The financial position of British households: evidence from the 2010 NMG Consulting survey

By Mette Nielsen of the Bank's Risk Assessment Division, Silvia Pezzini of the Bank's Monetary Assessment and Strategy Division, and Kate Reinold and Richard Williams of the Bank's Structural Economic Analysis Division.(1)

The UK economy has begun to recover over the past year but households' financial positions remain under strain. Elevated unemployment, weak earnings growth and restricted credit availability still pose a problem for some households. But the low level of Bank Rate has continued to bear down on mortgage interest payments for some borrowers. This article examines evidence from the latest survey of households carried out for the Bank by NMG Consulting in late September, which shows how these and other changes have affected households' budgets and spending decisions. The burden of unsecured debt was higher than in the past and concerns about debt levels had increased, leading some to save more in order to reduce indebtedness. A special set of questions this year showed that households' awareness of the fiscal consolidation measures was quite high. They were concerned about the impact on their finances, although the majority had yet to take any action in response.

Introduction

The UK economy has begun to recover over the past year following the deep recession of 2008–09. But households still face difficulties: unemployment remains higher than before the recession, earnings growth is weak and credit availability remains restricted.

The low level of Bank Rate has contributed to a reduction in mortgage interest payments for some borrowers relative to two years ago. To meet the inflation target, the Bank of England's Monetary Policy Committee (MPC) sharply cut Bank Rate to 0.5%, a level it has remained at since March 2009. As a further stimulus, the Bank purchased £200 billion of assets financed by the issuance of central bank reserves between March 2009 and January 2010.(2)

The implication of these various developments for aggregate household spending and for the incidence of debt payment problems is likely to depend, in part, on how their impact is distributed across different households. Disaggregated data can illuminate the differences in impact and can indicate how different groups have responded to recent developments.

In late September 2010, NMG Financial Services Consulting carried out a survey of about 2,000 British households on behalf of the Bank. The design of the survey is described in the box on page 344. Households were asked a range of questions about their finances. These included questions about how much they owed, whether their borrowing was secured or unsecured, whether they found it to be a burden and whether they had difficulty accessing credit.(3) The survey is the eighth that the Bank has commissioned NMG Consulting to conduct on household finances.(4) Results from this year's survey were used in the November 2010 *Inflation Report* to assess both the position of household balance sheets and the effects of fiscal measures on households' finances.(5) The results have also been covered in a recent speech by the Bank's Chief Economist (Dale (2010)).

This article describes the results from the survey in more detail.(6) The first section discusses the impact of weak labour and housing markets on households' income and housing wealth and how this interacted with tightening credit conditions. The impact of the monetary policy response to the

(1) The authors would like to thank Tomas Hellebrandt and Kishore Kamath for their help in producing this article.
(2) For more information on the Bank's programme of asset purchases, see Bank of England (2010a).
(3) The NMG Consulting survey is carefully designed and weighted to be representative of British households. But, as in any small sample of a population, care must be taken in interpreting small changes in results from year to year because they may not be a reliable guide to changes in the population.
(4) The results of each year's survey have been reported in the *Quarterly Bulletin*. See Hellebrandt *et al* (2009) for details of the 2009 survey.
(5) For further details, see pages 21–23 of the November 2010 *Inflation Report*.
(6) The raw survey data are available at www.bankofengland.co.uk/publications/quarterlybulletin/nmgsurvey2010.xls.

crisis is also addressed, along with the potential response of households to the fiscal consolidation measures, a topic that is discussed further in the box on page 338. The second section describes households' ability to keep up with debt commitments and household bills, how those suffering from payment problems are resolving them, how concerned households are about their debt levels and what actions, if any, they are taking in response. The third section considers how households changed their spending and saving decisions in response to the recession. The final section concludes.

Impact of the financial crisis and the recession on household finances

Weakness in the labour market

Unemployment increased and earnings growth slowed as a result of the 2008–09 recession. Both of these factors will have pulled down on aggregate household income but the effects are likely to have differed across households. For example, many households may have experienced slower earnings growth but a smaller number will have been affected by rising unemployment. Earnings growth has remained weak over the past year and unemployment remains higher than before the recession, although it has fallen slightly over the past year. The unemployment rate of respondents in this year's NMG survey was similar to the 7.7% recorded in the ONS Labour Force Survey in 2010 Q3.

The NMG survey asked respondents about the level of their 'available' income — income left over after paying tax, national insurance, housing costs (rent, mortgage payments, council tax), loan payments and utility bills — and how it has changed over the past year. **Table A** reports the results according to the housing tenure of the respondent. About a half of households reported a fall in monthly available income, while more than a third reported that their income was unchanged. The falls in income appear to have been broadly based across different types of household by housing tenure.

Some factors affecting available income may be more specific to particular groups of households. For example, unemployed households reported a larger-than-average fall in available income, although this was smaller than in last year's survey. And the group of households mentioning a heavy burden of unsecured debt reported a fall in available income about twice as large as the average household. This could reflect higher loan interest payment costs following the increase in credit card interest rates over the past year.

Weakness in the housing market

Following more than a decade of consistently rising house prices, there have been significant changes in house price growth over the past three years. Sharp falls from the end of 2007 left house prices almost 20% below their peak by 2009 Q2.[1] Some of that fall has reversed over the past year,

Table A Changes in available income by housing tenure[a][b]

	Outright owners	Low LTV mortgagors	High LTV mortgagors	Renters	Total
Percentages of households	**34**	**31**	**7**	**28**	**100**
Characteristics					
Mean pre-tax monthly income (£s)	2,299	3,832	3,585	1,378	2,560
Mean available monthly income (£s)	799	818	601	361	655
Distribution of changes in monthly available income (percentages of households)					
Down by more than £100	22	33	36	28	28
Down by £51 to £100	15	15	10	17	15
Down by £1 to £50	8	5	7	8	7
Not changed	43	32	21	36	37
Up by £1 to £50	5	4	3	3	4
Up by £51 to £100	2	6	4	4	4
Up by more than £100	5	5	17	5	6
Mean change in available income (£s)	-37	-50	-34	-44	-43

Sources: NMG Consulting survey and Bank calculations.

(a) Questions: 'How much of your monthly income would you say your household has left after paying tax, national insurance, housing costs (eg rent, mortgage repayments, council tax), loan repayments (eg personal loans, credit cards) and bills (eg electricity)?'. 'And how much would you say that your monthly left over income has changed over the past year?'.
(b) The distributions of changes might not sum to 100 because of rounding.

though recently house price inflation has eased again. In October 2010, house prices were around 1% higher than they had been a year earlier; mortgagors in the NMG survey reported a broadly similar change. The average house price in the 2010 NMG survey was £217,000.

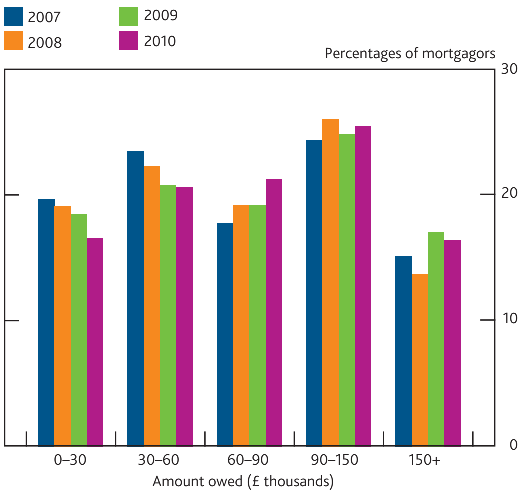
During the year prior to the survey, housing market transactions were low, contributing to muted growth in secured debt. In the NMG survey, the average amount of secured debt held by mortgagors in 2010 was just over £90,000, little changed from 2009. The distribution of that debt was also little changed on the year with slightly fewer mortgagors owing more than £150,000, but a larger proportion with debt between £60,000 and £90,000 (**Chart 1**).

The proportion of households reporting a loan to value ratio of greater than 75% was not much changed in this year's survey at around 19%, consistent with broadly flat house price growth over the year (**Chart 2**). This proportion was higher than in 2007, as house price falls during the recession led to an increase in secured borrowers' loan to value ratios.

The number of first-time buyers in the housing market remains relatively low. While house prices currently lie around 13% below their 2007 Q3 peak, and relatively low mortgage rates have made the housing market more affordable for first-time buyers, the median deposit required for a mortgage remains

(1) Calculated using an average of the Nationwide and Halifax seasonally adjusted quarterly indices.

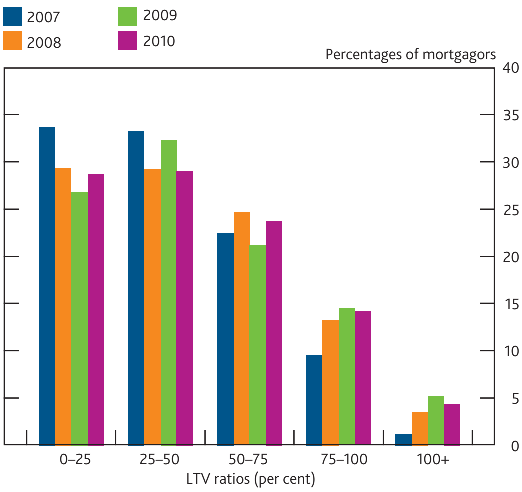
Chart 1 Distribution of secured debt among mortgagors[(a)]



Sources: NMG Consulting survey and Bank calculations.

(a) Mortgage debt from the NMG survey captures only mortgage debt owed on households' primary residences.

Chart 2 Distribution of loan to value ratios on mortgagors' outstanding secured debt[(a)]



Sources: NMG Consulting survey and Bank calculations.

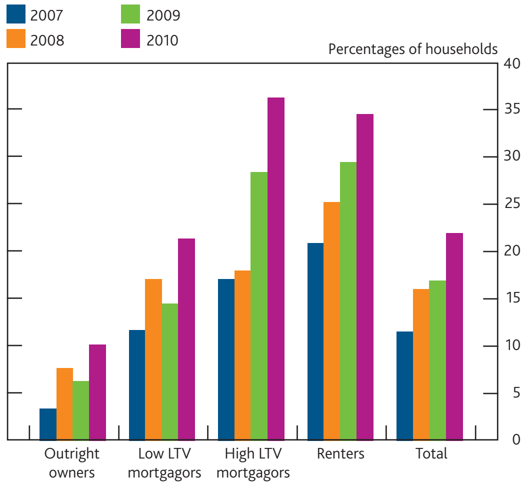
(a) Mortgage debt from the NMG survey captures only mortgage debt owed on households' primary residences.

high. In the survey, around a quarter of renters who reported that they were increasing saving, were doing so to finance a deposit on a property. This may be limiting the number of housing market transactions.

Credit conditions

The financial crisis brought with it disruption to households' access to credit. This was first captured in the 2008 survey when there was a 5 percentage point jump in the proportion of households reporting that they were put off spending by concerns about credit availability. These concerns were broad-based across people holding different types of debt, and remained unchanged in 2009. However, in the 2010 survey there was a further 5 percentage point increase in the proportion of households concerned about credit availability, to 22%. Those concerns were concentrated among households with high loan to value (LTV) mortgages and renters (**Chart 3**). These households tend to use unsecured credit as their marginal source of borrowing — the fraction of high LTV mortgagors with unsecured debt had risen between the 2009 and 2010 surveys, from 68% to 92% — and may find difficulties accessing credit because of their lack of collateral.

Chart 3 Proportion put off spending by concerns about credit availability[(a)]

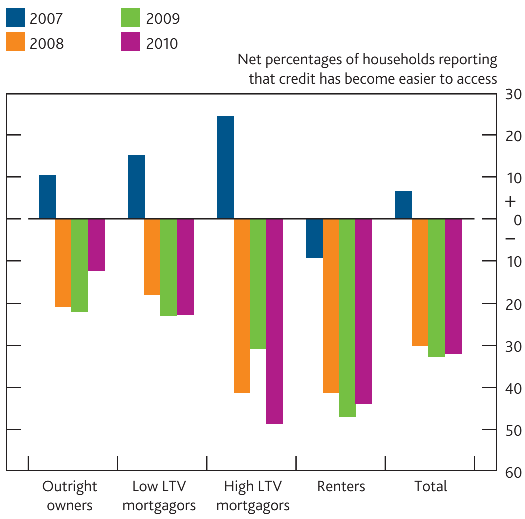


Sources: NMG Consulting survey and Bank calculations.

(a) Question: 'Have you been put off spending because you are concerned that you will not be able to get further credit when you need it, say because you are close to your credit limit or you think your loan application would be turned down?'.

Greater concerns about credit availability are consistent with the large net percentage of households reporting a tightening in credit conditions (**Chart 4**). The net percentage reporting that it has become more difficult to access credit was largest for those with high LTV mortgages and renters, or cutting the sample differently, for households with unsecured debt. These results contrast with those from the *Credit Conditions Survey*,

Chart 4 Changes in credit conditions[(a)]



Sources: NMG Consulting survey and Bank calculations.

(a) Question: 'Have you found it easier or harder to borrow to finance spending than a year ago?'.

which suggest that, according to lenders, overall household credit conditions were broadly unchanged over the past year (Bank of England (2010b)). But lenders continued to report a general tightening in unsecured credit and tighter credit scoring criteria on secured lending, which might partly explain why unsecured debtors and high LTV households perceived credit as more difficult to access. There may also be a delay before the changes in credit conditions reported by lenders are noticed by households; households will tend to observe credit conditions only once they ask for credit or need to refinance it.

Monetary policy response

Between October 2008 and March 2009, in response to the financial crisis and the weakening economic outlook, the MPC cut Bank Rate from 5% to 0.5%. In addition, they embarked on a programme of asset purchases financed by the issuance of central bank reserves, purchasing £200 billion of assets between March 2009 and January 2010. The low level of Bank Rate and the existing stock of asset purchases continue to provide a substantial stimulus to the economy.

An important way in which monetary policy influences the economy is by affecting the interest rates faced by households. The reduction in Bank Rate — to the extent banks and building societies pass this on to households — makes it more attractive to borrow to finance spending today, rather than to save in order to consume more tomorrow. In addition, borrowers tend to spend more of any extra money they have than savers. Taken together, the net effect of low interest rates through these two channels is to encourage higher spending in aggregate.

Borrowers who are currently on Bank Rate tracker mortgages have seen a substantial fall in their monthly mortgage payments over the past two years (**Table B**). Many households on a standard variable rate (SVR) mortgage have also seen a fall in interest payments. But not all borrowers benefited to the same degree: 48% of mortgagors reported that they had a fixed-rate mortgage, so many of these households have not seen a fall in their mortgage payments. The contrast between those on fixed mortgage rates and those on trackers or SVRs can also be seen from the most recent monthly mortgage payments: despite similar outstanding mortgage balances, fixed-rate mortgagors reported they were paying about £680 a month in comparison with about £530 a month for those on trackers or SVRs.

The falls in mortgage interest rates and therefore interest payments increase the affordability of debt for households. The share of income devoted to servicing secured debt (mortgage repayment gearing) tends to fall as interest rates fall. However, in 2010 the proportion of households devoting more than 20% of their pre-tax income to mortgage repayments had fallen only slightly since 2008 (**Chart 5**). A number of reasons might explain this result: for some

Table B Characteristics of mortgagors and changes in mortgage payments over the past two years by types of mortgage[(a)]

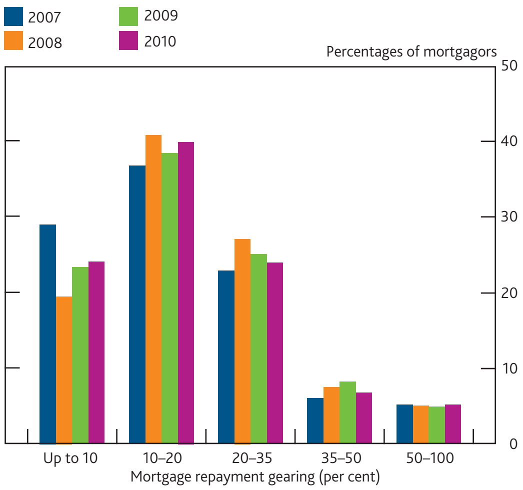
	Fixed rate	Bank Rate tracker	Standard variable rate	Other	Total
Percentages of mortgagors	48	23	20	9	100
Mean outstanding mortgage balance (£s)	95,869	91,819	89,617	84,270	92,672
Mean last monthly instalment on mortgage (£s)	683	529	531	449	597
Distribution of changes in monthly mortgage repayments (percentages of mortgagors)					
Down by more than £150	11	45	29	46	26
Down by £1 to £150	16	21	41	11	22
More or less the same	58	30	20	22	40
Up by £1 to £150	7	5	5	13	7
Up by more than £150	7	0	5	8	5
Mean change in monthly repayments (£s)	-19	-158	-89	-127	-76

Sources: NMG Consulting survey and Bank calculations.

(a) The distributions of changes may not sum to 100 because of rounding.

households, lower interest payments might have been accompanied by weaker incomes, leaving the ratio between the two unchanged; other households might have preferred to repay more of their mortgage principal as interest payments had fallen, keeping the overall outlay constant; and some of these households would have been holding fixed-rate mortgages, which have not benefited from Bank Rate falls.

Chart 5 Mortgage repayment gearing[(a)(b)(c)]



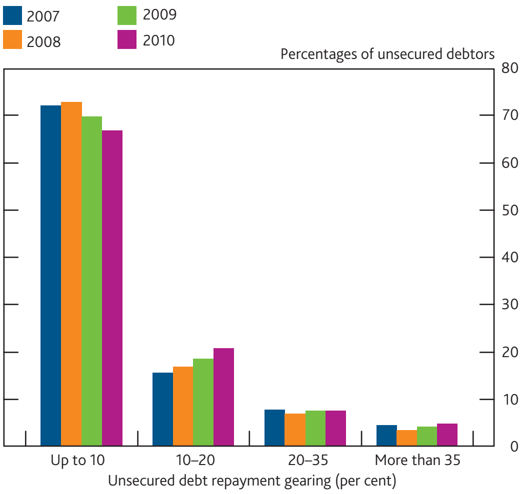
Sources: NMG Consulting survey and Bank calculations.

(a) Mortgage repayment gearing is calculated as total mortgage payments (including principal repayments)/gross income.
(b) Calculation excludes those whose gearing exceeds 100%.
(c) Reported repayments may not account for endowment mortgage premiums.

Interest rates on unsecured debt tend to be much higher than mortgage interest rates and appear to have been less responsive to the changes in monetary policy. Unsecured debt repayments rose a little as a share of household income over the past two years, despite the large fall in Bank Rate (**Chart 6**).[(1)]

(1) See Button *et al* (2010) for a discussion of the behaviour of unsecured rates on new loans to households in recent years.

Chart 6 Unsecured debt repayment gearing[a][b]



Sources: NMG Consulting survey and Bank calculations.

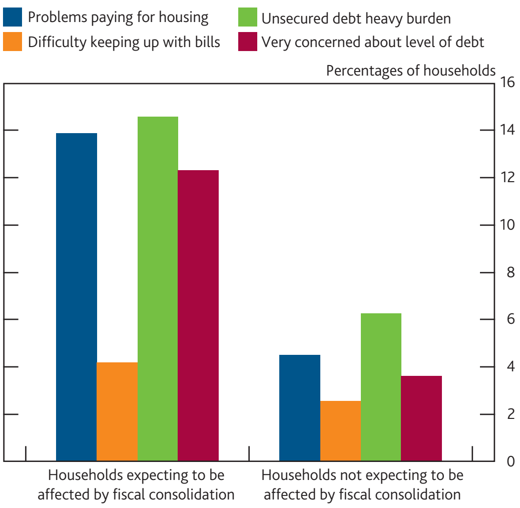
(a) Unsecured debt repayment gearing is calculated as total unsecured debt payments (including principal repayments)/gross income.
(b) Calculation excludes those whose gearing exceeds 100%.

Fiscal policy

The United Kingdom's fiscal deficit widened sharply in 2008–09, reflecting lower tax revenues and higher government spending as a share of GDP. Fiscal stimulus measures and welfare payments provided support to household and business incomes, but led to higher government debt. In the June 2010 *Budget*, the Government announced a set of measures intended to reduce the size of the deficit, building on plans announced by the previous Government. The 2010 NMG survey included supplementary questions to gauge households' responses to the fiscal consolidation. These are covered in more detail in the box on page 338.

Households that were concerned about the fiscal consolidation typically reported higher levels of financial distress than others (**Chart 7**). At high levels of financial distress, any further reduction in available income through higher taxes, job loss or a reduction in wages and benefits would make servicing debt relatively more difficult.

Chart 7 Financial distress by households' expectations of the effects of fiscal measures[a][b][c]



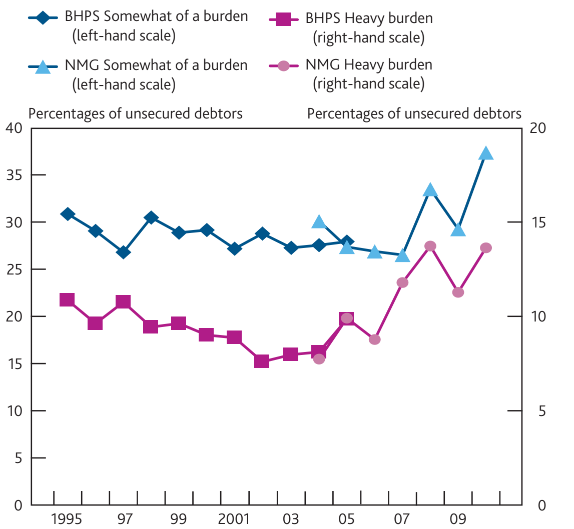
Sources: NMG Consulting survey and Bank calculations.

(a) Questions: 'In the past twelve months, would you say you have had any difficulties paying for your accommodation?' (13% of households responded 'Yes'); 'Which of the following statements best describes how well your household is keeping up with bills and/or credit commitments at the moment?' (4% of households responded that they were falling behind on some or many payments); 'To what extent is the repayment of these (unsecured) loans and the interest a financial burden on your household?' (14% of households responded 'Heavy burden'); 'How concerned are you about your current level of debt?' (12% of households responded 'Very concerned').
(b) 'Difficulty keeping up with bills' includes those households who reported 'I am falling behind with some bills or credit commitments' or 'I am having real financial problems and have fallen behind with many bills or credit commitments'.
(c) In this sample, around 90% of households expected to be affected by the fiscal measures and 10% expected not to be affected.

Repayment problems and how households respond to them

Households reported greater difficulty in dealing with unsecured debt than in 2009. Unsecured debt was held by 52% of all households in the current survey. The proportion of unsecured debtors that found unsecured debt a burden increased to 51%, the highest-recorded level in the NMG and BHPS surveys (**Chart 8**). The percentage of households finding unsecured debt a heavy burden was highest among high LTV mortgagors and renters (24% and 19% respectively) and lowest for owners and low LTV mortgagors (both at 9%). The prevalence of perceiving unsecured debt as somewhat or a heavy burden had increased across all tenure groups relative to 2009.

Chart 8 Burden of unsecured debt[a]



Sources: British Household Panel Survey (BHPS), NMG Consulting survey and Bank calculations.

(a) Question: 'To what extent is the repayment of these loans and the interest a financial burden on your household?'.

The fraction of households reporting falling behind on some or many payments of bills and credit commitments increased only slightly in the 2010 survey. Relative to 2009, this fraction fell for high LTV households and the unemployed, but increased for renters. But there was an increase in the proportion of households that reported they were keeping up with their bills and credit commitments but struggling from time to time or constantly, from 34% to 40%. The increase

Households' expectations of the impact of fiscal measures on their finances and their responses

The Government set out measures to reduce the size of the United Kingdom's budget deficit in the June 2010 *Budget*, building on plans announced by the previous Government. Additional questions were included in the 2010 NMG survey to gauge households' expectations about the impact the fiscal consolidation might have on their finances and any actions that they were taking in response.[1]

When asked how they expected to be affected by the fiscal measures, most households were aware of the plans, with only 11% of households reporting they had not thought about it (**Table 1**). The vast majority of households also anticipated some impact, with only 10% of households not expecting to be heavily affected. Of those who expected to be affected, the most common channels were through higher taxes on earnings and spending, and reduced spending on services. A fifth of retired households (23% of the sample) reported that they did not expect to be heavily affected, compared with only 7% of working households (66% of the sample). The unemployed and long-term sick (5% of the sample) were most concerned about the loss of income and benefits.

Table 1 How households expect to be affected by the Government's fiscal measures[(a)(b)]

Percentages of households[(c)]

	Whole sample	Employed or self-employed	Unemployed or long-term sick	Retired
Higher taxes on spending	42	44	27	43
Higher taxes on earnings	32	40	15	15
Reduced spending on services	27	24	25	35
Loss of own or partner's job	22	30	8	2
Loss of income or benefits	21	16	45	28
Lower wages	17	22	21	3
Loss of public sector contracts for own company/employer	9	12	6	3
Don't think I'll be heavily affected	10	7	8	20
Haven't thought about it	11	10	17	12

Sources: NMG Consulting survey and Bank calculations.

(a) Question: 'Britain's recently elected coalition government announced a set of measures in order to cut the country's budget deficit. When these measures come into force, which of the following will you be most concerned about?'.
(b) Employment status refers to the head of the household.
(c) Percentages do not sum to 100 because households could choose up to three responses.

While the vast majority of households expected to be affected by the consolidation, fewer than half reported they were actively responding. A quarter of households were not taking any action and did not plan to, and a further third were not taking action but may if the need arises (**Table 2**). For those who were responding, the most common responses were saving more, working longer hours or looking for a new job.

There was considerable variation in responses by employment status. Around 80% of retired households were taking no action. The long-term sick and unemployed were most likely to be looking for a job in the same area or relocating for work.

Table 2 Household responses to the Government's fiscal measures[(a)(b)]

Percentages of households[(c)]

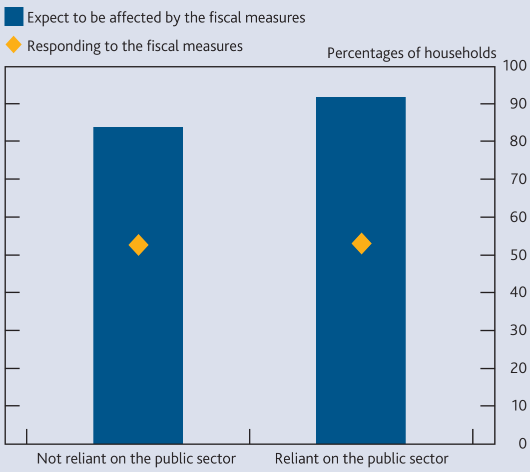
	Whole sample	Employed or self-employed	Unemployed or long-term sick	Retired
Saving more	18	23	11	7
Working longer hours/second job	14	20	5	0
Looking for a job in same area	10	11	23	0
Relocating to find a new job	6	7	12	0
Giving financial help to family/friends	5	5	1	6
Receiving financial help from family/friends	5	5	10	1
Spending more	3	3	5	3
Not taking any action and don't plan to	25	19	28	44
Not taking any action but may if need arises	31	29	24	39

Sources: NMG Consulting survey and Bank calculations.

(a) Question: 'Which, if any, of the following actions are you taking in response to these measures?'.
(b) Employment status refers to the head of household.
(c) Percentages do not sum to 100 because households could choose up to three responses.

Households who received more than half of their work income from the public sector were more likely to expect to be affected by the fiscal consolidation (**Chart A**). But they were not any more likely to be taking actions in response to the plans.

Chart A Concerns and responses to the fiscal consolidation by public sector employment[(a)(b)]



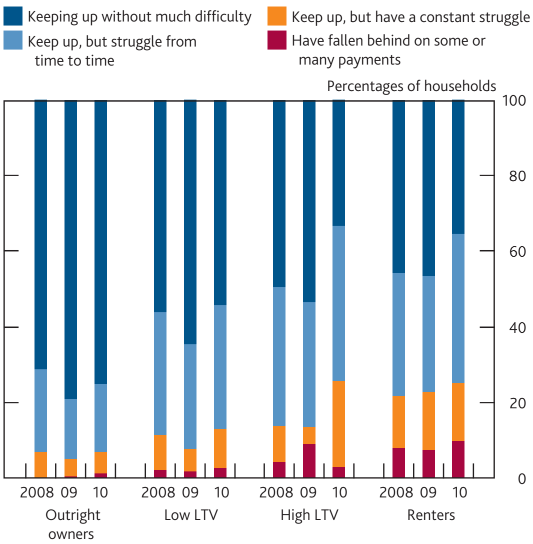
Sources: NMG Consulting survey and Bank calculations.

(a) 'Reliant on the public sector' is defined as a household gaining more than half its work income from the public sector (direct employment or contracts).
(b) Questions as in footnotes to **Tables 1** and **2**.

(1) The survey was conducted after the June 2010 *Budget* and before the *Spending Review* set out in October 2010.

was across all tenure groups (**Chart 9**) and for both the employed and unemployed. However, the increase was more marked for households with unsecured debt (irrespective of whether they had a mortgage) than for mortgagors without any unsecured debt. This is likely to reflect unsecured debtors having benefited less than mortgagors from the fall in Bank Rate, as described earlier. In addition, unsecured debtors experienced a larger increase in unemployment and a greater decline in credit availability than mortgagors without unsecured debt. Looking ahead, if the increase in debt burden and repayment problems is a leading indicator of households' financial difficulties, the proportion of households falling behind on payments may pick up from current levels.

Chart 9 Keeping up with bills and commitments[(a)]



Sources: NMG Consulting survey and Bank calculations.

(a) Question: 'Which one of the following statements *best* describes how well your household is keeping up with your bills and/or credit commitments at the moment?'.

Households were also asked about the reasons for any difficulty in keeping up with bills and credit commitments. In line with results for 2008 and 2009, the main reasons given were a lack of cash flow that had been or would be resolved in the future (cited by 33% of households with payment difficulties), higher-than-expected household bills (24%), and overspending (21%) (**Table C**). 17% of households with payment difficulties reported a reduction in overtime and 15% reported unemployment as main reasons.

When those households who had difficulty keeping up with bills or credit commitments were asked about the actions they were taking to resolve this difficulty, the most frequent response was cutting back on spending (cited by half of these households, or 22% of all households). About one in five of them said they were working longer hours or taking on a second or better-paid job, and one in six was using cash in savings or other assets (**Table D**). Only a small fraction of households in difficulty were taking more extreme measures such as selling their house (4%), declaring themselves insolvent (1%) or entering into another debt solution (6%). Finally, a quarter of these households were not taking any action to resolve the difficulty.

Table C The main five reasons for difficulty in keeping up with bills and credit commitments[(a)(b)]

	2008	2009	2010
Percentages that mentioned:			
Lack of cash that has been or will be resolved in future	28	31	33
Higher-than-expected household bills	35	20	24
Overspending	13	16	21
Loss of income through reduction or cessation of overtime	7	14	17
Unemployment	9	8	15

Sources: NMG Consulting survey and Bank calculations.

(a) Question: 'What are the main reasons for the difficulty you have in keeping up with bills and/or credit commitments?'.
(b) In 2008 and 2009, respondents were asked to tick all categories that applied. In 2010, they were asked to select no more than three categories.

Table D Actions to resolve difficulties in keeping up with bills and credit commitments[(a)]

	2010
Percentages that mentioned:	
Cut back on spending	50
Working longer hours/taking on a second or better-paid job	18
Use cash in savings/other assets	16
Getting financial help from family/relatives	11
Enter into another debt solution	6
Take out another loan	5
Sell your house	4
Take out another mortgage on your house	3
Declare yourself insolvent (ie bankruptcy or IVA)	1
None of these	24
Other	2

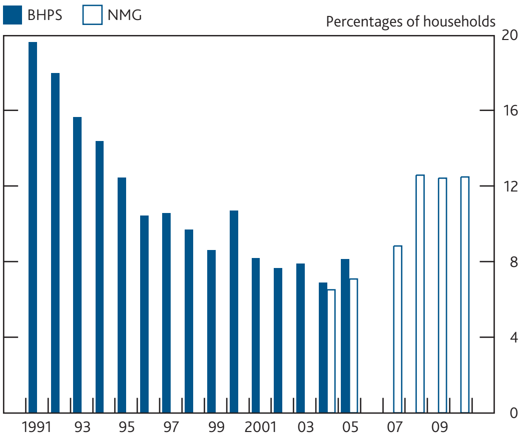
Sources: NMG Consulting survey and Bank calculations.

(a) Question: 'What actions, if any, are you taking to resolve the difficulty you have in keeping up with bills and/or credit commitments? Please select no more than three of the following'.

Housing payment problems — the extent to which households had any difficulties paying for their accommodation in the twelve months before the survey — appeared to remain at a level broadly similar to that in 2009 (**Chart 10**). High LTV mortgagors continued to be more likely than low LTV mortgagors to have problems paying for housing, but the difference was smaller than in 2009.

The 2010 NMG survey also asked households about the extent to which they were concerned about their debt, irrespective of whether they were currently struggling with it. Among households with debt (including mortgages), about one in ten said they were very concerned about their current level of debt (**Table E**). A further third said they were somewhat concerned. High LTV mortgagors and renters were those most concerned about their current level of debt, with low LTV mortgagors typically much less worried. However, concerns about debt appear to have increased over the past two years for a little less than a third of households, spread across all tenure groups.

Chart 10 Housing payment problems[(a)(b)]



Sources: BHPS, NMG Consulting survey and Bank calculations.

(a) Question: 'Many people these days are finding it difficult to keep up with their housing payments. In the past twelve months would you say you have had any difficulties paying for your accommodation?'.
(b) In the 2006 NMG survey, renters and outright owners were not asked this question, so data for 2006 have been excluded from the chart because they are not comparable.

Table E Concerns about level of debt[(a)]

Percentages of households with debt

	Level of concern			Change in concern		
	Not at all concerned	Somewhat concerned	Very concerned	Decreased	Stayed the same	Increased
All households with debt	54	34	11	12	59	29
Tenure						
Outright owners	68	26	6	16	66	18
Low LTV mortgagors	60	32	8	10	61	29
High LTV mortgagors	34	49	16	10	51	39
Renters	40	40	19	18	48	34
Financial assets						
Less than £500	33	42	24	11	52	37
More than £500	63	32	6	14	60	26

Sources: NMG Consulting survey and Bank calculations.

(a) Questions: 'How concerned are you about your current level of debt? Please consider all debt, including any balances on credit/store cards, loans, or secured debt such as your mortgage'.; 'How has your concern about your current level of debt changed over the last two years?'.

Perhaps unsurprisingly, debt levels were a greater concern for households with fewer financial assets and those that had experienced a decrease in available income. As many as a quarter of households with financial assets of less than £500 reported that they were very concerned about their level of debt, compared with less than one in ten for those with assets of more than £500. And debtors that were very concerned had experienced an average fall in available monthly income of £85 over the past year compared with £31 among debtors that were not at all concerned.

The majority of households who were concerned about their level of debt were taking some form of action to deal with it. The most frequent response was to cut back on spending (**Table F**), while many households also mentioned avoiding getting into further debt. Far fewer households were making overpayments to clear the debt more quickly, perhaps reflecting the pressures on household incomes mentioned previously. Few households mentioned working longer hours, taking a second job or a better-paid job — but this could simply reflect the weakness of the labour market rather than a lack of desire on the part of households.[(1)] And very few households reported getting financial help from their family. More than a third of households with debt said they were not taking any action to deal with their concerns; most of these households were not at all concerned about their level of debt.

Table F Actions to deal with current level of debt, by degree of concern with level of debt[(a)(b)]

Percentages of households

	Very concerned	Somewhat concerned	Not at all concerned	Total
Cutting back on spending	67	62	19	39
Avoiding getting into any further debt	53	46	16	31
Working longer hours/taking a second job or a better-paid job	30	17	5	12
Making overpayments to clear the debt more quickly	18	15	6	11
Getting financial help from family/relatives	19	11	1	6
Not taking any action	3	8	62	37
Other (please specify)	2	0	0	0
Don't know	0	2	2	2

Sources: NMG Consulting survey and Bank calculations.

(a) Question: 'What actions, if any, are you taking to deal with your concerns about your current level of debt?'.
(b) Households were permitted to give multiple responses, so figures do not sum to 100.

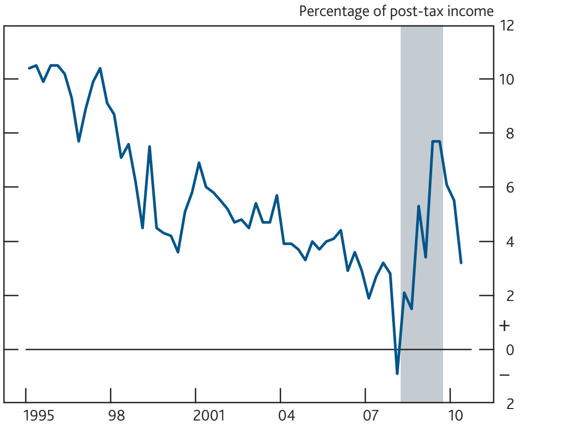
Prospects for spending and saving

Households' saving behaviour is likely to have been affected by a number of factors during the recent recession.[(2)] Some households may have reduced saving to smooth through what they perceived to be a temporary fall in income. But others may have saved more in response to concerns about levels of indebtedness, the risk of job losses, falls in asset prices, weak house price growth and a general level of uncertainty. And others might have been encouraged to build precautionary buffers of savings if they were uncertain about their access to credit. Different households are likely to have responded differently, meaning that some might have saved more, while others less, than in previous years.

According to ONS data, aggregate household saving as a share of post-tax income increased sharply during the recession. Having turned negative in the first quarter of 2008 (households were, in aggregate, consuming more than their post-tax income), it rose to almost 8% around the time of the 2009 survey. But, more recently, it has fallen back to its 2006–07 average (**Chart 11**).

(1) According to the Labour Force Survey (July-September 2010), 14.7% of part-time workers had part-time jobs because they could not find a full-time job, up from 9.7% two years ago.
(2) For a discussion of further factors affecting household saving, see Benito *et al* (2007) or Berry *et al* (2009).

Chart 11 Household saving ratio[(a)(b)]



(a) The saving ratio is defined as gross saving (ie the net accumulation of financial and housing assets) as a percentage of household post-tax income.
(b) The shaded area indicates recession, defined as at least two consecutive quarters of falling output (at constant market prices).

To understand the near-term prospects for household spending and saving, additional questions were added to the 2009 and 2010 NMG surveys aimed at finding out whether or not households had planned to increase their saving and, if so, why. It is not easy, however, to map these survey answers directly into the aggregate household saving ratio. For example, households may think of saving as the amount they invest in financial assets, whereas it is officially defined as the amount of disposable income that is not consumed.[(1)] Nonetheless, the NMG survey can shed light on whether households intend to save more and how this varies across different socioeconomic groups.

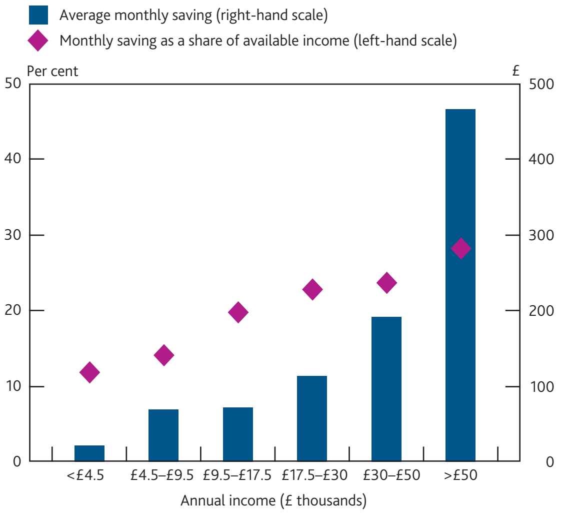
In the 2010 NMG survey, households tended to save, on average, around £160 per month. But there were considerable differences between households, with over a third of respondents not saving anything on a monthly basis, 40% saving positive amounts smaller than £200 a month and around one fifth saving between £200 and £2,000.

The survey suggests that most of the saving in the economy tends to be done by a minority of households on high incomes, both in absolute terms and as a proportion of their income. Households with annual gross incomes over £50,000, which amounted to 17% of the survey respondents, tended to save over a quarter of their available income on a regular basis, equivalent to around £450 per month on average (**Chart 12**).

A little over a fifth of respondents reported having increased or planned to increase their saving, slightly lower than in 2009 (**Chart 13**). And over a third of households, slightly more than last year, said they had 'definitely not' increased or planned to increase their saving. Households on higher incomes were more likely to report having increased or planning to increase saving (**Chart 14**).

The three main reasons cited for the increase in saving were the desire to reduce debt levels, saving for retirement and for

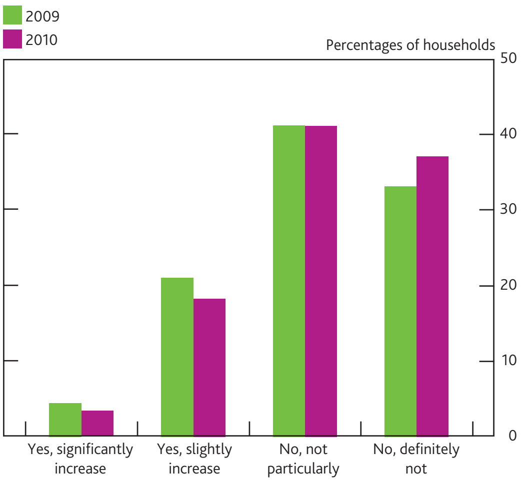
Chart 12 Monthly saving in levels and as a share of available income,[(a)] by income



Sources: NMG Consulting survey and Bank calculations.

(a) Question: 'How much of your household monthly income would you say that you save every month?'.

Chart 13 Proportion of households who have increased, or are planning to increase, their saving[(a)]



Sources: NMG Consulting survey and Bank calculations.

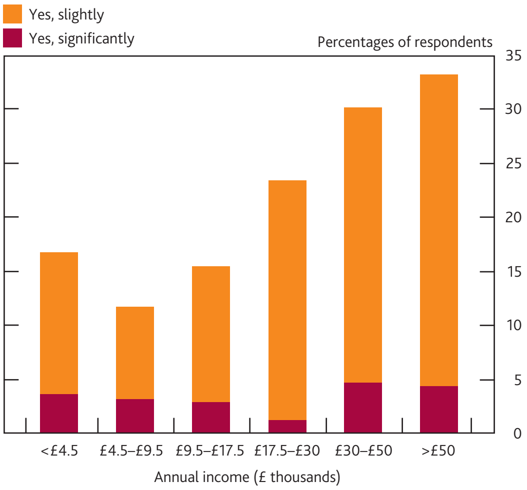
(a) Question: 'Are you planning to/or have you already started to increase the amount of money you save?'.

additional personal commitments (**Table G**). Next came concerns over job losses and saving for a big item, followed by general fears of future interest rate or tax increases. Around one in ten households who said they had or were planning to increase their saving were doing so for a deposit on a property.

Young respondents (ie 18–24 years of age) tended to report the lowest share of regular saving out of available income. But they were also more likely to report that they had or were planning to increase their saving (**Chart 15**). In contrast to the middle to old age group, this proportion had risen since 2009. This shift in age pattern could be related to higher deposits being required by banks in order to obtain a mortgage, as

(1) In the National Accounts, saving can be used by households to add to the value of their assets (financial investments or housing net of debt) or reduce their debts.

Chart 14 Proportion of households who have increased, or are planning to increase, their saving, by income[(a)]



Sources: NMG Consulting survey and Bank calculations.

(a) Question: 'Are you planning to/or have you already started to increase the amount of money you save?'.

Table G Ten main reasons for actual or planned increase in savings[(a)(b)(c)]

2010

	Percentages of responses	Percentages of population
Trying to reduce debts	25	5
Saving for retirement	25	5
Additional personal commitments	25	5
Fear of redundancy/job insecurity	18	4
Saving for a big item, eg car, holiday	18	4
Worried about future interest rate increases	12	2
Saving for deposit on house/flat	10	2
Worried about future tax increases	9	2
Extra cash from increased income/second job, etc	9	2
Extra cash from lower mortgage payments	8	2

Sources: NMG Consulting survey and Bank calculations.

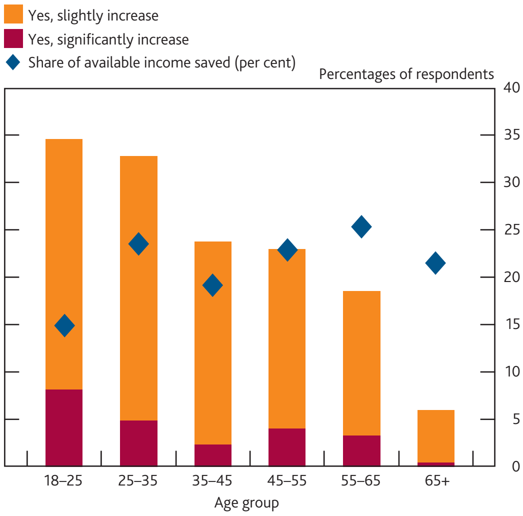
(a) Percentages do not sum to 100 because respondents were able to select up to four responses.
(b) Since only 20% of the survey population answered this question, the last column reports the share of the overall sample.
(c) Question: 'What would you say are the main factors driving this increase (in saving)?'.

highlighted earlier, or to labour incomes being more volatile in a recession than pensions.

Among housing tenure groups, households with high LTV mortgages reported the highest intention to save more and were also highly likely to want to reduce their debt levels. This is consistent with this group of households being more likely to build precautionary buffers of savings given that, as discussed earlier in this article, bank credit has been relatively tighter for them than for other households (**Chart 3**).

As expected, households saving little or nothing on a regular basis and having little in the way of financial buffers were more likely than the average household to report that they were falling behind on some or many bills or credit commitments. Respondents with debt distress or debt concerns tended to save less than the average (around £35 per month).[(1)] They also tended to have accumulated fewer financial and other

Chart 15 Actual or planned increase in saving and monthly saving as a share of available income,[(a)(b)] by age group



Sources: NMG Consulting survey and Bank calculations.

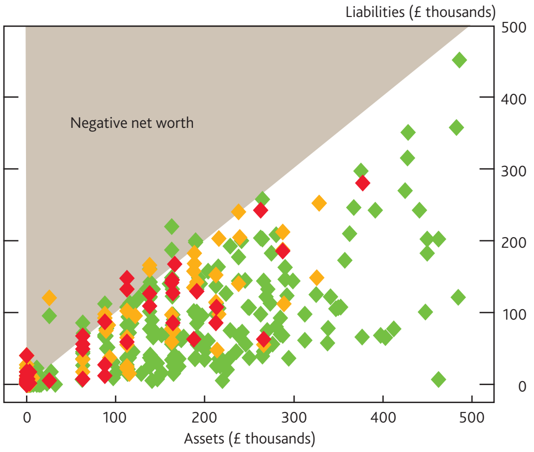
(a) Question: 'Are you planning to/or have you already started to increase the amount of money you save?'.
(b) Question: 'How much of your household monthly income would you say that you save every month?'.

assets to rely on (around £3,500 in financial assets versus an average of £21,000 for the whole sample).[(2)] This low level of financial buffers makes them more vulnerable when their income falls, for example due to job losses or reductions in working hours, or when their expenditures have to rise (eg due to having a child). Relative to 2009, however, a larger fraction of households on low incomes — who generally tend to save the lowest amounts both in absolute and relative terms — had increased or were planning to increase their saving.

It is not only those households with little or no assets that face financial problems, but also those whose debts closely match the value of their assets, ie they have little net wealth. **Chart 16** plots the stock of liabilities of each household against their stock of assets.[(3)] Households with significant financial problems — coloured in red and amber according to the number of problems reported — are mostly either clustered around the origin or along the 45° line.[(4)] This indicates respectively that households with financial distress either had little or no assets or liabilities or they were of similar value. Around three quarters of mortgagors and renters had positive or zero net assets.

(1) Debt distress is defined as having problems paying for accommodation or finding unsecured repayments a heavy burden for the households. Debt concern is defined as being very concerned by the current level of debt.
(2) The ONS survey of Wealth and Assets (ONS (2009)) reported that in 2006–08, 25% of households had net financial wealth that was negligible, zero or negative. Consistent with this result, around a third of households in this year's NMG survey had low levels of gross financial savings and investments overall; these households also tended not to have other assets, such as a property, land or entitlement to a private pension.
(3) Assets include a household's main home as well as their financial savings and investments, while the liabilities include any mortgage secured on the property as well as any unsecured debt. For more on the joint distribution of assets and liabilities at the household level, see the ONS survey of Wealth and Assets (ONS (2009)) and Barwell *et al* (2006).
(4) Financial problems are defined as having difficulties in paying for accommodation, finding unsecured repayments a heavy burden, and having serious difficulties keeping up with bills and credit commitments.

Chart 16 Debt distress and the joint distribution of assets and liabilities among mortgagors and renters[(a)(b)]



Sources: NMG Consulting survey and Bank calculations.

(a) Households in red reported financial problems along any two or three of the following dimensions: paying for accommodation, finding unsecured repayments a heavy burden and having fallen behind on some or many payments of bills and credit commitments. Households in amber reported problems along any one of the three dimensions. Households in green are the remaining households who did not report any of these problems.
(b) Outright owners are not included because they were not asked the question about the value of their house. Respondents with assets or liabilities in excess of £500,000 are not included in the chart.

Summary and conclusions

This year's NMG survey has highlighted the continuing difficulties facing households. Household responses were consistent with weak earnings growth and elevated unemployment depressing household incomes, while credit conditions for households remained tight. The low level of Bank Rate means that some borrowers have benefited from lower mortgage interest payments than before the recession and housing payment problems are unchanged this year. But the burden of unsecured debt has risen this year, most likely reflecting a combination of weak earnings growth and the interest rates on unsecured debt remaining high over the past two years despite falls in Bank Rate.

Nearly half of all households with debt were either somewhat or very concerned about their level of debt. And a net balance of households reported that their concern had increased over the past two years. To deal with these concerns, a number of households mentioned cutting back on spending and avoiding getting into further debt.

A little over a fifth of households said they had increased or planned to increase saving, slightly lower than in last year's survey. Households on higher incomes were more likely to report plans to increase saving, although this year a larger fraction of low-income households than in 2009 reported plans to increase their saving. Most respondents were saving to reduce debts, to provide for retirement and to cover additional personal commitments. Households with little in the way of financial assets were more likely to be concerned about their debt levels and report difficulties in keeping up with their bills and credit commitments.

Survey method

The survey was undertaken between 24 and 30 September 2010 by adding 31 questions related to household finances and housing wealth to a regular monthly survey, MarketMinder, carried out by NMG Consulting. Interviews were conducted on 1,960 households in the respondents' homes using Computer Assisted Personal Interviewing (CAPI). The results were weighted to help correct for any bias in the sample using nationally defined profiles for age, social grade, region, working status and housing tenure.

A limitation of all surveys about sensitive issues such as household finances is that some people are reluctant to discuss them in face-to-face interviews. Because of embarrassment, those who face the most financial stress might be more likely than others to refuse to answer certain questions or to understate their difficulties. As in previous years, the survey was designed to reduce these possibilities. In order to encourage respondents to divulge sensitive information, they were told that the survey was being carried out on behalf of the Bank of England and would be useful in assessing how spending might be affected by its monetary policy decisions and in judging the risks to financial stability. They were assured that their replies would be treated in the strictest confidence, would not be passed to any third party at any stage in the future and would not under any circumstances be used for sales or marketing purposes. Also, to avoid embarrassment in revealing sensitive information to the interviewer, replies to questions were coded on show cards and recorded on a computer in such a way that the interviewer would not know the content of respondents' answers.

Response rates for the 2009 and 2010 surveys were generally higher than those in previous years. Only those respondents who were the chief income earner or main shopper were asked for their income. On a weighted basis, this meant that 11% of respondents were not asked about their income. A further 24% of households refused to provide (14%) or did not know (11%) their household income. And 11% of mortgagors refused to say or did not know how much secured debt they owed. A similar percentage of unsecured debtors did not provide information about the size of their unsecured debts, with 6% not knowing how much they owed and 3% refusing to say how much. There was quite a large overlap between those households who refused to provide information about their income and those that refused to provide information about their debts.

All calculations reported in this article have been carried out using all available responses in each individual survey question. As discussed in the 2009 article (Hellebrandt *et al* (2009)), this could in principle introduce a bias in the results if non-responses are not distributed uniformly across groups in the survey population, but in practice, the overall results are not very sensitive to the imputation method used.

Although the sample is weighted in order for it to be representative of the population, the results from the survey may not be representative for some questions. For example, collectively, survey respondents are known to systematically underrecord the value of their unsecured debt and overrecord the value of their housing assets (Redwood and Tudela (2004)). Since these biases do not tend to vary over time, changes in the distribution of balance sheets over time may be taken as representative of changes in the population as a whole.

Finally, as in 2008 and in 2009, the ratios calculated in this article assume that each respondent's weight is uniformly distributed between the minimum and maximum value of the ratio consistent with the buckets selected. For example, all mortgagors who reported having an outstanding mortgage balance of '£20,000–£29,999' and a house worth '£100,000–£124,999' are assumed to have a loan to value ratio of anywhere between 16% (for a mortgage of £20,000 and a house value of £124,999) and 30% (for a mortgage of £29,999 and a house value of £100,000), with all values in between equally likely. This means that in producing **Chart 2**, 64% of these mortgagors' weight would be assigned to the 0–25 bucket and 36% to the 25–50 bucket. The percentages are obtained by calculating the proportion of the mortgagor's range of possible loan to value ratios that lies in each of the two buckets. While this approach has shortcomings of its own (the ratio of two uniform distributions is not uniform), internal analysis has shown that it is a more accurate representation of the raw information provided by the respondents than the method using mid-points, which instead tends to generate lumpy aggregate distributions of ratios (eg distribution of loan to values) with too few respondents falling in the extremes of the distribution (eg the percentage of households in negative equity). The 'mid-point' approach was used, however, in computing monthly saving as a proportion of monthly income, as the size of the buckets of these two variables was similar enough to generate relatively little distortion.

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