

Households have less spare cash

BBC

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Household finances have been squeezed by an "abrupt" change in circumstances in the past year, according to a survey for the Bank of England.

A combination of higher food and utility bills, falling house prices and scarcer credit have reduced household budgets and spending.

Nearly 2,500 households were interviewed for the survey in late September and early October.

Typically, they said they now had less spare cash either to spend or save.

"The typical household reported that the income it had available after meeting household bills had fallen over the past year and that it had saved less than it had expected," said the Bank.

Paying bills

Only a small minority of households reported that they had fallen behind with repayments.

"Despite the greater pressures on household finances, only 3% of the households surveyed had so far fallen behind on bill or debt payments," the survey found.

But even where repayments were made on time, more people found that doing this was a burden.

Although most said they could keep up without much difficulty, a third said they struggled "from time to time".

People who were renting their homes, or whose mortgages were particularly high in relation to the value of their homes, were those most likely to be in that 3% who had failed to make some repayments.

The main reason given was that their household bills had been higher than expected.

Changing circumstances

The Bank's report said that, after a period of steady growth and low inflation, the last year had seen a sharp turnaround in the finances of British households.

“ More households were finding their debts to be a burden than in similar surveys carried out since the mid-1990s ”

Bank of England quarterly bulletin

More than half of those who took part in the survey had seen a decline in their available income after paying tax, debt repayments and utility bills.

A rise in mortgage costs for some borrowers earlier in the year, when they had come off fixed or discounted mortgage rates, had also played a part.

However, the financial situation of many households has changed since the survey was carried out in late September and early October.

About 40% of households have a mortgage and most of these will see their borrowing costs cut sharply because of the Bank of England's successive rate cuts in October, November and December.

These cuts have taken the official bank rate down from 5% to just 2%, with many economists expecting further reductions as the impending economic recession in the UK deepens.

£1.6 trillion debt

The Bank's survey reveals that total household debt in the UK has now reached £1.6 trillion, when mortgage debt is added to unsecured debt such as credit cards, overdrafts, hire purchase agreements and other personal loans.

And the survey has also found that more than 50% of all households now have some sort of unsecured debt.

However, the reluctance of banks and other lenders to extend much further credit, except at high rates of interest and to the most credit-worthy customers, is clearly contributing to the downturn in consumer spending.

In the survey, 16% of households said they were worried they might not be able to get any more credit, up from 12% who said this in 2007, and that this was causing them to defer their spending plans.

"Some households had been put off spending by tighter credit conditions, and more households were finding their debts to be a burden than in similar surveys carried out since the mid-1990s," the Bank said.

Buy-to-let

Many commentators have suggested that buy-to-let landlords will be particularly vulnerable to falling house prices and an economic slowdown, especially if their tenants are made redundant and fail to pay their rent.

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However, the Bank's survey suggests in fact that many landlords are in a financially robust position.

Only 5% of the survey's respondents were landlords.

About 40% of the landlords owned their own homes outright as well.

A third of the landlords said their investment properties were also owned outright, with no outstanding mortgage to repay.

And many of the others had only relatively small mortgages to repay on the homes they were letting to tenants.

"The most exposed landlords were the 6% of landlords with high loan-to-value (LTV) ratios on their main residence," said the Bank.

"All of these landlords had buy-to-let mortgages and 40% of them also had LTV ratios in excess of 80% on their buy-to-let portfolios."