

## UK

### BoE Article On Household Balance Sheets

- The latest BoE Quarterly Bulletin contains a regular annual survey of household balance sheets, carried out for the BoE by NMG Consulting, and based on a survey of 6,000 households. There are several points of interest.
- First, fewer households are worried about housing costs and debt levels. The share of people with a mortgage who report that they have had any problems in the past 12 months paying their mortgage and other housing costs fell to 14% from 19% a year ago and is the lowest since the survey began in 1991. The share of people with a mortgage who are worried about their “*current level of debt*” fell to the lowest since this question began in 2012. Second, households’ decisions to borrow do not seem to be based on overly optimistic assessments of the interest rate outlook – or at least, no more optimistic than markets. The survey suggests that the median among households for the expected level of BoE Bank Rate in coming years is fairly similar to market pricing. Third, the BoE report that 37% of mortgagors would have to take some action to improve their finances if interest rates were to rise by 2 percentage points and incomes are stable. However, this equates to only 12% of all households. Moreover, in the more realistic assumption that a 2 percentage point rise in Bank Rate is accompanied by a 10% rise in incomes, the share of mortgagors who would need to take action falls to 4%, equivalent to only 1.3% of all households. On both measures, the share of vulnerable households is lower than a year ago. The article concludes that “*Overall, these results do not imply that increases in interest rates from their current historically low level would have unusually large effects on household spending*”.
- We agree with this general message that household balance sheets are not highly fragile. The household debt/income ratio has continued to fall over the last year and now is the lowest since Q1-2004 (when Bank Rate was about 4%). The share of households with a mortgage is the lowest for roughly 30 years. Indeed, the overall private debt/GDP ratio has fallen by 44 percentage points from the 2009 peak (from 210% to 166%), the biggest drop among the wide range of advanced economies covered by the BIS database. By contrast, BoE policymakers generally have argued that the private sector is unusually vulnerable to rising interest rates; for example, Governor Carney speech in a recent speech (25 September 2014) argued that “*a highly indebted private sector is likely to be particularly sensitive to changes in interest rates*”. To the extent that such balance sheet worries are built into the MPC’s growth forecasts, we suspect that domestic demand growth in 2015 will (as in 2014) outpace the MPC’s forecasts – especially given the likely upturn in household real income growth in response to falling inflation and rising pay growth.

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