

NORTH EAST SHADOW MPC

NOTES OF MEETING: 15 MARCH 2016

Present: Chris White – Darlington Building Society (chair)

David Coates – Newsquest North East

Anne Elliot – Latimer Hinks

Hirohito Imakoji – Liebherr

Ajay Jagota – KIS Group

Mark Jolley – MN Consultancy Ltd

David Pearson – Constructing Excellence

Graham Robb – Recognition

Ross Smith – North East Chamber of Commerce

Jonathan Willet – Henderson Insurance Brokers

In attendance: Darren Ditchburn – Darlington Building Society

Adam Royal – Darlington Building Society

Darlington Building Society

Guests from Darlington Building Society outlined impact of interest rate levels on the business and its customers:

- Savers have suffered from low interest rates and have difficulty finding a good rate of return
- Cheaper to access Funding for Lending Scheme than retail savings
- Margins squeezed for mortgages with rates less than 2%
- Mortgages extremely competitive and at all time low as percentage of income
- More advantageous for many borrowers to be on variable rate, but majority still on fixed rate
- Fast rises in interest rates would put many families under financial stress
- Help to Buy continues to support first time buyers
- Many institutions wary of risk and placing money with Bank of England despite rate of 0.5%; this makes it difficult to drive a profit

State of economy

Members outlined the following issues in the North East economy:

- Financial services:
 - Investment returns squeezed
 - Peer-to-peer lending growing, but not fully regulated and poor understanding of risks
 - Increase in lending to companies from non-high street lenders
- Housing:
 - Rent levels flat for last 12 months
 - No big increase in buy-to-let investment from pension reforms
 - Flurry of activity to hit deadline before stamp duty increases – uncertain what market sentiment will be after April
 - Deposits more affordable in the North East, but does not appear to be driving activity
 - Older people re-mortgaging houses to release cash, or downsizing to release equity if they do not have big pension pots
- Business services:
 - Generally strong performance
 - Recent announcements from SSI / Cleveland Potash / Air Products has had impact on local market

- Construction / development:
 - Development sites coming forward, with local authorities promoting them strongly
 - A lot of work on new housebuilding for sale; social housing work has stopped due to policy changes
 - Construction inflation levelling out
 - Commercial property development relatively healthy
 - Some major firms still have very low credit rating
 - Development of retirement villages a busy area
 - Institutional investors backing private rented sector developments in the North East
- Manufacturing:
 - Export market shrinking, with slow growth in developing countries
 - Direction of exchange rates now helping competitiveness
 - Easy access to finance for firms with strong balance sheet
 - Oil and gas sector very badly hit
- Consumer services / retail:
 - Strength in this area, particularly motor trade
- Media:
 - Advertising income settled down
 - Reduced revenue from property, due to shortage of homes for sale in mid-market and above
 - Relatively strong in jobs, motors and retail

Comments

Further comments affecting the Shadow MPC's decision included:

- EU referendum creating uncertainty and affecting investment plans
- Exchange rates crucial for North East economy due to importance of international trade
- Eurozone economy very weak and China weakening
- New costs on business making it harder to absorb any rise in interest rates – e.g Living Wage, Apprenticeships Levy

Decision

The Shadow MPC voted unanimously to hold interest rates at 0.5%.