The financial position of British households: evidence from the 2011 NMG Consulting survey

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Over the past year the recovery in the UK economy appears to have slowed. That weakness in UK demand has been driven by falling consumption, reflecting the challenging environment facing households. This article examines the factors affecting households' budgets and spending decisions using the latest survey of households carried out for the Bank of England by NMG Consulting in September 2011. The survey suggests that most households had experienced an income squeeze, and credit conditions remained tight. Around half of households reported that they had been affected by, and had responded to, the fiscal consolidation. Reported levels of financial distress had remained elevated but had been contained by the low level of Bank Rate and some forbearance by lenders. Looking ahead, households were uncertain about future incomes and expected to continue to be influenced by the fiscal tightening. Households in aggregate, did not expect to change the amount they saved.

Introduction

The economic environment for households is challenging. Real incomes have fallen. The fiscal consolidation has begun and is planned to continue. Unemployment has remained higher than before the recession, and credit conditions are still tight. Partly in response to these circumstances, the Bank of England's Monetary Policy Committee (MPC) has maintained Bank Rate at 0.5% since March 2009. As a further stimulus, between March 2009 and January 2010 the Bank purchased £200 billion of assets financed by the issuance of central bank reserves, so-called quantitative easing (QE).(2) In October 2011, the MPC decided to purchase a further £75 billion of assets.(3)

The outlook for aggregate spending and the incidence of debt payment problems is likely to depend on whether these influences have affected most households to a similar extent or have been concentrated among certain groups. Disaggregated data can shed light on this and also provide information on whether households have already adjusted to the challenges they face or whether they have further adjustment to make in the future.

Between 23 and 29 September 2011, NMG Financial Services Consulting carried out a face-to-face survey of about 2,000 British households on behalf of the Bank.(4) This year, an online survey was carried out in parallel to the traditional face-to-face survey. The online survey was commissioned in order to gain a better understanding of differences between results using the two modes of survey, and with a view to potentially moving the entire survey online in the future. The design of, and a few results from, the online survey are described in the box on page 317. The rest of the article, however, reports the results from the face-to-face survey in order to ensure direct comparability with previous years' survey results.

Households were asked a range of questions about their finances. These included questions about their incomes, how much they owed, whether their borrowing was secured or unsecured and whether they had difficulty accessing credit. This year there were new questions on income uncertainty, loan forbearance, saving intentions and the impact of, and

(1) The authors would like to thank Michael McLeay and Nicola Worrow for their help in producing this article.
(2) For more information on the effectiveness of the Bank's programme of asset purchases, see Joyce, Tong and Woods (2011).
(3) The NMG survey was conducted in September, prior to this decision.
(4) The NMG Consulting survey is carefully designed and weighted to be representative of British households, in terms of the following characteristics: age, social grade, region, working status and housing tenure. 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.

reactions to, the fiscal consolidation. The survey is the ninth that the Bank has commissioned NMG Consulting to conduct on household finances.(1) Some results from this year's survey were presented in the November 2011 *Inflation Report* to assess developments in household saving, and in the December 2011 *Financial Stability Report* in the context of forbearance and household vulnerabilities. This article describes the detailed results from the survey in more detail.(2)

A number of results in the survey are split by the respondents' housing tenure: outright owners, mortgagors and renters. Previous survey results have shown that it is useful to distinguish between these types of households as they are likely to react differently to changes in economic circumstances. This may be because they have different exposure to interest rates or are at different stages in their life cycles.

The first section of the article discusses the impact on household balance sheets of incomes, the fiscal consolidation, credit conditions and the housing market. The second section describes households' ability to keep up with debt commitments and household bills and how those experiencing payment problems are resolving them. The third section considers how households have changed — and intend to change — their saving decisions and looks at the distributions of assets and liabilities across households. A box on page 313 discusses new questions included in the online survey designed to obtain estimates of marginal propensities to consume.

Influences on household finances

Weakness in incomes

Over the past year, relative to pre-recession levels, unemployment has remained elevated and nominal earnings growth — while recovering slightly — has been subdued. Both these factors are likely to have continued to push down on nominal incomes. The unemployment rate of respondents in this year's survey was about 7%, lower than the 8.3% recorded in the ONS Labour Force Survey in 2011 Q3.

An important underlying driver of households' finances over the past year is likely to have been the squeeze in real incomes arising from the increase in the rate of Value Added Tax (VAT) and the rises in energy prices and import prices. Those factors have contributed to unusually weak real income developments. The fiscal consolidation by the Government (of which the rise in VAT has been part) may also have reduced household incomes.

Table A reports the results of the income questions in the NMG survey according to the housing tenure of the respondent. The average pre-tax household income of respondents was just over £2,850 per month. The survey also asked respondents about the level of their 'available' income — disposable income left over after paying tax, national insurance, housing costs (rent, mortgage payments, council tax), loan payments and utility bills — and how it had changed over the past year.(3) The average level of available income was £720 per month. This was highest for high loan to value (LTV) mortgagors (at just under £1,050) and lowest for renters (at nearly £450).

Table A Changes in monthly available income by housing tenure(a)(b)

Household income by tenure

	Outright owners	Low LTV mortgagors	High LTV mortgagors	Renters	Total
Percentages of households	**34**	**32**	**6**	**28**	**100**
Characteristics					
Mean monthly pre-tax income (£s)	2,481	4,193	4,117	1,624	2,856
Mean monthly available income (£s)	781	893	1,040	434	720
Distribution of changes in monthly available income (percentages of households)					
Down	**51**	**59**	**66**	**56**	**56**
of which, by more than £100	22	37	38	27	28
of which, by £51 to £100	17	18	23	19	18
of which, by £1 to £50	13	5	4	10	9
Not changed	**36**	**27**	**15**	**31**	**31**
Up	**13**	**14**	**20**	**13**	**13**
of which, by £1 to £50	4	3	3	4	4
of which, by £51 to £100	2	4	3	5	4
of which, by more than £100	6	8	13	3	6
Mean change in monthly available income (£s)	-36	-55	-53	-48	-46

Sources: NMG Consulting survey and Bank calculations.

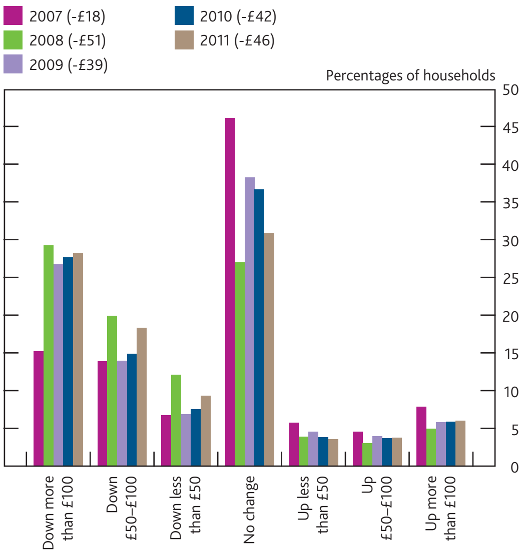
(a) Questions: 'How much of your monthly income would you say your household has left after paying tax, national insurance, housing costs (eg rent, mortgage repayments, council tax), loan repayments (eg personal loans, credit cards) and bills (eg electricity)?'. 'And how much would you say that your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

The average level of available income reported by respondents in this year's survey is higher than in 2010 when average available income was £655 per month. The difference is more likely to reflect a more affluent sample in 2011 than in 2010 rather than a similar increase in available income across the UK population as a whole. The weekly Capibus survey (run by Ipsos MORI), to which the NMG survey questions were added, shows that — compared to previous weeks — the share of high-income households was particularly high in the week in which the 2011 NMG survey was carried out. A higher average level of income in the 2011 sample would affect the comparison with 2010 for a number of variables in the survey. As with any results from a small-sample survey, care must be taken interpreting changes in results from year to year.

(1) The results of each year's survey have been reported in the *Quarterly Bulletin*. See Nielsen *et al* (2010) for details of the 2010 survey.
(2) The raw survey data are available at www.bankofengland.co.uk/publications/quarterlybulletin/nmgsurvey2011.xls.
(3) The available income question may capture some elements of the real income squeeze, for example, increases in energy prices have resulted in higher utility bills. But the pressure on real income from higher prices of other essential goods and services — due to higher VAT and import prices — will probably largely not be captured by the question.

On average, respondents reported that their own available income had fallen over the past year by £46 per month, continuing the trend reported in the past four annual surveys. More than a half of households in the NMG survey reported a fall in monthly available income, while income was unchanged for around a third. And the distribution has shifted to the left since the 2010 survey (**Chart 1**).[1]

Chart 1 Changes in monthly available income[(a)(b)]



Sources: NMG Consulting survey and Bank calculations.

(a) Question: 'How much would you say that your monthly left over income has changed over the past year?'.
(b) The numbers in parentheses after the years are the average (mean) change in monthly available income reported in that year's survey.

The falls in monthly available income appear to have been broadly based across different types of household by housing tenure, although outright owners fared better to some extent, and mortgagors slightly worse (**Table A**).

Fiscal consolidation

In 2010 the Government announced fiscal measures designed to reduce the size of the United Kingdom's budget deficit. Some of those measures were implemented over the past year, such as the increase in the rate of VAT, and others are expected over the coming years. In the survey, households were asked about how they had been affected by the measures over the past year, and how they expected to be affected in the future. Those households who reported that they had been affected or expected to be affected were also asked about any action they had taken in response to the measures, and likely action in the future.

There is evidence that the fiscal consolidation is expected to have more of an impact in the future than it has had over the past year. **Table B** shows that 48% of households felt they had been affected in some way by the fiscal measures over the past year, with higher taxes and lower income reported as the main ways in which they had been affected. Households who said they had been affected by the fiscal consolidation reported a larger fall in income (-£65) than those that reported that they had not been affected (-£24). Looking forward, 69% of households thought they would be affected by the fiscal measures in the future. A much larger share of households were concerned about losing their job in the future as a result of the fiscal measures (19%), than had reported that they had lost their job as a result of the fiscal measures over the past year (7%).

Table B Impact and expected impact of fiscal measures on households[(a)]

Percentages of households

	Impact over the past year	Expected impact in the future
Those affected	**48**	**69**
How affected:[(b)]		
Higher taxes	23	32
Lower income	19	24
Less spending on services used	13	20
Lower benefits	10	16
Loss of job	7	19
Not heavily affected	**34**	**15**
Hadn't thought about it	**18**	**16**

Sources: NMG Consulting survey and Bank calculations.

(a) Questions: 'In 2010, the government announced a set of measures in order to cut the country's budget deficit. Some of these measures have already come into effect. How have these measures affected your household over the past year?'. 'Some of the government's measures will come into effect over coming years. Which of the following are you most concerned about for the future?'.
(b) Impacts may not sum to totals since households could choose up to three effects.

Working households that gained more than half of their labour income from the public sector were slightly more likely to report that they had been affected by the fiscal measures (58% compared to 48% for the sample as a whole). Future job loss was a concern for around a third of working households that were reliant on the public sector for more than half of their income, a smaller share than the 50% that reported they were concerned about job loss in the 2010 survey. This could reflect that when public sector job losses were announced, all public sector employees were concerned about job loss, but as job cuts are made, remaining employees have greater certainty over their own job.

Around half of households reported that they had taken some action in response to the fiscal measures, and the same share expected to take action in the future (**Table C**). The main responses that households had taken were through the labour market, for example looking for a new job or working longer hours. And looking forward, saving more was the most prevalent likely response in the future.

Credit conditions

Since the escalation of the financial crisis in 2008, households' access to credit has tightened. From 2008 to 2010, each NMG

(1) The box on page 313 outlines new estimates from this year's survey of households' marginal propensities to consume out of the fraction of these changes in income that was estimated by households to be unexpected.

Table C Actions and likely actions taken in response to the fiscal measures[(a)(b)]

Percentages of households

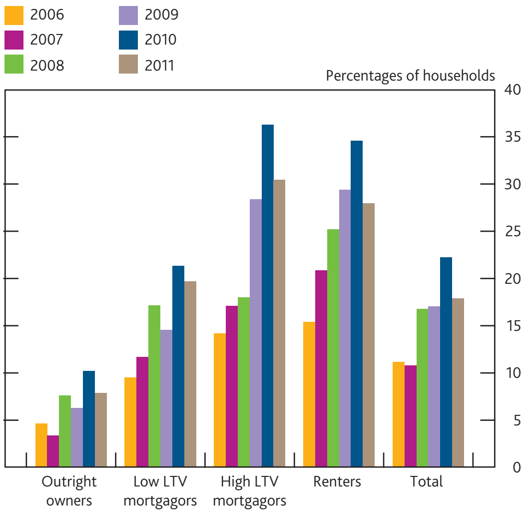
	Action taken over the past year	Likely action in the future
Responded/will respond	**54**	**55**
Type of response:[(c)]		
Look for new job	21	23
Work longer hours	20	22
Save more	15	24
Spend more	7	3
Not responded/won't respond	**46**	**45**

Sources: NMG Consulting survey and Bank calculations.

(a) Questions: 'Which, if any, of the following actions have you taken in response to these measures?'. 'Which, if any, of the following actions will you take in response to these measures?'.
(b) Actions questions were not asked to those households who reported that they 'hadn't thought about it' to the effects question reported in **Table B**.
(c) Types of response may not sum to totals since households could choose up to three types of response.

survey reported a higher proportion of households who were put off spending by concerns about credit availability than the previous year's survey. And that was particularly the case for high LTV ratio mortgagors and renters. By contrast, that proportion fell by 4 percentage points in the 2011 survey, reversing much of the increase reported in the 2010 survey (**Chart 2**). Nevertheless, the overall level of households reporting credit constraints remains elevated compared to the period before the onset of the financial crisis.

Chart 2 Proportion put off spending by concerns about credit availability[(a)]

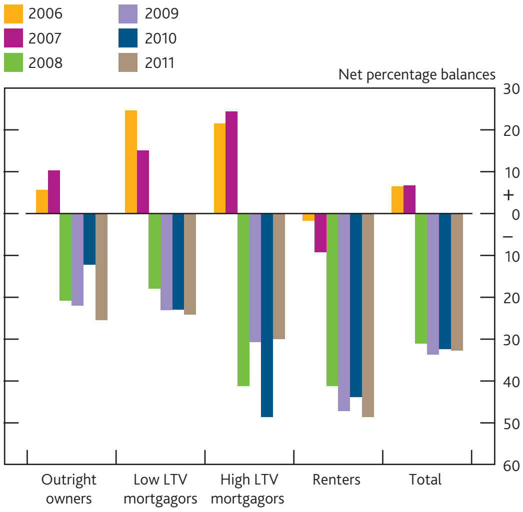


Sources: NMG Consulting survey and Bank calculations.

(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?'.

Further, a large net percentage of households reported that they found it harder to borrow than a year ago, a similar net percentage balance to that reported in the 2010 survey (**Chart 3**). The net percentage reporting that it had become more difficult to access credit was largest for renters, or,

Chart 3 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?'.

cutting the sample differently, for those with no debt or only unsecured debt.

These results seem to contrast with those from the Bank's *Credit Conditions Surveys* over most of the past year, in which lenders reported that the availability of credit to households had remained broadly unchanged (Bank of England (2011)). That may be because in the *Credit Conditions Survey* lenders are likely to report credit availability for a given level of credit risk. But if, for example, a household is perceived to be less creditworthy by lenders than they were a year ago, that household may report that they have found it more difficult to access credit. A further issue is that households tend to observe any changes in credit conditions only infrequently when they ask for credit or need to refinance it. As a result, some households may only now be noticing an earlier tightening in credit conditions or deterioration in their creditworthiness.

The housing market

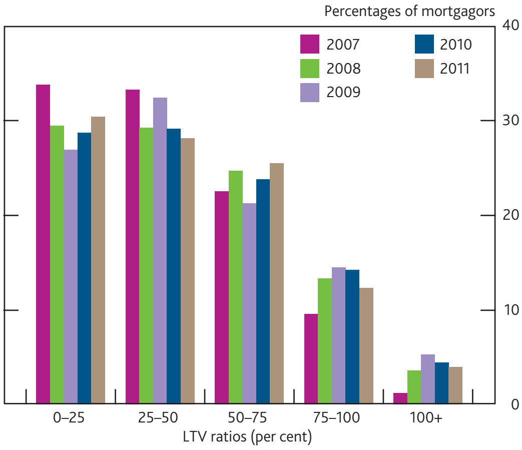
House prices have fallen modestly over the past year, following a large fall in 2007–08 and a smaller rise in 2009–10.[(1)]

The LTV distribution on mortgagors' outstanding secured debt reported in the NMG survey shifted towards slightly lower shares of debt (**Chart 4**). There was a modest fall — from 19% to 16% — in the share of mortgagors with high (above 75%) LTV ratios.

Housing transactions remain at very low levels relative to before the financial crisis.[(2)] And the number of first-time

(1) Calculated using an average of the Nationwide and Halifax seasonally adjusted quarterly indices.
(2) The weakness in transactions is likely to have meant less acquisition of debt by households and so is consistent with the leftward shift in the LTV distribution. See Reinold (2011).

Chart 4 Distribution of LTV 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.

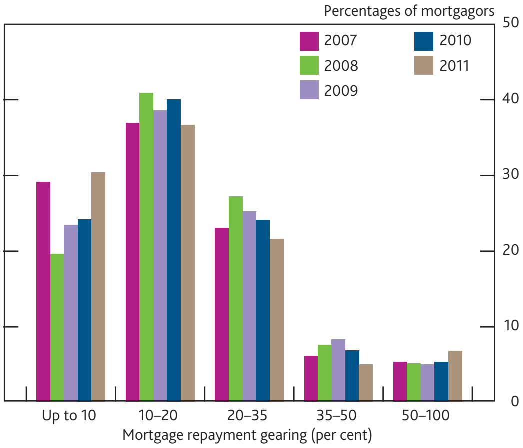
buyers in the housing market is still low. While house prices are 14% below their 2007 Q3 peak, and relatively low mortgage rates have made owning a property more affordable for first-time buyers, the median deposit required for a mortgage remains high relative to the pre-crisis period. For the second year in succession, around a quarter of renters in the NMG survey that reported that they were increasing saving were doing so to finance a deposit on a property. Tight credit conditions are likely to be continuing to make it difficult for first-time buyers to enter the housing market, which in turn is consistent with the low number of transactions relative to the pre-crisis period.

Interest rates and affordability

An important way in which monetary policy influences the economy is by affecting the interest rates faced by households. Between October 2008 and March 2009, the MPC cut Bank Rate from 5% to 0.5%. Following these cuts in Bank Rate, borrowers on standard variable rate or Bank Rate tracker mortgages experienced a fall in their monthly mortgage repayments (Nielsen *et al* (2010)). And over the twelve months prior to the latest survey, household effective mortgage rates (the average mortgage rate held by households with existing mortgages) had fallen by a further 0.2 percentage points.

Changes in interest rates faced by households influence the affordability of debt. One way to assess affordability is by looking at the share of pre-tax income devoted to servicing debt (repayment gearing). The proportion of mortgagors who reported that they had devoted less than 10% of their pre-tax income to mortgage repayments was higher than in the 2010 survey (**Chart 5**). This is likely to reflect, in part, the impact of lower effective mortgage rates. It may also be due to the effect of lower housing market turnover as there are relatively few new borrowers with high income gearing to offset the gradual improvement in the affordability of older mortgages as debts are paid down.

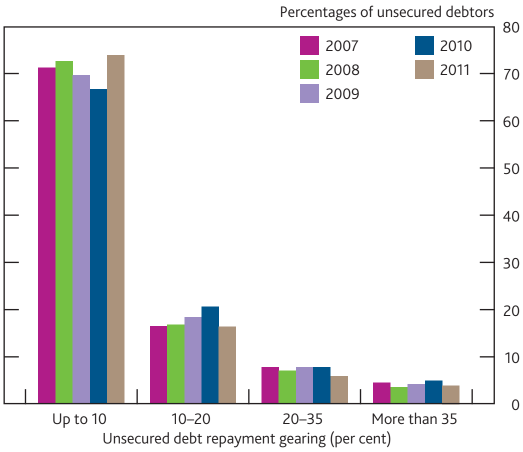
Chart 5 Mortgage repayment gearing[a][b][c]



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 premia.

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%.

There was also a rise in the proportion of households reporting that they devoted less than 10% of their pre-tax income to servicing unsecured debt (**Chart 6**).

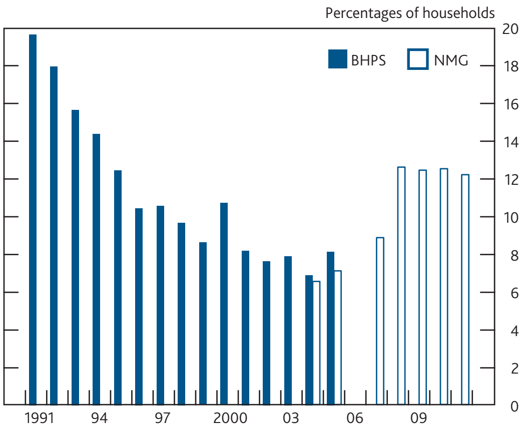
Repayment problems and household responses to them

Distress

Reported levels of distress remained elevated in the 2011 survey. As in the 2010 survey, 12% of households reported having experienced difficulty paying for their accommodation in the past twelve months (**Chart 7**). There was variation across tenure groups, however, with distress increasing for outright owners and renters, but falling for mortgagors.[1]

(1) Accommodation costs could for example be interpreted to include rent, mortgage payments, council tax, service charges and utility bills.

Chart 7 Difficulty paying for accommodation(a)(b)



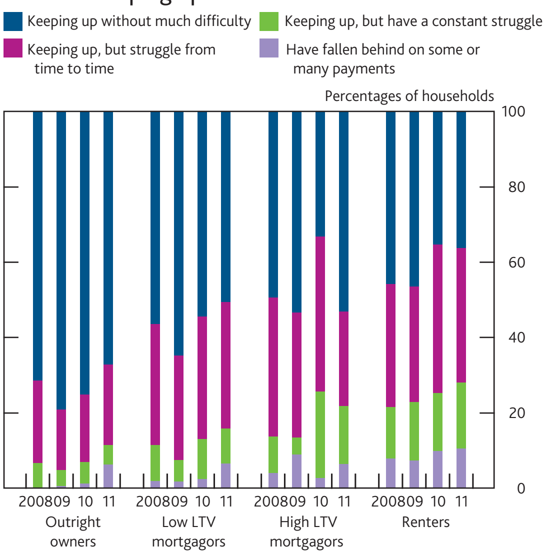
Sources: British Household Panel Survey (BHPS), NMG Consulting survey and Bank calculations.

(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 are not comparable and have been excluded from the chart.

Distress is likely to have been pushed up by increasing bills and rents but, for mortgagors, the effect of higher bills may have been more than outweighed by a fall in mortgage repayment gearing.

A larger share of respondents reported that they had fallen behind on some or many bills or credit commitments than in 2010: 7.5% had fallen behind in 2011 compared to 4.1% in 2010. This might in part be driven by recent increases in utility bills and the price of essentials, rather than problems with servicing debt. Consistent with this, distress appeared to have increased the most for outright owners and low LTV households (**Chart 8**). There was a rise in the fraction of high LTV mortgagors that reported keeping up with bills and credit commitments without much difficulty. This may in part be due to a fall in mortgage repayment gearing among high LTV households.

Chart 8 Keeping up with bills and credit 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?'.

Respondents were also asked about the actions they were taking to resolve their difficulty in keeping up with bills and credit commitments. The most common actions were to cut back on spending, work longer hours or take on a second job, and to use cash from savings or other assets (**Table D**). About 10% of households received financial help from family or relatives. Compared to last year, fewer households reported that they were taking actions involving debt solutions or new debt. This drove a moderate increase in the fraction of respondents taking no action.

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

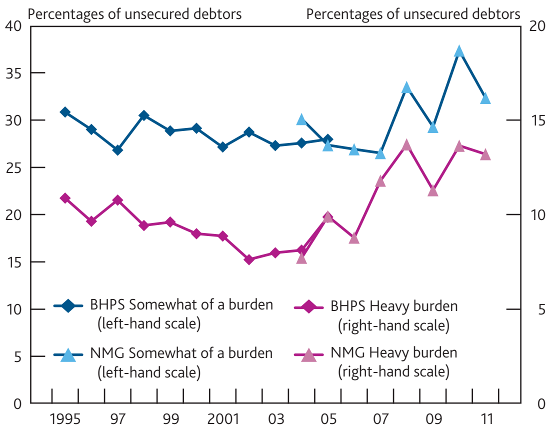
	2010	2011
Percentages that mentioned:		
Cut back on spending	50	49
Working longer hours/taking on a second or better-paid job	18	16
Use cash in savings/other assets	16	14
Getting financial help from family/relatives	11	11
Sell your house	4	3
Enter into another debt solution such as a debt management plan	6	3
Take out another loan	5	2
Take out another mortgage on your house	3	1
Declare yourself insolvent (ie bankruptcy or Individual Voluntary Arrangement)	1	1
Not taking any action	24	32
Other	2	1

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'.

The proportion of households who reported difficulty in dealing with unsecured debt was somewhat lower than in 2010 (**Chart 9**). The fraction of households finding unsecured debt somewhat of a burden or a heavy burden fell by 5 percentage points. The burden of unsecured debt is still high relative to pre-recession levels.

Chart 9 Burden of unsecured debt(a)



Sources: 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?'.

Factors limiting distress

Household financial distress could have been higher than suggested above in the absence of forbearance by lenders, where the terms of a loan are renegotiated or relaxed in response to an actual or prospective breach of the original terms of the loan. The 2011 NMG survey included new questions about the level of forbearance and how households would have fared in the absence of this help. The results suggest that 12% of mortgagors were benefiting from some kind of forbearance on their secured debt (**Table E**). The most common types of forbearance were a switch to an interest only (or part interest only) mortgage, a reduction in interest rate due to difficulties in making payments and a payment holiday. The numbers point to a slightly higher level of forbearance than the FSA forbearance review, which covered three quarters of UK mortgages and suggested that 5%–8% of mortgages were subject to forbearance (see December 2011 *Financial Stability Report*). The difference may in part be due to the relatively small sample size of the NMG survey and the possibility that some borrowers included general changes to their mortgage in answering the NMG survey, even if these were not in response to payment difficulties.

Table E Secured forbearance[(a)]

	Percentages of mortgagors
A (temporary or permanent) switch from a repayment mortgage to an interest only (or part repayment/part interest only) mortgage	3.6
A reduction in interest rate offered due to difficulties in making payments	2.2
Having a (part or full) mortgage payment holiday	2.1
Having lower monthly payments due to having extended the term of your mortgage in the past	1.8
Having had mortgage arrears added to your outstanding mortgage balance (capitalisation) in the past	1.8
Claiming Support for Mortgage Interest (SMI)	1.3
Another change to the terms of an existing mortgage to help ease the burden of payment	0.6
None of these ie did not need help to meet payments or did not request/was not granted any of the above	87.1
Received at least one type of forbearance (excluding SMI)	11.8

Sources: NMG Consulting survey and Bank calculations.

(a) Question: 'Are you or your household currently benefiting from any of the options below to help ease the burden of your mortgage? Please include options that you are benefiting from that were permitted in the original terms of your mortgage as well as those that were not. Do not include any general benefit you may be getting from the current low interest rates. You can choose more than one answer'.

The NMG survey also suggests that 11% of unsecured debtors were receiving forbearance on their unsecured debt (**Table F**).[(1)] The most common types of forbearance were making token payments to creditors and having lower monthly payments due to having extended the term of a loan in the past. Nearly 3% of unsecured debtors reported lower payments because of a Debt Management Plan, Debt Relief Order, Bankruptcy Order, or Individual Voluntary Arrangement. There was some overlap between the households reporting that they received secured and unsecured forbearance: 25% of mortgagors who held unsecured debt and received forbearance on their mortgage also received forbearance on their unsecured debt.

Table F Unsecured forbearance[(a)]

	Percentages of unsecured debtors
Making token payments to creditors	4.8
Having lower monthly payments due to having extended the term of your loan in the past	3.2
A Debt Management Plan (DMP), Debt Relief Order (DRO), Bankruptcy Order or Individual Voluntary Arrangement	2.8
Another change to the terms of an existing unsecured loan to help ease the burden of payment	1.6
None of the above (did not need help to meet payments or did not request/was not granted any of the above)	88.7
Received at least one type of forbearance	11.3

Sources: NMG Consulting survey and Bank calculations.

(a) Question: 'Are you or your household currently benefiting from any of the following actions/changes to your loan agreement to help ease the burden of your debt (other than mortgage debt)? You can choose more than one answer'.

When asked how they would have fared in the absence of forbearance, 29% of mortgagors and 47% of unsecured debtors receiving forbearance reported that they would have otherwise been in arrears on their mortgage or unsecured debt respectively (**Table G**). And a further 46% of mortgagors and 31% of unsecured debtors would have struggled to keep up in the absence of forbearance. The numbers are not directly comparable to the measures of distress discussed above but, among those that were benefiting from forbearance, only 11% of mortgagors and 18% of unsecured debtors were currently behind on *any* bills or credit commitments.

Table G Situation in the absence of forbearance[(a)(b)]

	Percentages of debtors
Secured	
I would be up to date with my mortgage payments, without much struggle	25
I would be up to date with my mortgage payments, but it would be a struggle	46
I would be behind on my mortgage payments by less than 6 months of payments	24
I would be behind on my mortgage payments by 6 months or more of payments	5
Unsecured	
I would be up to date with my loan payments, without much struggle	22
I would be up to date with my loan payments, but it would be a struggle	31
I would be behind on my loan payments	47

Sources: NMG Consulting survey and Bank calculations.

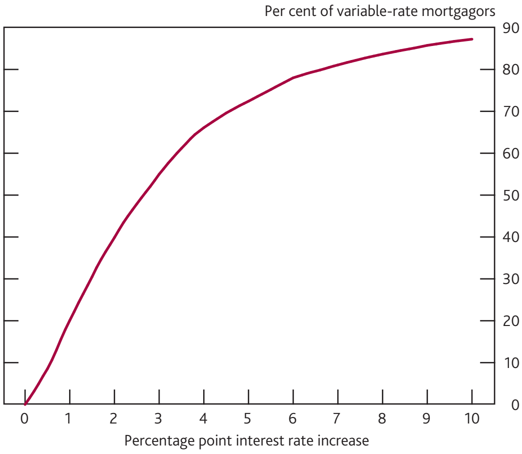
(a) Question: 'If you had not made this change, which of the following would describe your likely situation?'.
(b) The top (bottom) section lists the percentage of mortgagors (unsecured debtors) that received secured (unsecured) forbearance and that would have otherwise been in the given situation.

Distress is also likely to have been contained by low interest rates on secured debt. To gauge the extent to which households would be affected by higher debt payments, variable-rate mortgagors were asked how much more they would be able to pay on their mortgage every month without having to take some action to find the extra money. A fifth of these mortgagors reported that they would need to take some

(1) Forbearance appeared slightly higher (12%) among those with credit card debt, a personal loan and/or an overdraft.

action if rates were to increase by 1 percentage point immediately (**Chart 10**). It should be noted however, that overnight index swap rates indicate that financial market participants do not expect Bank Rate to be 1 percentage point higher than today until early 2016.

Chart 10 Mortgagors needing to take action if interest rates were to increase[(a)(b)(c)(d)]



Sources: NMG Consulting survey and Bank calculations.

(a) Per cent of variable-rate mortgagors that would need to take some action if interest rates were to increase by the number of percentage points indicated on the x-axis.
(b) Question: 'The interest payment on mortgages is often linked to the official interest rate set by the Bank of England. If the rate was to increase, your monthly payments would also increase. About how much do you think your monthly mortgage payments could increase for a sustained period without you having to take some kind of action to find the extra money, eg cut spending, work longer hours, or request a change to your mortgage?'.
(c) The answers were provided in sterling amounts and translated into interest rate increases using information on the mortgage outstanding.
(d) The question was asked only to mortgagors with discounted, base rate tracker or standard variable-rate mortgages.

Prospects for saving and the distribution of net assets across households

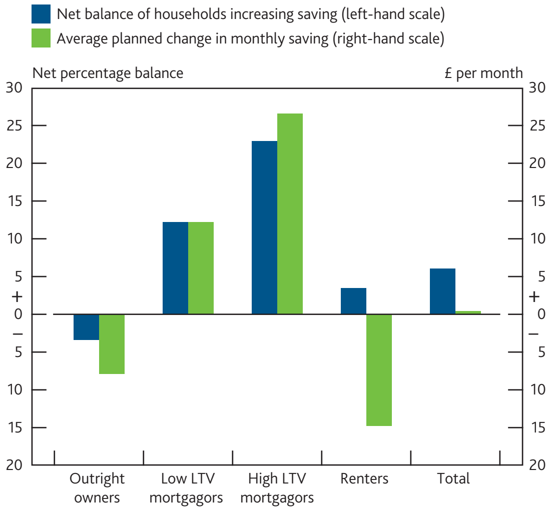
Saving decisions of households

The different influences on household balance sheets discussed in the first section all impact on households' saving and spending behaviour. Changes in income affect the amount of money that households have to divide between spending and saving or debt repayment. And changes in uncertainty, credit conditions, asset prices and debt levels affect the share of any changes in income that households choose to spend — that is their marginal propensity to consume (see the box on page 313).

Households were asked about the amount of money they saved each month. There had been a small increase in average reported monthly saving by households from £156 per month in 2010, to £176 a month in 2011. But while on average there was an increase in saving, there was considerable dispersion across the monthly saving of different households: around two fifths of households reported that they did not save anything on a monthly basis, a slight increase from 2010. But this was offset by higher saving by other households.

When asked about their saving intentions, 61% of households reported that they did not intend to change the amount saved each month. Of the others, a larger share of households were planning to increase saving (22%) than were planning to decrease saving (16%). That means that the net balance of all households planning to increase saving was positive (**Chart 11**). But the average decrease in monthly saving was larger than the average increase, so the average intended change in savings for all households was broadly zero. When split by tenure, mortgagors were most likely to be increasing saving and by the largest amount. For renters and outright owners, the average change in monthly saving was a decrease.

Chart 11 Planned change in monthly saving[(a)]



Sources: NMG Consulting survey and Bank calculations.

(a) Question: 'Over the next year, are you planning to change the amount of money you save?'.

Table H shows the reasons given by those households that were planning to increase saving. The different saving decisions by households with different tenures are likely, in part, to reflect their different stages in the life cycle. For example, outright owners (who had an average age of 62) who planned to increase their saving were more likely to be saving for retirement, and saving for a deposit was important for those renters who were planning to save more (although on balance, as a group, they intended to save less), who tend to be younger. Despite the variation in some types of response, the main reported reasons for increasing monthly saving (personal commitments, retirement and reducing debts) were important for all tenure types and were similar to the drivers of saving in 2010.

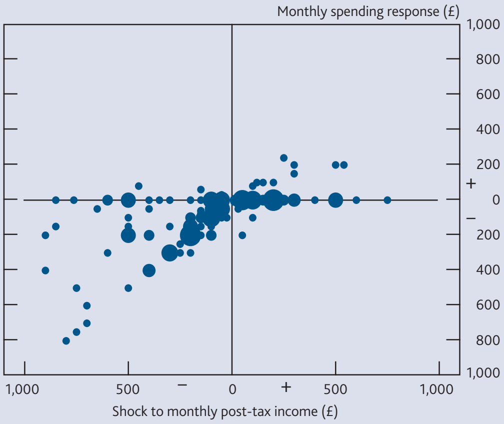
The most common reasons given by households intending to reduce saving were that households could not save as much each month, either because of the higher cost of essential items, or lower household income (**Table I**). Households who reported that they planned to save less because of lower incomes or the higher cost of essentials had indeed seen larger falls in their monthly available income (an average of £74 a month compared to £46 for the sample as a whole). Renters and outright owners were most likely to think that they had

Estimates of marginal propensities to consume

To quantify households' responses to shocks to their income, it is necessary to estimate their marginal propensity to consume (MPC). The MPC is the share of any unexpected rise in income which is spent, or the proportion by which spending is cut when income falls. There are few estimates for the United Kingdom and theory says that MPCs change over time, depending on factors such as credit conditions, and the level of interest rates. Questions were added to the 2011 online survey (see the box on page 317 for details of the online survey) which tried to elicit MPCs from households. Potentially these questions could be repeated to track MPCs over time.

First, households were asked whether their post-tax income was higher, lower or the same as they had expected a year ago and how they had adjusted their spending in response. **Chart A** shows the income shocks and spending responses that households reported. Around a third of households had experienced an income shock. Of those shocks, 70% were negative, and 30% were positive.

Chart A Income shocks and spending response[(a)(b)(c)]



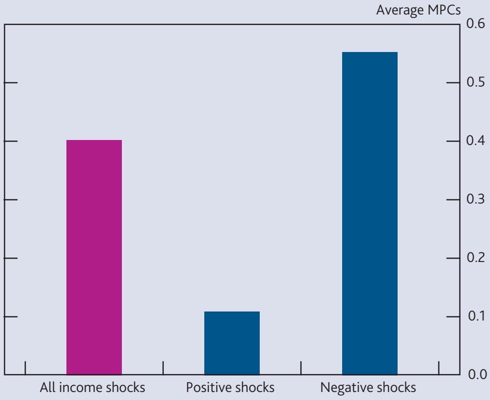
Sources: NMG Consulting survey and Bank calculations.

(a) Questions: 'Is your household's current monthly income more or less than what you expected it would be this time last year?'. 'How did you change your monthly spending in response to this unexpected change in household income?'.
(b) Axes are limited to positive and negative £1,000 to ease presentation, but larger shocks are included in calculations.
(c) Larger bubble indicates greater number of responses.

Comparing the size of the spending response to the size of the income shock gives an estimate of the MPC. For example, those households in **Chart A** who changed their monthly spending by the same amount as the unexpected change in their income would have an MPC of one. And those households that did not change their spending at all (and so lie on the horizontal zero line) would have an MPC of zero. **Chart B** shows that the average MPC was 0.4, but that the MPC out of positive shocks (0.11) was much smaller than from negative shocks (0.55).

Household characteristics affect the size of the MPC. **Chart C** shows that, as theory suggests, credit-constrained households

Chart B Average marginal propensities to consume by direction of shock[(a)]



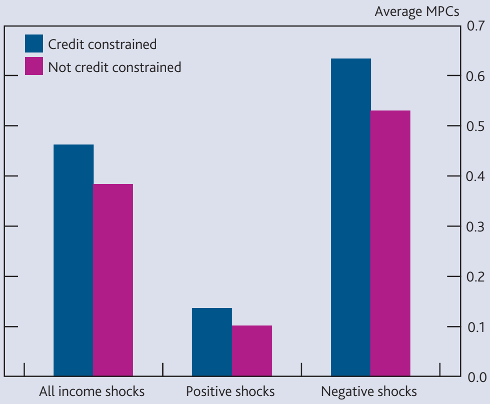
Sources: NMG Consulting survey and Bank calculations.

(a) MPCs greater than one and less than zero are excluded.

have a slightly higher average MPC. Credit-constrained households find it more difficult to access credit to smooth through any temporary shocks and so adjust spending by more. Another result shows that the average MPC is smaller when negative shocks are a larger share of available income. Households may be able to adjust fully to small shocks to income by reducing spending on discretionary items, but for large shocks, may not be able to cut spending on essentials.

An average MPC of 0.4 is at the upper end of what might be expected from a temporary shock.[(1)] This might reflect that some of the shocks were permanent and so households adjusted their spending by more. Households were asked the reason for their income shock, but these did not give a good indication of whether a shock was permanent or temporary. This could be improved were the questions to be repeated in the future. Or it might reflect that the sample of households responding was skewed towards those that had characteristics which might raise their MPC, such as being credit constrained.

Chart C Average marginal propensities to consume by credit constraints[(a)]



Sources: NMG Consulting survey and Bank calculations.

(a) MPCs greater than one and less than zero are excluded.

(1) For example Kreinin (1961), Landsberger (1966) and Johnson, Parker and Souleles (2004) find estimates of MPCs out of transitory shocks have been around 0.2 to 0.4.

Table H Reasons for planning to increase monthly saving, by housing tenure(a)(b)

Percentages of households

	Outright owners	High LTV mortgagors	Low LTV mortgagors	Renters	Total (2011)	Total (2010)
Personal commitment	34	55	29	19	27	24
Retirement	32	22	26	20	24	25
Reduce debts	19	19	25	28	23	26
Saving for a big item	13	36	25	24	21	18
Increased income	15	7	15	14	14	9
Expected future tax increases	9	12	13	22	14	10
Expected future interest rate rises	5	18	24	12	13	12
Saving for a deposit	9	13	5	22	13	10
Fear of redundancy	9	7	14	14	12	17
Less guaranteed monthly income	8	14	3	14	10	7
Extra cash from lower mortgage repayments	7	4	3	3	3	8
Value of assets fallen	7	0	2	1	3	5
Don't know	2	0	1	3	3	5

Sources: NMG Consulting survey and Bank calculations.

(a) Question: 'What would you say are the main factors driving this increase?'.
(b) Responses may not sum to 100 because households could choose up to four reasons.

Table I Reasons for planning to decrease monthly saving, by housing tenure(a)(b)(c)

	Outright owners	Mortgagors	Renters	Total
Higher cost of essentials	42	38	34	38
Lower income	23	31	30	28
Have enough savings	16	7	19	14
Low level of interest rates	15	15	11	13
Bought the item was saving for	9	17	2	9
Other	1	2	2	2
Don't know	17	8	10	11

Sources: NMG Consulting survey and Bank calculations.

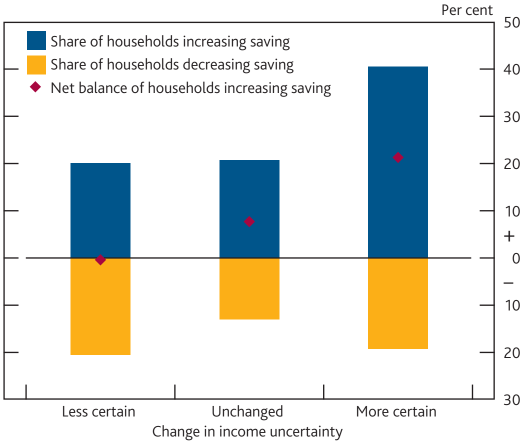
(a) Question: 'What would you say are the main factors driving this decrease?'.
(b) This question was not asked in 2010.
(c) Responses may not sum to 100 as households could choose up to four reasons.

enough savings, while owners outright and mortgagors were most likely to be put off by the low level of interest rates.

Some of the possible reasons for saving more given in **Table H** capture uncertainty about future available income — for example, fear of redundancy, less guaranteed monthly income and tax rises. That might reflect the desire of households to hold a buffer of saving which they can use if they suffer shocks to their income.

New questions in the 2011 survey asked households how certain they were that they knew what their household income would be in a year's time and how their uncertainty had changed over the past year. Around a quarter of households had 'no idea' what their income would be in a year. 31% of households reported that they were less certain than a year ago, while 9% were more certain than a year ago.(1) Given precautionary motives for saving, it is perhaps surprising that those households that were less certain about future income than a year ago were less likely to increase saving than those who were more certain (**Chart 12**). That may be because those households lacked the resources to increase saving.

Chart 12 Saving intentions by change in income uncertainty(a)



Sources: NMG Consulting survey and Bank calculations.

(a) Questions: 'Over the next year, are you planning to change the amount of money you save?'. 'How, if at all, has your certainty about your future household income changed over the past year?'.

Distribution of assets and liabilities across households

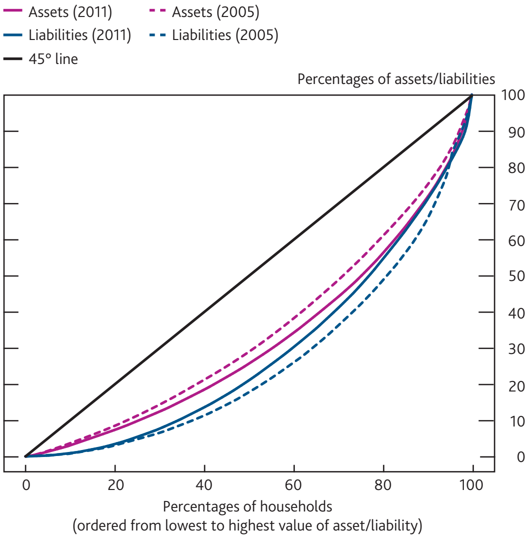
The monthly saving and borrowing decisions of households over time feed into the distribution of assets and liabilities across households. **Charts 13** and **14** show the distributions of assets (including financial assets and housing wealth) and liabilities (including mortgages and consumer credit) across mortgagors and renters respectively.(2) These are based on household reports of their holdings of assets and liabilities which, as discussed in the box on page 316, may be a sensitive issue for households and so the distributions can be treated as indicative only.

For each of the variables, households are ordered along the horizontal axis from those with the lowest reported amount of assets or liabilities at the left to those with the highest at the right. And reading across the vertical axis gives the share of the asset or liability attributable to that share of households. For example, the magenta line in **Chart 14** shows that the bottom 50% of mortgagors by share of assets held around 25% of assets, down from 29% in 2005.

Liabilities have become more evenly distributed since 2005 for both renters and mortgagors (the distributions are nearer the 45° line). Assets reported by households have become more unevenly distributed since 2005 for both mortgagors and renters. In particular the share of households holding relatively few assets has increased.

(1) It is difficult to know how significant these results are as this question has not been asked in previous surveys.
(2) Outright owners were not asked for the value of their house so corresponding charts cannot be drawn for that group of households.

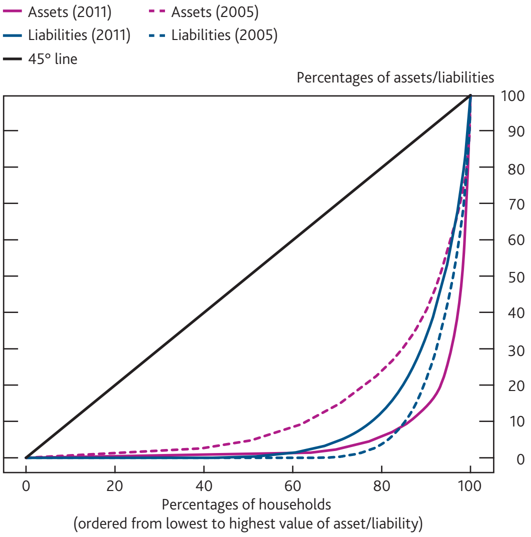
Chart 13 Distributions of assets and liabilities of mortgagors[(a)]



Sources: NMG Consulting survey and Bank calculations.

(a) Assets include financial assets (including bank/building society saving accounts or bonds, stock and shares, ISAs, Child Trust Funds, NS&I account/bonds and premium bonds, but excluding pensions) and the value of the main family home (it does not account for second homes or property that is rented out). Liabilities include any mortgage and unsecured debt.

Chart 14 Distributions of assets and liabilities of renters[(a)]

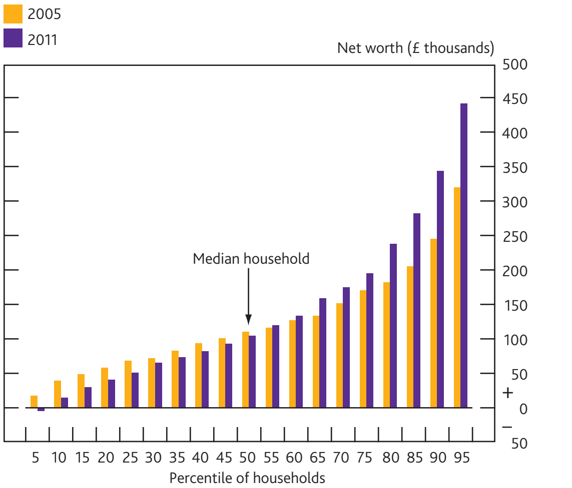


Sources: NMG Consulting survey and Bank calculations.

(a) Assets include financial assets (including bank/building society saving accounts or bonds, stock and shares, ISAs, Child Trust Funds, NS&I account/bonds and premium bonds, but excluding pensions) and the value of the main family home (it does not account for second homes or property that is rented out). Liabilities include any mortgage and unsecured debt.

But it is important to understand the joint distribution of assets and liabilities. The net position of a household — that is, a household's assets less their liabilities — gives an indication of the resources that a household has to smooth through any shocks to their household finances. **Chart 15** shows that, for mortgagors, while the position of the median household is little changed, the extremes of the distribution have changed by more. Results from the 2011 survey showed that the bottom half of mortgagors held fewer net assets than in 2005, while the top 50% held significantly more — especially towards the very top end of the distribution.

Chart 15 Distributions of net worth across mortgagors[(a)]

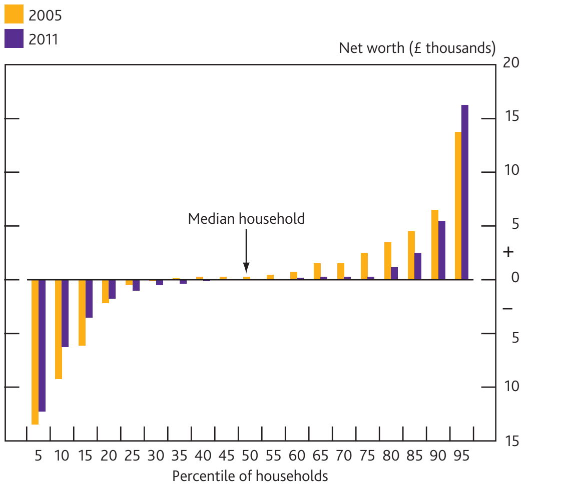


Sources: NMG Consulting survey and Bank calculations.

(a) Net worth equals household assets minus liabilities.

Despite the fairly large changes in the asset and liability distributions of renters shown in **Chart 14**, the net position of the median renter household is also unchanged (**Chart 16**). The top 20% of the distribution holds slightly fewer net assets than in 2005 (with the opposite true for the top 5% of the distribution). But the bottom 20% of the distribution looks in a better position, holding slightly less net debt.

Chart 16 Distributions of net worth across renters[(a)]



Sources: NMG Consulting survey and Bank calculations.

(a) Net worth equals household assets minus liabilities.

Conclusion

The 2011 NMG Consulting survey suggests that the environment facing households remains challenging. Incomes were reported to have fallen and the outlook for them was relatively uncertain. Some households reported that the fiscal consolidation was affecting them, mainly through lower income and higher taxes, and that they were responding, particularly by trying to increase their labour supply through

Survey method

The survey was undertaken between 23 and 29 September 2011 by adding 34 questions related to household finances and housing wealth to a regular weekly survey, Capibus, carried out by Ipsos MORI. Interviews were conducted on 1,985 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. 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. 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. Despite these attempts and the weighting of answers, 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.

Response rates for the 2009, 2010 and 2011 surveys have generally been 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 9% of respondents were not asked about their income. A further 26% of households refused to provide (16%) or did not know (10%) their household income. And 14% 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 8% not knowing how much they owed and 2% 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.

Finally, as in 2008, 2009 and 2010 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 more details of this method, as well as a discussion of its advantages and disadvantages compared to an alternative approach using mid-points, see Nielsen *et al* (2010). This approach was not used in computing monthly saving as a proportion of monthly income, where the size of the buckets of these two variables was similar enough to generate relatively few distortions.

finding a new job or working longer hours. A larger share of households were concerned about being affected by the fiscal consolidation going forward than had been affected over the past year. And credit conditions also remained tight.

Despite the considerable pressures on household balance sheets, reported levels of financial distress — while elevated relative to before the crisis — were little changed on the year. The low level of mortgage rates (and so income gearing) may have helped to contain distress. New evidence suggests that forbearance by lenders may also have been important. But, some variable-rate mortgagors reported that they would need to take action if there was an immediate 1 percentage point rise in interest rates. Financial market participants, however, do not expect Bank Rate to rise by 1 percentage point until 2016.

Households were, on the whole, not intending to change the amount that they save on a monthly basis. For those households that were saving more, personal commitments, retirement and reducing debt were important. But some households were finding that they could not save as much due to lower income or the higher cost of essentials. Over time, these saving decisions feed into the distribution of net worth. The median renter and mortgagor households had seen little change in their net worth compared to 2005, but there had been more change at the top and bottom of the distributions.

Online survey

Introduction and methodology

This box describes the online survey that was carried out in parallel to the traditional face-to-face survey this year. This survey followed a smaller online pilot survey carried out in 2010. The results in the main article draw only on the face-to-face survey results.

The 2011 online survey was carried out by NMG Consulting, with fieldwork running over the same period as for the main survey. The survey contained all of the questions asked in the face-to-face survey as well as additional questions intended to determine households' marginal propensities to consume as described in the box on page 313. Responses were weighted using the same variables as for the face-to-face survey to ensure a nationally representative sample; see the box on page 316 for details. A total of 1,004 responses were collected.

The 2010 online pilot survey was also carried out by NMG Consulting. Again, fieldwork ran over the same period as the main survey. Quotas were set to ensure a nationally representative sample, using the same definition as for the face-to-face survey. A total of 502 responses were collected. Only a subset of the face-to-face questions was asked online in 2010.

Survey comparison

In comparison to traditional face-to-face methods, self-administered online surveys present a number of potential advantages. First, online surveys are less resource-intensive, giving rise to the possibility of a larger sample size for the same cost. This can be especially important when looking at subsets of the sample. Second, a dedicated online survey creates the potential for a rotating panel design,[1] so that we would have consecutive observations on a subset of households rather than repeated cross-section observations. But most importantly, asking households questions in a less time-pressured situation without the presence of an interviewer might help overcome some of the issues with face-to-face surveys discussed in the box on page 316.

In particular, the literature suggests that online surveys can help increase disclosure in questions on sensitive topics and reduce social desirability bias. For example, Dayan, Paine Schofield and Johnson (2007) found that disclosure levels to sensitive questions were higher in online surveys than in the Capibus face-to-face survey. For the NMG survey, it was also found that the proportion of households responding 'don't know' or refusing to answer was in general lower in the online than face-to-face survey. It is also possible that households give more accurate responses to questions about their finances when they are not limited for time. This may be because they can think more carefully about the answer, or can consult other information such as a bank statement.

There are also potential drawbacks of self-administered online surveys. Online samples may be biased because of limited coverage of the internet and self-selection into the online panels that the sample is drawn from. The first issue is likely to diminish as an increasing fraction of the population obtains access to the internet.[2] Overall, the (unweighted) demographic profile of the households surveyed was similar in the online and face-to-face NMG surveys (**Table 1**). Altering the mode of a survey from face-to-face to online also results in a loss of direct comparability with previous surveys. But this can be partly overcome by parallel runs of online and face-to-face surveys to understand better any differences.

Table 1 Demographic profile of respondents[a]

	Face-to-face	Online
Average age	49	47
Proportion male/female	50%/50%	46%/54%
Proportion working	45%	55%
Proportion mortgagor/outright owner/ renter	30%/35%/35%	39%/35%/26%

Sources: NMG Consulting face-to-face and online surveys and Bank calculations.

(a) Summary statistics are calculated by giving equal weight to each survey response.

Comparing the results of the online and face-to-face surveys suggests that some of the biases suspected may be reduced in the online survey. For example, the proportion of households reporting that they hold unsecured debt is around 11 percentage points greater in the online survey than the face-to-face survey in 2011. And the average amount of unsecured debt is around £1,400 higher. These results suggest that the underrecording of unsecured debt in surveys might be at least somewhat mitigated through the use of online methods. Similarly, households generally reported greater levels of distress in the online survey. For example, the proportion of households finding unsecured debt somewhat of a burden or a heavy burden was 14 percentage points higher in the face-to-face survey than in the online survey in 2011.

(1) In a rotating panel design, households are re-contacted in successive years and asked to complete the survey again. As it is likely that a significant number of these households will not respond, new households make up the remainder of the sample.
(2) ONS data suggest that 77% of households in Great Britain had an internet connection in 2011, up from 61% in 2007.

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