This level of wealth destruction, says PriceWaterhouseCoopers, is expected to lead to around £12bn to £16bn of lost expenditure over the coming year as these negative stock market and housing wealth effects filter through.

Such asset price deflation leaves households with less equity to withdraw from their homes, less collateral to borrow with and smaller pension pots, all of which will affect spending patterns.

Depressed markets also create a "feel poor" effect that further inhibits spending. PWC calculates that the loss to GDP is about 1 per cent, which could be sufficient to push the UK economy close to or into recession, with household spending growth slowing to only 0.5 per cent over 2009.

This remarkable destruction of wealth is sure to have been mirrored around the world, and will have also have struck larger economies, such as the United States, harder still, in turn driving global trade and growth trends lower.

John Hawksworth, head of macroeconomics at PWC, commented: "The fall in UK house prices... has driven down the level of wealth tied up in UK housing by around £400bn, representing a 9 per cent fall in the value of the UK's housing stock".

Mr Hawksworth added that the stock market loss had been "around £200bn" and concluded that the £600bn loss would "add to downward pressures on UK economic growth over the next year".

PWC says that its perspective is "conservative", and that this is its best case scenario, excluding the impact and likely spill-over of other important related sectors, such as commercial property and commercial paper.