

What effects did the credit crunch have on the uk economy?



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I have choose the topic of effect of credit crunch on uk economy for comparative analysis and for the purpose of this comparative analysis i have articles publish in business source premier. The title of the articles i have studied and compared are

What part of GB are vulnerable to credit crunch

Credit crunch - what might the uk regional impact be

Though the title of both of these articles are not exactly same but these articles have similarities in that they both deal with the issue of the affect of credit crunch on UK .

When considering the purpose of the articles and the framework in which they are written which is regarding credit crunch and its impact on the uk economy.

the first article consider the affect of credit crunch as two way as on the first side the was shortage of availability finance and on the other side there were increase in the cost of the food and energy prices which is squeeze on disposal income. But on the other hand both articles tend to agree that the affect of the credit crunch is not limited to the capital areas of London etc but have lasting impact on the regional areas of the country.

Complexity in banking and related metropolitan sectors bring to mind that the local impacts of a economic crisis would be felt extremely harshly in London and, to some level, the South East. But this is not the entire picture of it, and we would anticipate bigger impacts on, for example, commercial services and consumer-related sectors that would impact overall.

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The lending crisis is consequence of US sub-prime crunch. The US sub-prime crisis has seen above average height of non-payment on securitised mortgage liability. Regardless of what were intended to be moderate credit ratings the loans turned out to lack transparency, in that the final investors were both unaware of the higher stage of threat, As soon as the mortgage had gone poor, were too distant from the non-payments to be capable of successful repossession of money, which caused the trust issue among number of financial institutions, which furthermore has meant that it is difficult for financial institution to bring up money. This is exactly what happened for mortgages at the moment. Which had come to depend upon deeply on examining money in past years? But it communicates on other consumer and industrial finance, and on City style international financial services business (for example, mergers & acquisitions).

The influence at the moment is on home equity loan providers who are going through commercial low prices times. Consumer credit has, at first at least, been more vigorous, even though fresh new commercial development is well depressed on a couple of years ago. This early flexibility is probable to be a consequence of consumer credit taking niche from home equity loan withdrawal and from domestic using consumer credit to assistance finance greater home equity loan costs. Together these are dubious to endure and commercial capacity could clearly drop, Still if not as sharply as home equity loans. Commercial borrowings also look risky at present unsure environment.

House buyers have been directly affected by the credit crunch in United

Kingdom. To get a house on mortgage is even harder now and more

expensive than before. Moreover, the selection criteria to give the
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mortgages are stricter, for example, the requirement for deposit is quite much more than what it used to be. The buyer confidence is lost due to credit crunch effect due to which now its hard to find buyers for house. Not only the future mortgages but also existing mortgages suffered when disposable income eroded when two-year fixed rate mortgage deals taken out in late 2005 and 2006 have to be re-financed at considerably higher rates.

This part centralises on the areas of industries selected as exposed to risk. Regional effects may reflect some specific aspects to be considered. There are number of indications that house price-to-income ratios are further from their long-run averages in parts of the North and Midlands than in London and the South East and, by knock-on effect, probable to extreme falling-off. Debt-to-income ratios are higher as well in some areas than others. These matter will be looked at further in the upcoming Oxford Economics' regional predict while we focus here on the location of the risky industries.

The price decrease was anticipated in housing market by 2 percent throughout 2008 as borrowing customs changed and household assurance diminished. With many of the United Kingdom's 'weaker' areas economically going through the quickest increase in house prices comparative to earnings over the last five years, strict lending practices and spending conditions will knock several areas badly who may be less influenced by the straightforward upshot of the credit crunch on the banking sector

Assets such as houses and buildings stand at a risk of decrease in their prices. Houses demand has eroded and future buyers are hard to find

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because they are having all sort of difficulties in obtaining mortgages.

Construction of business assets is also vulnerable. Business properties yield has been seen to sharpen since the subsequent decrease in asset worth and total earnings. When earnings generated from such assets have gone down deeply in the history, a drop in new work has predictably went along with. The optimism at this point is rising significance of investment by Sovereign Wealth Funds which will counterbalance the credit crunch effect, but this is only probable to control further drop rather than stopping it. The positive point, however, are public sector and infrastructure work, which appear much more healthy.

At large, the larger cities are more exposed to risk than the Great Britain usual as would be expected known the propensity of business and financial services and trading to strengthen the larger cities but as compare to London they are not that vulnerable. First reason could be the diversification which is not in that big number outside the London. This might have indeed restrain employment increase back in some cities in prior years but may at present behave as a shield when there is an indication of job losses in high growth sectors. Moreover, it shows that slighter wealthy centres have seen big attentiveness of employments in financial services and other susceptible sectors grow over a period of time roughly ten years. For future, on the other hand, the setbacks subsequent from the credit crunch relevant to lending and obtainability of funding may have bigger effects on city centre, although could be via the help of schemes such as regeneration and renaissance development.

Well to some extent it is quite likely that consumer market will get a lot of benefit in particular areas of country due to the economic developments. People especially visitors would like to spend in United Kingdom due to fall in the sterling rate and UK centres will be diverted by UK holiday spending. The clear heftiness of central London retailing, for a short period of time, may be an point that this is taking place. After having considered all things it is visible that consumer industries may stay at threat.

Even though the investment and banking sectors contribute only below 4% of employees across Great Britain overall, their importance is quite much in few areas of the country. The maximum attentions are predictably, in the London authorities of City of London and Tower Hamlets (Canary Wharf). The regions which require more financial attention are those which suffer the most in the situations like this. Many big employers for example, HBOS in Calderdale and Norwich Union in Norwich, have recruited about 10 percent of employees in the department of financial services and undoubtedly areas like these are not safe from the effects of credit crunch. Other areas of financial services, for example, pension funding and insurance are not that much exposed to the after effect of credit crunch. Besides, unemployment ratio increased in the industry of insurance but this was not regarded to be the effect of credit crunch but something not related to it, more likely efficiency factor rather than market conditions.

Conclusion:

I have comparatively analyses two articles based on the topic of credit crunch and its affect on UK's economy taken from the business source

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premier database and based on my analysis i can conclude that though the impact of credit crunch not only limited to big cities but the regional areas were also affected of the credit crunch and it seems that both articles give impression that the most affected area of credit crunch is the housing industry and financial sector.