Britons breathe easier as debt worries ease

Research Note, MindMetre, April 2014

Summary Points

- New independent national research from MindMetre finds that Britons are less worried about their personal debt than they were a year ago (57%), corroborating government reports that household debt has fallen relative to income since 2008 and now stands at around 140%,[1];

- 59% of Britons confirm that their levels of debt have fallen compared to last year. After rising between 2008 and 2010,[2] household debt now seems to be decreasing;

- In particular Britons are now keen on working to reduce their personal debt even further with 60% saying they will focus on shrinking their credit card debt;

- 52% will focus on reducing their mortgage and 44% report they intend to reduce other forms of unsecured debt such as loans and overdrafts;

- The survey data data therefore shows that Britons are intending to focus on the most expensive (credit card) and the largest (mortgage) sources of debt first.

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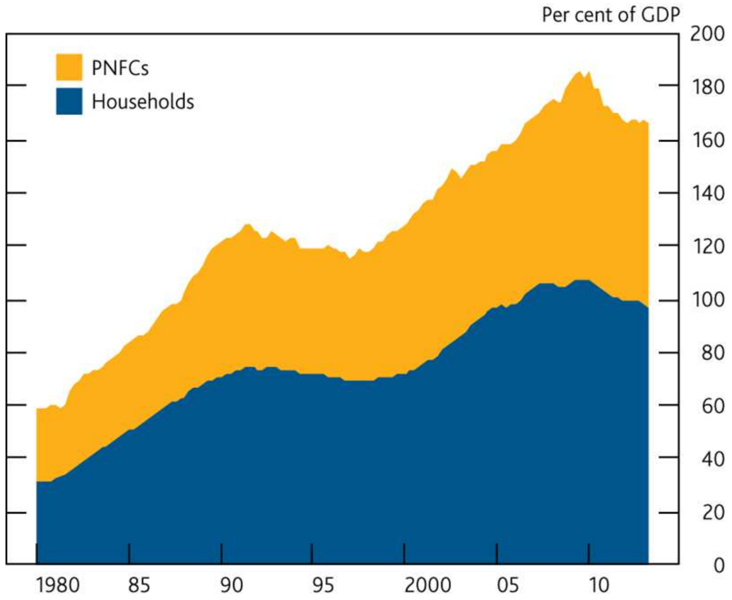
[1] Bank of England, Financial Stability Report, pg.17 November 2013
[2] ONS http://www.ons.gov.uk/ons/rel/was/wealth-in-great-britain-wave-2/the-burden-of-property-debt-in-great-britain/sty-household-debt--for-theme-page-.html

Household debt, inflation and ration to income- the debate and the research results

Rising house prices and consumption are signs that the UK economy is picking up, [3] however household debt, including mortgage debt, was recently reported to have reached a record high of £1.43 trillion.[4] Of course, household debt of itself bears little significance unless related to income and currently the household debt to income ratio is reported to stand at 140%, higher than in the USA and the rest of the Eurozone, but lower than in 2008.[5] However, the warning by the Office for Budget Responsibility (OBR) that wage growth in the UK is not expected to return to the norm of 2% for another two years suggests that the economic recovery has yet to extend to an improvement in living standards and combined with rising house prices and wage stagnation this may result in may result in an erosion of people's savings.[6]



Bank of England, UK private sector borrowing remains high[7]

This is further bad news for savers who are set to continue to suffering from low interest rates as the Bank of England renews the 0.5% Bank Rate for the fifth year running. Low interest rates would suggest this is a borrower's market, but wage increases have yet to overtake rising prices and many Britons will not experience a wage rise until 2015.[8] Moreover, if borrowing continues to grow disproportionately to wages, it may become very difficult for people to eventually pay back what they owe.

Although borrowing is currently more affordable than it used to be, with unsecured lending beginning to grow again since dipping during the recession, the housing market paints an all too different picture with banks applying tighter lending standards particularly to first time home

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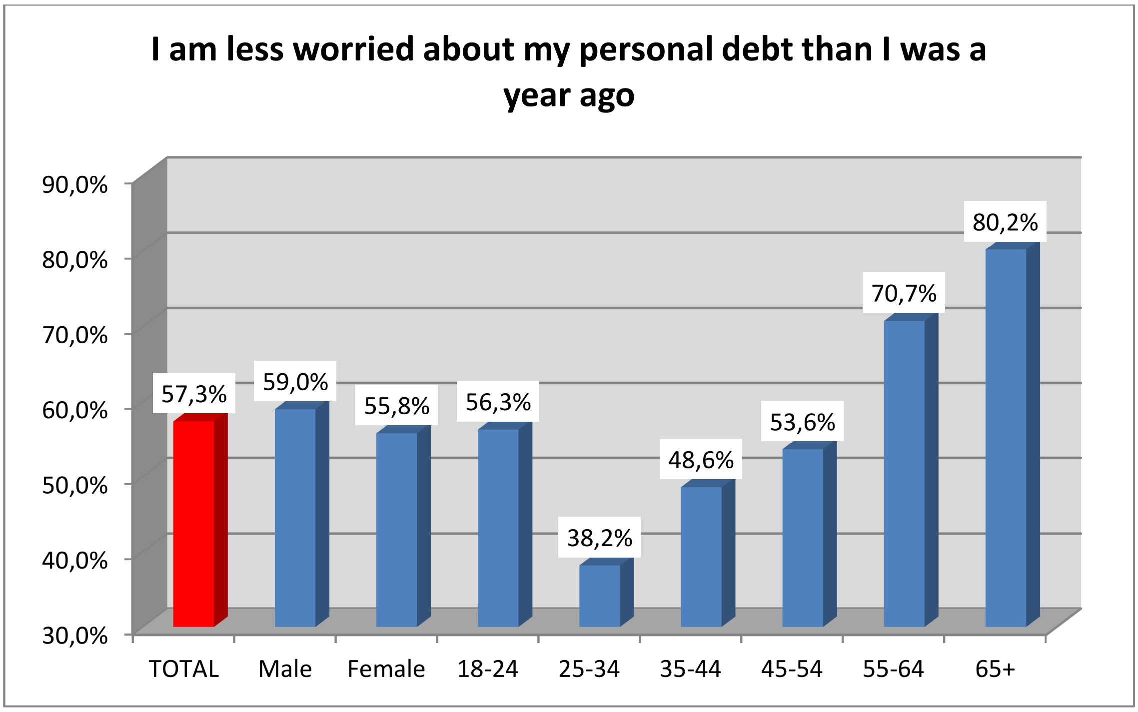
[3] BBC News, House prices rising at fastest rate for four years, 28th February 2014
[4] BBC News, UK household debt hits record high, 29th November 2013
[5] Bank of England
[6] BBC New, OBR Chairman warns over stagnant wage growth, 9th December 2013
[7] [7] Bank of England, Financial Stability Report, pg.17 November 2013

[8] The Independent, Most Britons will not see wages rise before 2015 elections, 11th February 2014

buyers. In combination with rising property prices this means that, ironically, many would-be buyers are pushed out of the market because they have no assets against which to borrow.[9]

In order to take the pulse of consumer sentiment towards their current levels of debt now that the recovery is in sight, MindMetre carried out research analysing the views of 2000 Britons representative, by age, region and gender and found that the majority (57%) feel less worried about their personal debt than twelve months ago.



The research shows that men are less worried than women about their personal debt (59% Vs 56%), but this may be because men's salaries are rising faster than women's.[10]

The 25-44 age bracket is the only age bracket to worry more about their personal debt than a year ago probably due to the financial pressures of first home buying or starting a family. By contrast over 55s are the most relaxed, having paid off their mortgage and children's schooling.

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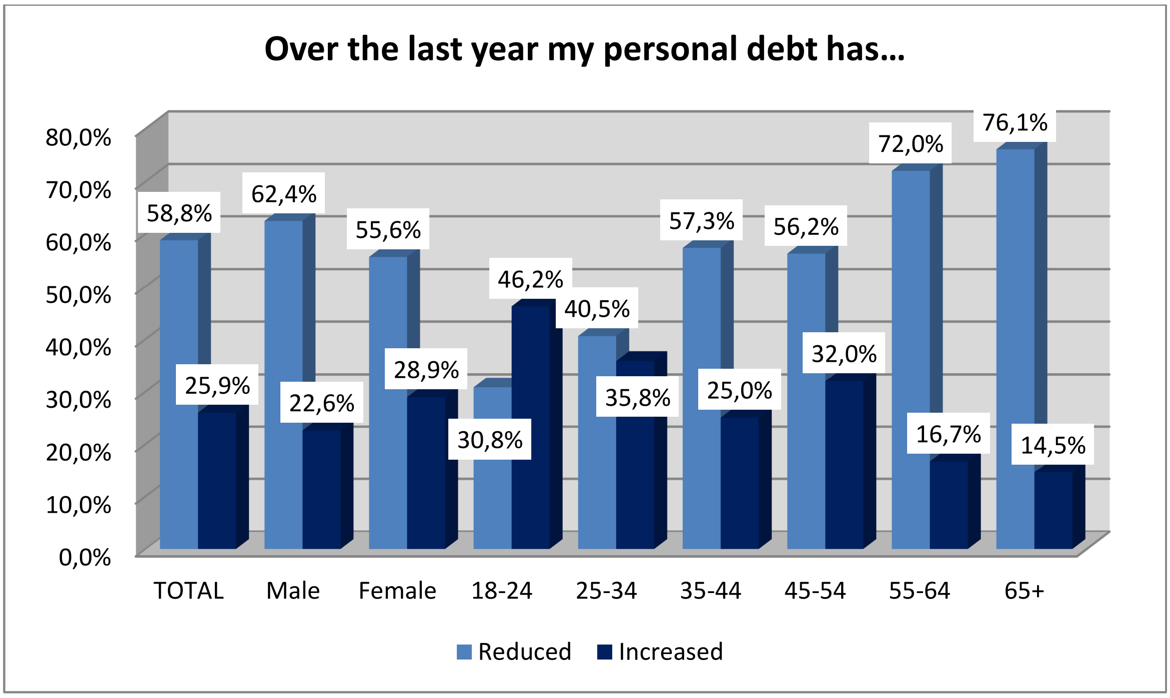
[9] The Telegraph, Five years of record low rates: the winners and losers, 6th March 2014
[10] CIM, Gender Pay Gap, 2013

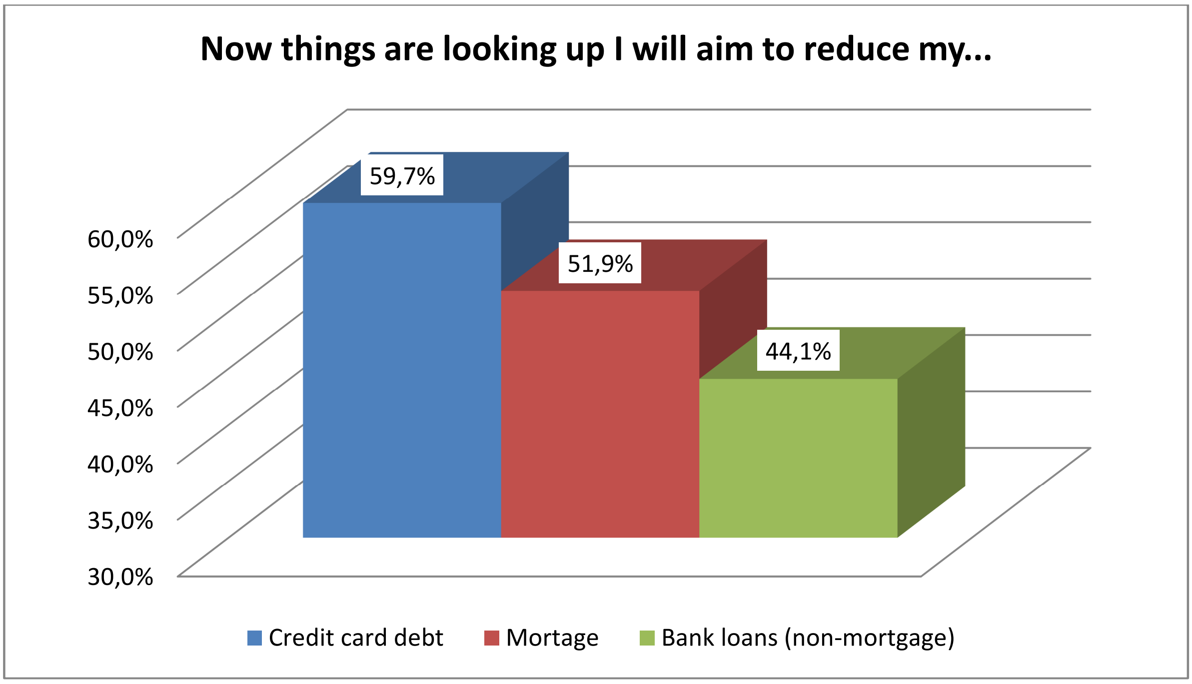


Confirming latest Bank of England statistics that show the household debt ratio to wages has decreased, respondents report that the reason for their greater peace of mind is that their personal debt has decreased compared to last year (59%). Men (62%) were more likely than women (56%) to report that their personal debt had decreased.

The only age bracket that is significantly less likely to report their debt levels have reduced compared to twelve months ago is the 18-25 bracket (31%). This age group is likely to be gaining financial independence from parents and possibly beginning repayments on student loans.

Overall, now that the recovery seems near, respondents are most likely to work on reducing their most expensive and their largest forms of debt in the forms of credit card debt and mortgages.

On the one hand high interest rates drive respondents to want to reduce their credit card debt, on the other, sheer size and overall length of mortgage make it desirable to see this extinguished as soon as possible. Other unsecured loans follow.



Different age groups reflect their life stages in which types of loans they are most keen on reducing. 25-34 year olds are the most keen to reduce their mortgage (64%) followed by 35-44 year olds and 45-54 year olds. These groups have started paying for their mortgage relatively recently and see many years of payments looming ahead of them before they gain full ownership of their home.

25-34 year olds are also the most concerned with paying back non-mortgage loans (56%). Interestingly, as respondents get older they are less likely to want to or need to prioritise reducing credit card debt suggesting that as this is the easiest form of credit to access, it is also the most abused by younger generations that need to focus on reducing it in the long run. Older generations presumably have access to a wider range of loans as they can offer security.

Regional variations

Respondents in Northern Ireland reverse the trend and are more worried about personal debt than they were a year ago (64%). This is in spite of the fact that their personal debt is most likely to have reduced (69%) in the last year.

The Scots are the most likely to be less worried about personal debt (65%), although the region where most respondents report their personal debt has decreased in the past year is actually Wales (73%), followed by the South West and Northern Ireland (69%).

Respondent from South Central UK are the most likely to be reducing their personal debt across all areas from mortgage (72%), to non-mortgage (56%) and credit card debt (68%) and fully 75% of Irish respondents will aim to reduce their credit card debt.

Conclusions

The research confirms that the public is feeling more optimistic about their personal finances and in particular they are less worried about their personal debt than a year ago. This confirms reports that the ratio of household debt to income has decreased and that the economy is more buoyant.

There is one important caveat, however, as Britons report that they have reduced their debt and are planning on decreasing their credit card debt and mortgages, official statistics warn that increasing house prices and low wage growth may drive up borrowing. This would defeat the repayment objectives voiced by large part of the population and drive savers, who have already been suffering from low interest rates on their savings, to dip into their cash.

Should inflation and borrowing continue to rise the Bank of England may well decide to raise interest rates and the effects on borrowers could also be devastating as they may suddenly find their debts suddenly much harder to service. Unless wage growth recovers, borrowing growth in the UK can only be regarded with concern and the hope that personal debt reduction objectives voiced by respondents are soon met.

Methodology

MindMetre Research interviewed a sample of 2,000 UK citizens, nationally representative by age, region and broad social background. The interviews were conducted online in January/March 2014. Respondents were asked their views on whether they were more or less worried about personal debt compared to one year ago, whether their debt had increased or decreased in the same period and which types of debt they would prioritise paying back. The margin of error in this study is +/- 2%.