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Credit crunch wipes out £600bn

▶ **ECONOMICS**

ANTONIO FABRIZIO

AROUND £600bn worth of wealth may have been wiped out in the UK because of the credit crunch, an analysis by PricewaterhouseCoopers has revealed.

The study, conducted by PwC economists, focused on the impact of the credit crunch on the British economy over the twelve months to June 2008.

The report estimates that the downturn will cost between £12bn and £16bn in lost expenditure over the next year, equivalent to around 1 per cent of Britain's GDP.

John Hawksworth, head of macroeconomics at PwC, said: "The analysis concerns the impact of the credit crunch on the two most severely and directly affected sectors, housing and finance."

He said: "The fall in UK house prices that began in September 2007 has driven down the level of wealth tied up in UK housing by around £400bn, representing a 9 per cent fall of the value of the UK housing stock over the twelve month period ending in June 2008."

In addition, the financial sector, the other area the economists monitored in the study during the same period, suffered a loss of stock market capitalisation of some £200bn, he added.

Based on previous studies, PwC has estimated that British businesses and households could reduce their spending by £12-16bn as a result of the turmoil. But the lagged effect of reduced wealth on expenditure means this reduction would take a year or so before the effect is fully felt.

ANALYSTS VIEWS: WHEN WILL THE ECONOMY AND EQUITY MARKETS PICK UP AGAIN?

JOHN HAWKSWORTH | PRICEWATERHOUSECOOPERS

"It will be at least a year or two before things reform to a more positive trend. I estimate it will take one to two years before the housing market reaches bottom. That period is likely to feed back into a second round of problems in the banking sector due to increased bad debt so from that perspective we have a long way to go and it will take a while to work through."

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MIKE LENHOFF |
BREWIN DOLPHIN

“I am feeling a little less optimistic than before. In developing economies interest rates are now rising rapidly and I expect some slowdown there, meaning any support for the US by way of trade will disappear. We are faced with a longer and deeper recession than I'd imagined. I expect things to pick up some time next year.”

ALBERT EDWARDS |
SOCIETE GENERALE

“Technical indicators have moved nicely back into neutral territory ready for the next lurch into the bear market abyss. We see a deep global recession. We expect the S&P to bottom at 500 (a 70 per cent slump from the 11 Oct 1,575 peak and a fall of 60 per cent from today's FTSE 100 to bottom at 3,000.