BANK OF ENGLAND

News release

Press Office
Threadneedle Street
London EC2R 8AH
T 020 7601 4411
F 020 7601 5460
press@bankofengland.co.uk
www.bankofengland.co.uk

26 September 2003

Bank Of England Quarterly Bulletin - Autumn 2003

The autumn issue of the Bank of England Quarterly Bulletin is published today. Among the articles it contains are:

Trends in households' aggregate secured debt

Using a simple model, the article considers the rise in the aggregate level of households' secured debt relative to their incomes. Although the model is not able to capture all the short-term fluctuations in the debt-to-income ratio, the article concludes that much of the general increase over time can be accounted for by the spread of homeownership and the fall in inflation - which has reduced the rate at which households' real debt burden is eroded over time. The rise in homeownership - mainly reflecting a trend to a lower number of adults per dwelling - suggests a significant part of the rise in the debt-to-income ratio is likely to reflect an increase in the number of households with debt rather than an increase in the amount of debt per household. Moreover, because only a relatively small fraction of the housing stock changes hands each year, the aggregate level of debt responds relatively slowly to changes in house prices. So the recent increases in house prices could lead to continuing increases in the debt-to-income ratio over the next five to ten years.

Public expectations of UK inflation

Around half of the UK general public surveyed in the Bank's inflation attitudes survey expects inflation to be between 1% and 4%. However, inflation expectations vary systematically across the population. In particular, age, geographical location, education, and housing status are all associated with different inflation expectations. And, rather than these variations being driven by differences in the goods and services that individuals consume, they seem to be related to factors such as lifetime experiences of inflation and housing costs.

The information content of regional house prices: can they be used to improve national house price forecasts?

It is often suggested that house price movements in the South East lead, or even cause, movements in the rest of the United Kingdom. If so, then house price inflation in the South East would be useful when forecasting national house price inflation. This article considers what might explain such a 'ripple effect' and the channels through which it could operate. Tests to identify whether regional house prices have in the past moved in a way consistent with ripple effects reveal mixed results. There is evidence that regional price changes were consistent with the South East playing a leading role in the late 1980s and early 1990s, but not during other periods. It is therefore important to understand the nature of the shock to the housing market before concluding that a given house price change in London and the South East has implications for house prices in other regions.

Also in the Autumn 2003 Bulletin:

- a regular commentary on 'Markets and operations';
- other articles: 'Non-employment and labour availability' and 'Balance sheet adjustment by UK companies';
- articles by the Bank's Houblon Norman Fellows: 'Inflation targeting and the fiscal policy regime: the experience in Brazil' and 'The optimal rate of inflation: an academic perspective';
- a guide to 'The EU Financial Services Action Plan';
- summaries of recent Bank of England working papers;
- recent speeches from the Bank.

Note to Editors

Copies of the Quarterly Bulletin are available from the Publications Group, Bank of England, Threadneedle Street, EC2R 8AH (Tel: 020 7601 4030; fax 020 7601 3298).