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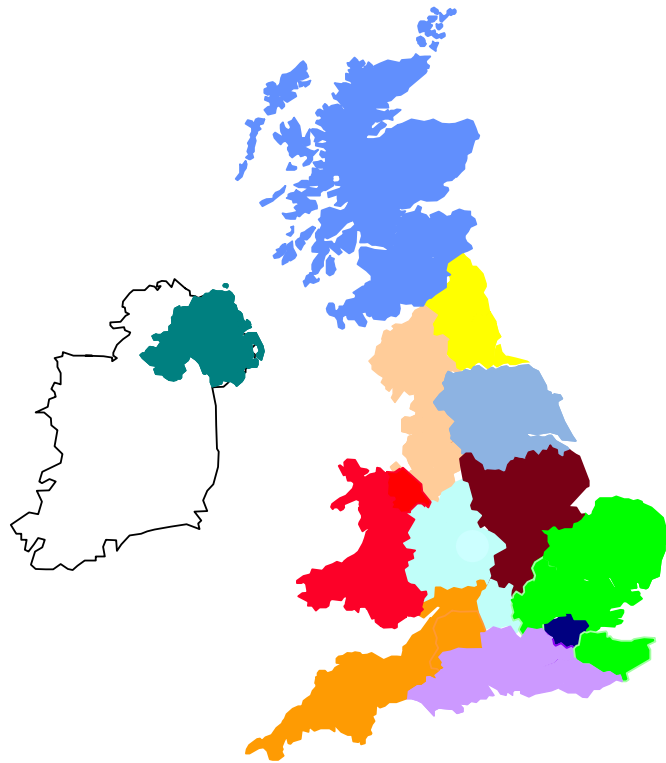
The Bank of England's view of the economy – with housing/housebuilding highlights

Juliette Healey, Agent

Bank of England Agency for Yorkshire & the Humber

19 October 2017

The Bank of England's Agencies



Yorkshire & Humber



@BoEYorkshire



Bank of England's responsibilities

To promote the good of the people of the UK by maintaining monetary & financial stability



Monetary stability

Ensure stable prices and confidence in the currency



Financial stability

Ensure public trust and confidence in financial institutions, markets, infrastructure, and the system as a whole



Prudential regulation and supervision

Ensure the safety and soundness of individual financial firms and that insurance policy holders are protected



Banknotes

Maintaining confidence in the currency



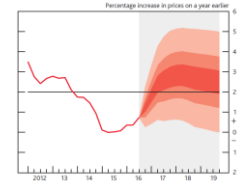
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**Off the
record**



What I will cover

1 Prospects for growth and inflation



2 Outlook for monetary policy



3 Financial risks



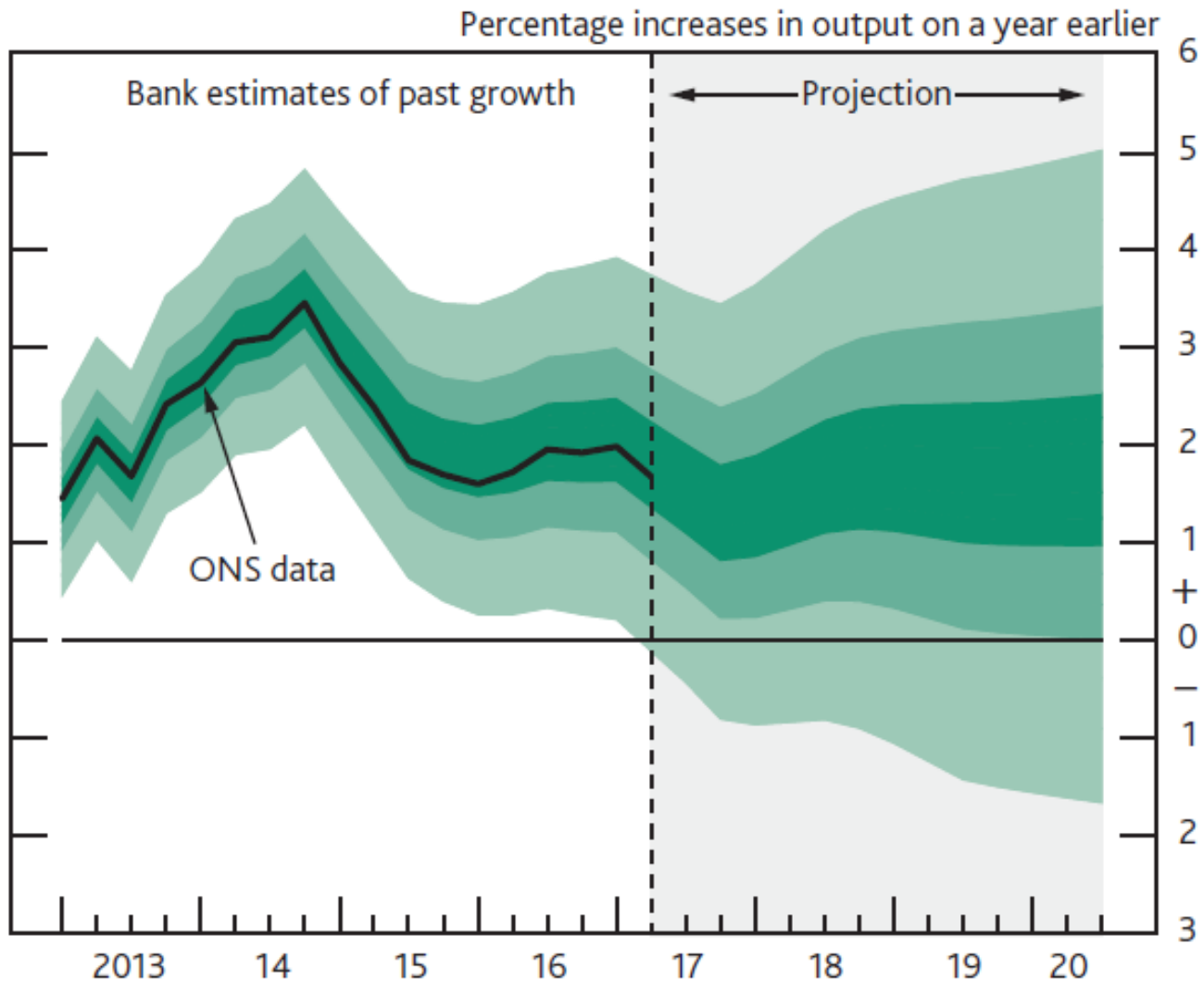
4 Q&A



Prospects for growth and inflation



Output growth is slowing



Who drives economic activity?

Demand $Y = C + I + G + NX$

- **C = private consumption**
- **I = total investment in the economy**
- **G = government spending**
- **NX = total net exports**

= GDP by expenditure



Who drives economic activity?

Demand $Y = C + I + G + NX$

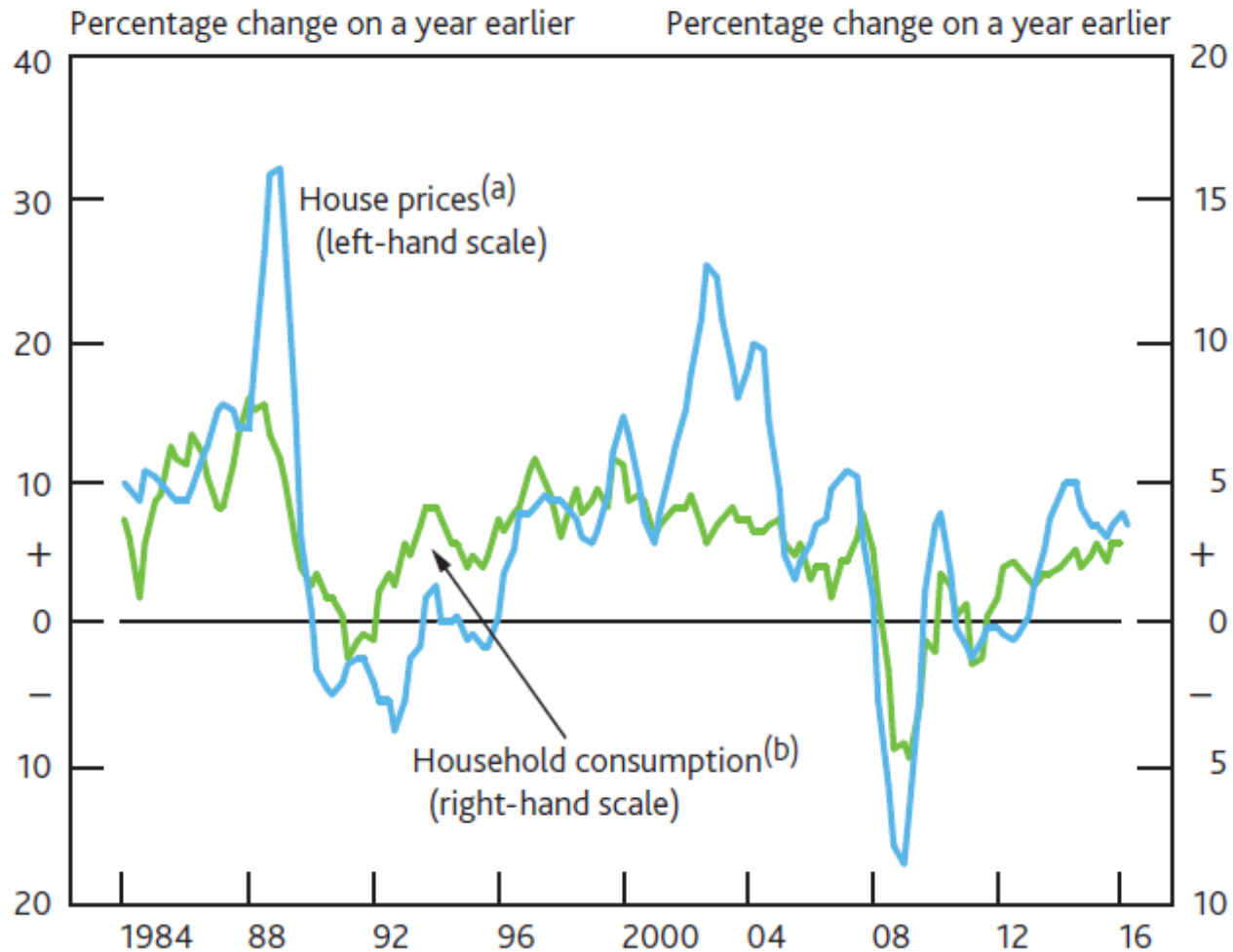
- C = private consumption **slower**
- I = total investment in the economy **modest**
- G = government spending
- NX = total net exports **stronger**

= GDP by expenditure **modest growth**



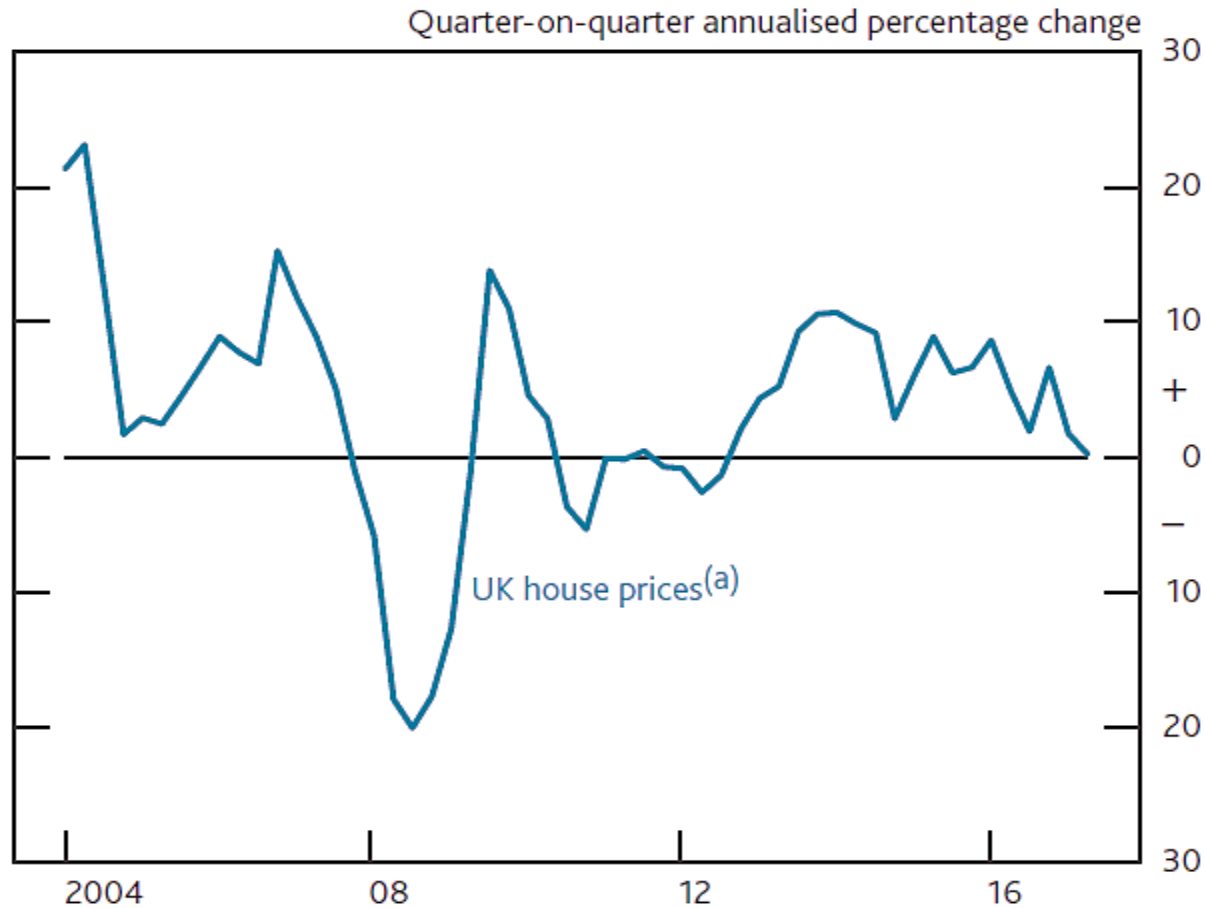
Household consumption tracks house prices

Household consumption and house prices

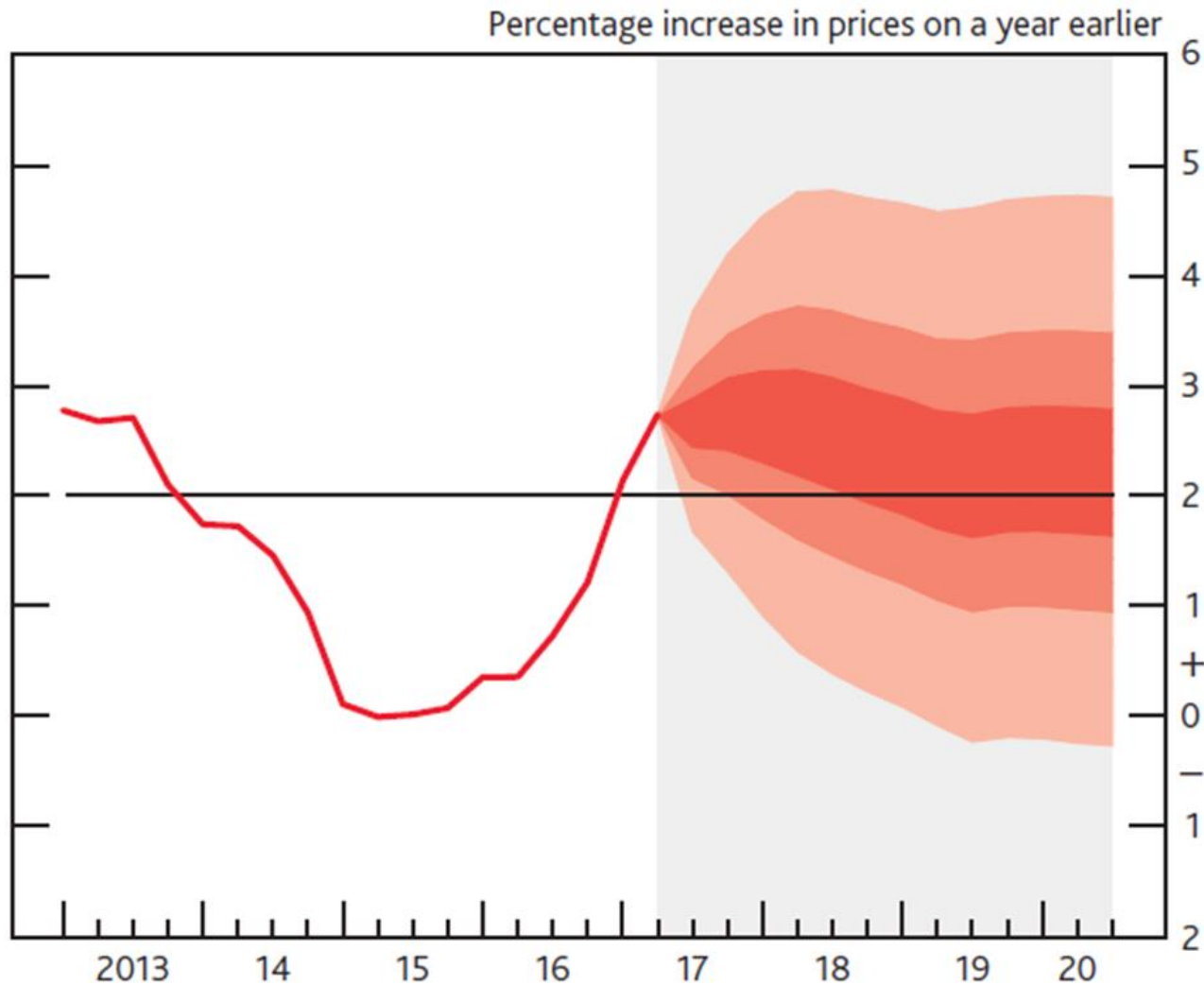


The housing market has cooled

House prices, mortgage approvals for house purchase, mortgage completions and housing starts



Inflation set to be above our target



Inflation – key points...

Sterling's depreciation has meant imports are driving the overshoot – that will wash through.

Pay growth remains modest but...

The jobless rate at 4.6% is the lowest since 1975.



Implications for policy



Source: Financial Times 23/12/06



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MPC in watching mode

“Monetary policy can respond, in either direction, to changes to the economic outlook as they unfold...

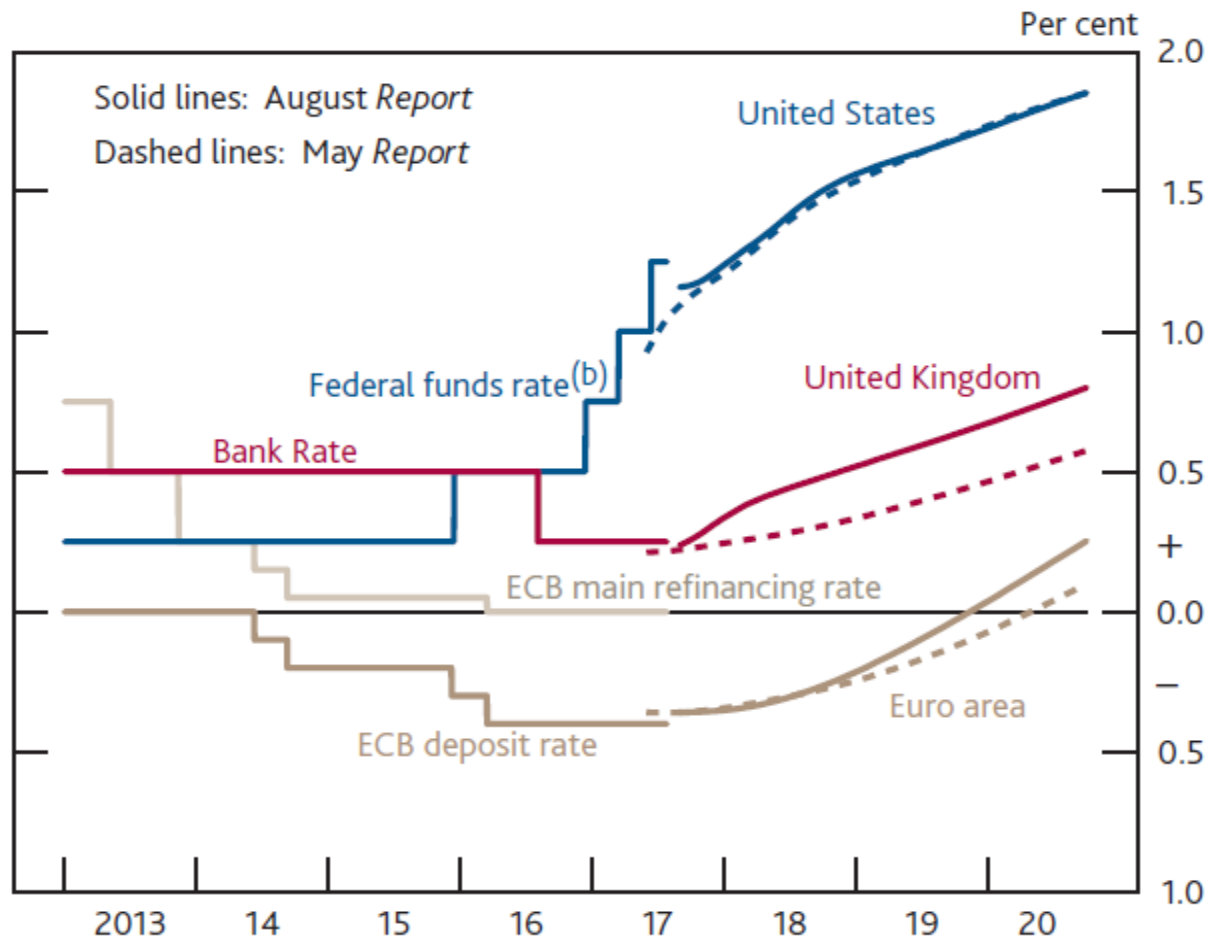
... in order to ensure a sustainable return of inflation to the 2% target.”

Monetary Policy Committee meeting minutes, May 2017



Forward interest rates are very low

International forward interest rates(a)



Interest rates: a split vote in September



Mark Carney



Sir Jon Cunliffe



Ben Broadbent



Andy Haldane



Jan Vlieghe



Silvana Tenreyro



Dave Ramsden

Bank Rate: 7 of 9 members voted to stay at 0.25%
2 of 9 members voted to raise to 0.5%



Michael Saunders



Ian McCafferty



Latest view:

“A majority of MPC members judge that [if the economy performs as expected] some withdrawal of monetary stimulus is likely to be appropriate over the coming months...

...any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent”

MPC meeting minutes from 13 September 2017



Financial risks



The Financial Policy Committee



DG-PR & CE-PRA
Sam Woods



DG-MP
Ben Broadbent



Governor
Mark Carney



DG-FS
Sir Jon Cunliffe



ED-FSSR
Alex Brazier



CE-FCA
Andrew Bailey



External
Martin Taylor



External
Don Kohn



External
Richard Sharp



External
Anil Kashyap



HMT non-voting member
Charles Roxburg



Risks



Mortgage debt



Consumer credit



Global environment



Asset valuations



Brexit

Financial Stability Report, June 2017



Mortgage debt

Insurance measures:

- Affordability test at mortgage reversion rate +3%
- Limit on loan to income multiples > 4.5x or higher





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- **Any Bank Rate increases expected to be “at a gradual pace and to a limited extent”.**
- **Financial risks are “standard” with pockets of concern. Steps taken to improve resilience.**



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Views/questions?



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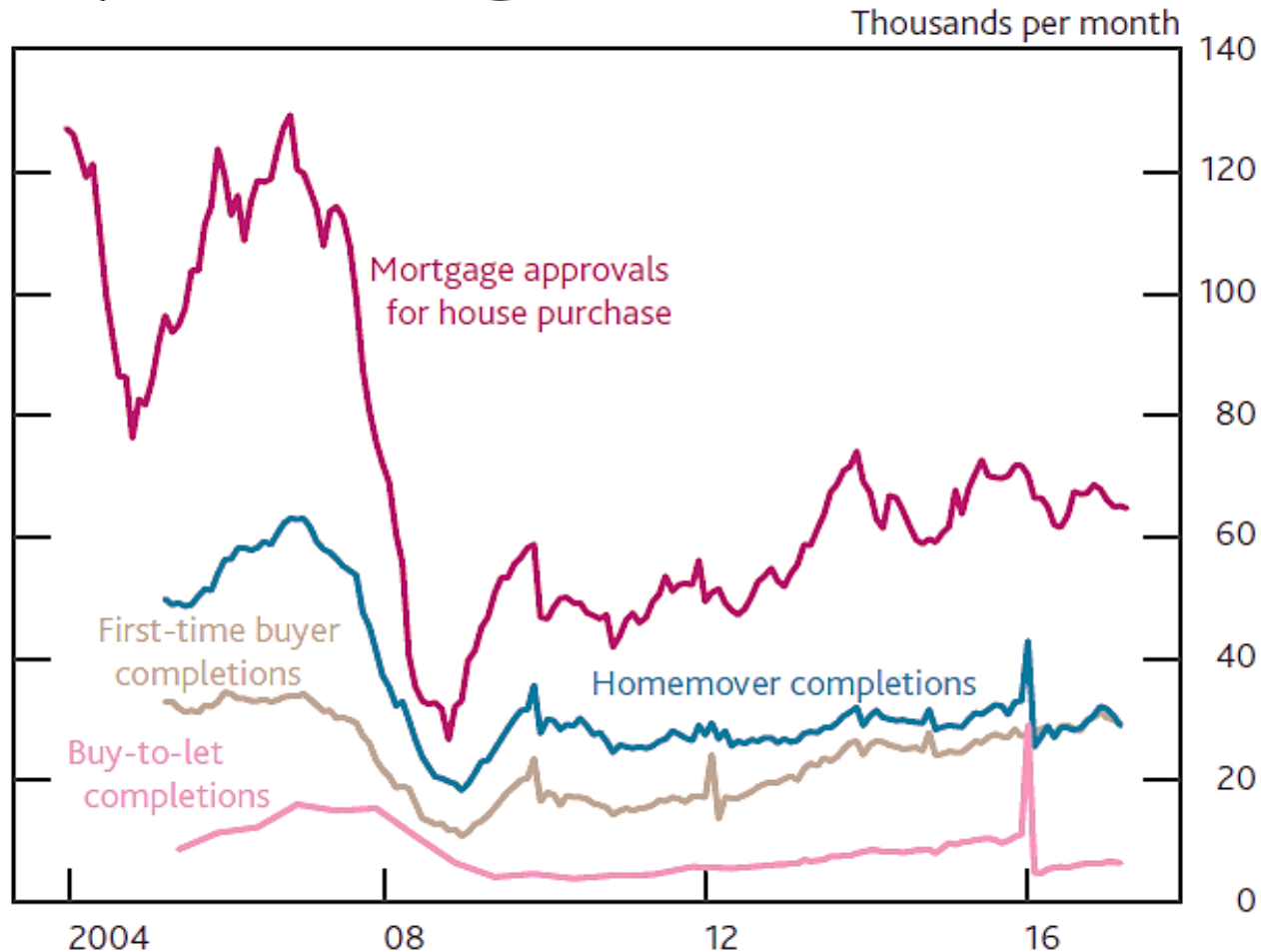
yorkshireandhumber@bankofengland.co.uk

Extra slides – for information/questions



House prices & activity slower overall

House prices, mortgage approvals for house purchase, mortgage completions and housing starts



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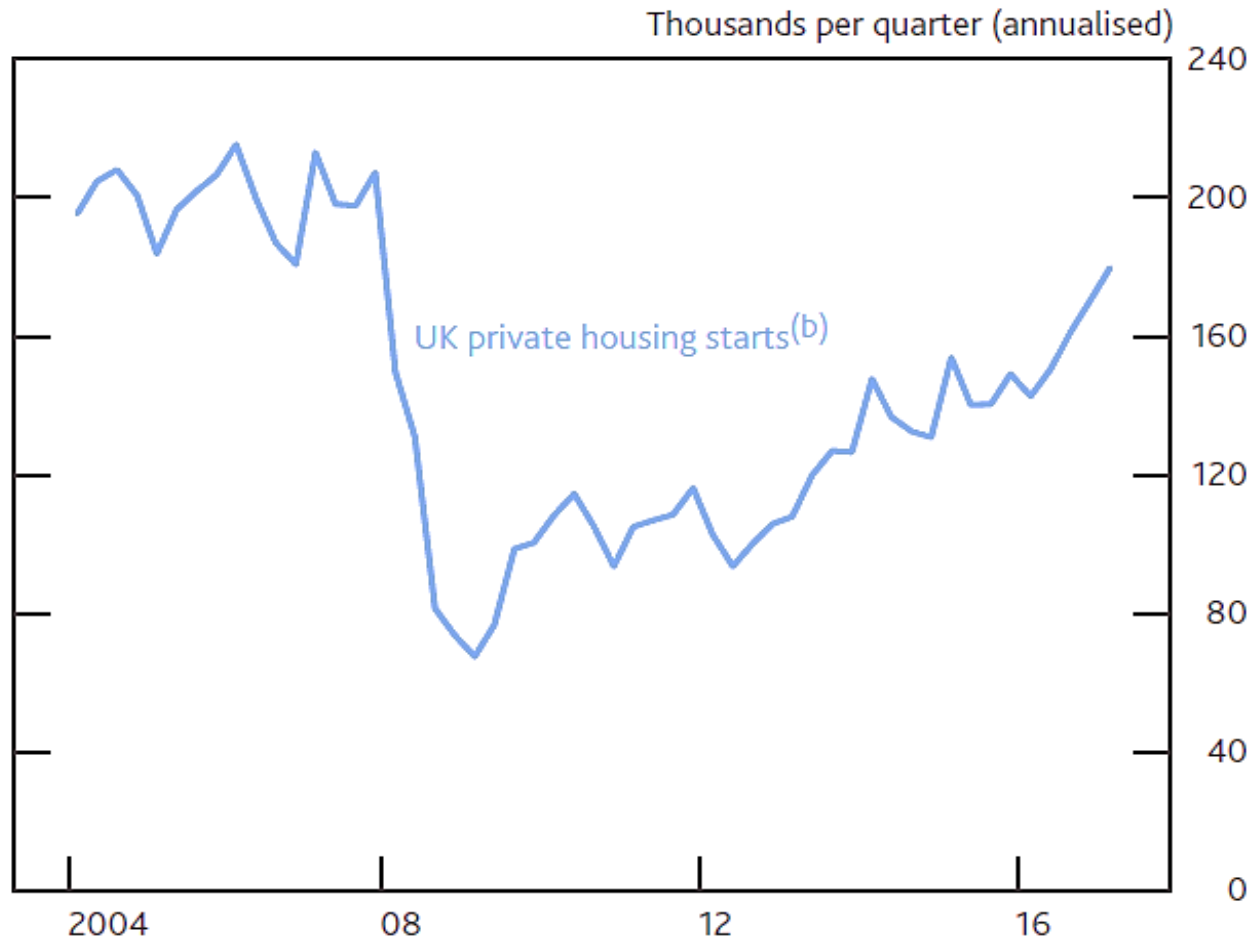
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Sources: Bank of England, Council of Mortgage Lenders, Department for Communities and Local Government, IHS Markit, Nationwide and Bank calculations.

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...but new build stronger

House prices, mortgage approvals for house purchase, mortgage completions and housing starts



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Sources: Bank of England, Council of Mortgage Lenders, Department for Communities and Local Government, IHS Markit, Nationwide and Bank calculations.

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Risks...why worry?

Consumer credit



Consumer credit has been fast flowing



Credit card debt, personal loans and motor finance have all grown rapidly

10.3%

Growth over the past year has been faster than incomes

Mortgage debt



Some buyers are obtaining mortgages many times their income



Excessive debt can harm borrowers, lenders and the wider economy

Global environment

China's growth is reliant on rapid increases in debt



Some political uncertainties in the euro area have been resolved



High debt makes China vulnerable to shocks. This could affect the global economy and UK banks

Asset valuations



Weak growth expectations in some markets...



...but corporate bond and UK commercial property prices still look high



FPC actions

0.5%
UK CCyB rate

Increasing the countercyclical capital buffer

Banks will have more capacity to absorb any future losses



Ensuring firms are tested against cyber attack

STRESS

Testing whether more resilience is needed on consumer credit

3.25%

Restoring the level of protection delivered by its leverage ratio standard



Clarifying mortgage lending requirements to prevent excessive growth of households with high debt

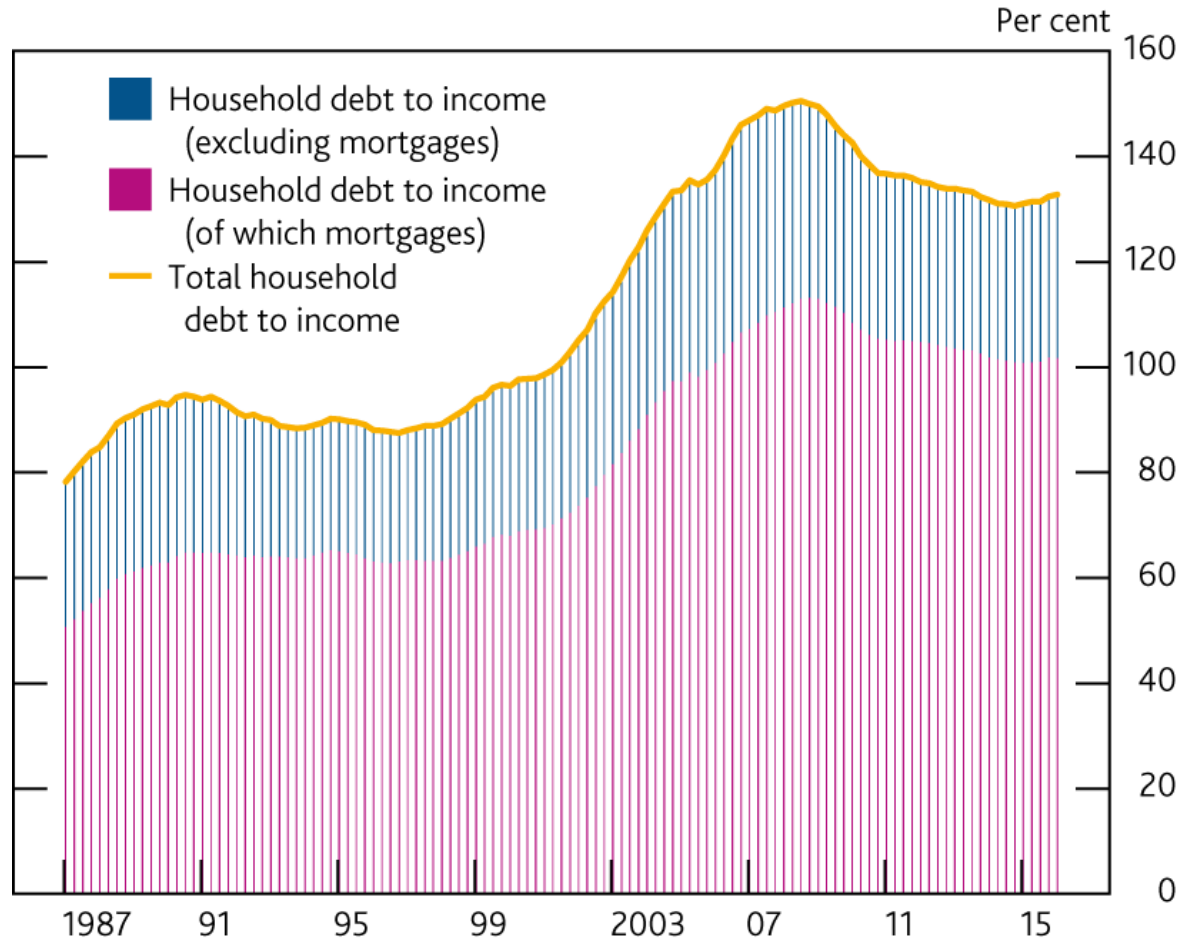


Overseeing contingency planning for Brexit



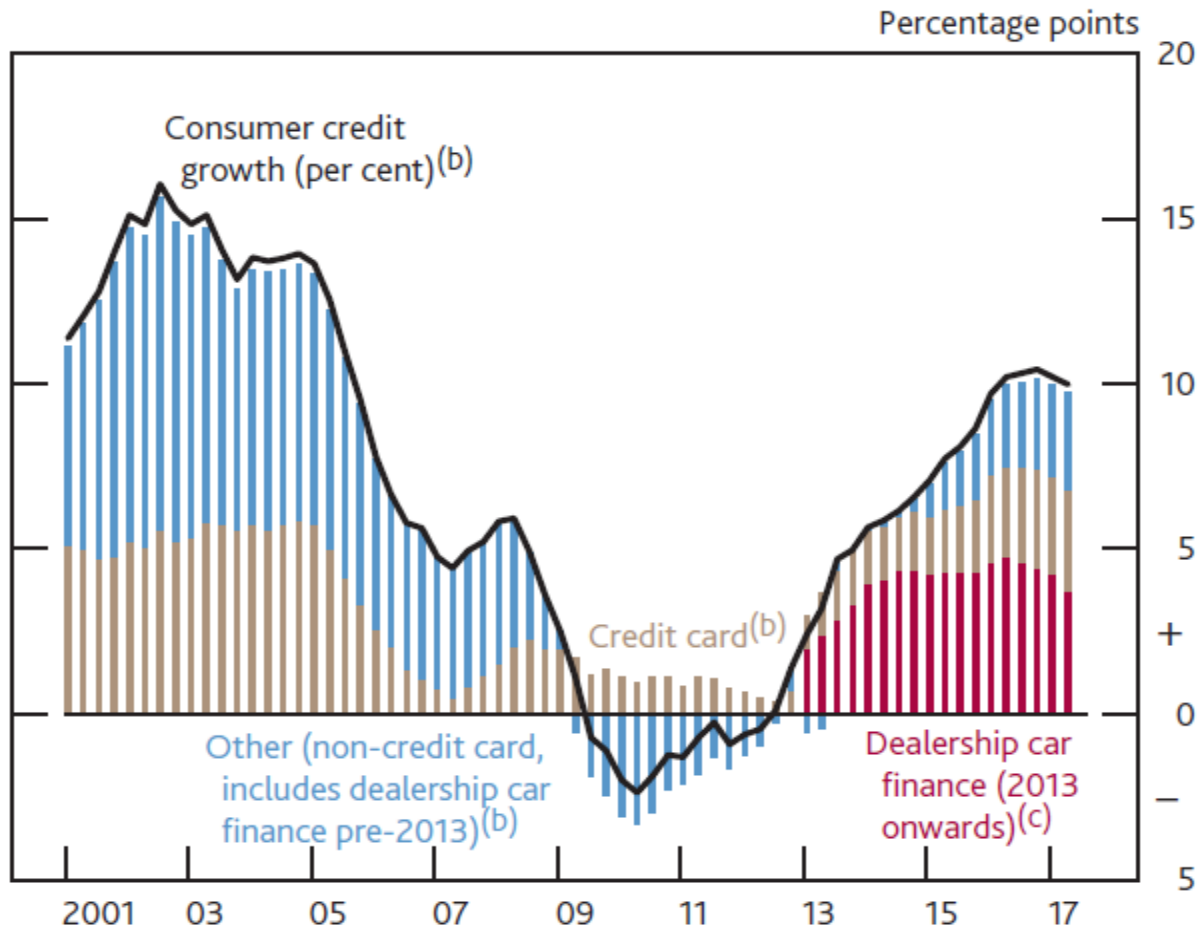
Household debt remains high

UK household debt to income ratio



Consumer credit growth robust

Contributions to four-quarter consumer credit growth^(a)



Section from June 2017 Financial Stability Report:

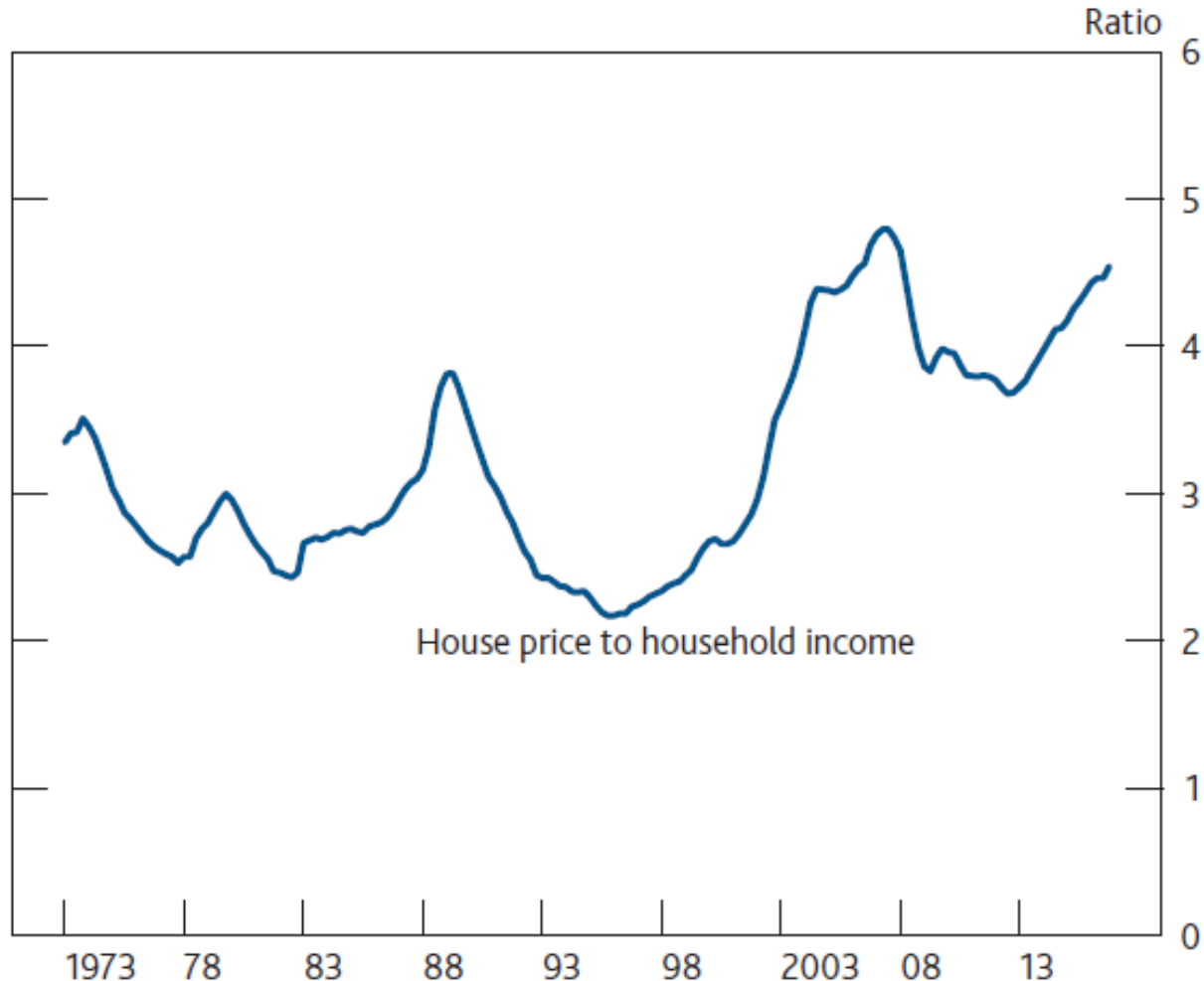
<http://www.bankofengland.co.uk/publications/Pages/fsr/default.aspx>.

The FPC's approach to addressing risks from the UK mortgage market



Chart A.1 UK house prices have risen significantly relative to households' incomes

UK house price to household income ratio(a)(b)



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Sources: Department for Communities and Local Government,
Halifax, Nationwide, ONS and Bank calculations.

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Chart A.2 Over the past 50 years, the number of houses built each year has more than halved

Completions of new dwellings in the United Kingdom(a)



Chart A.3 UK household indebtedness is high by historical standards

UK household debt to income ratio(a)(b)(c)(d)

- Household debt to Income ratio (excluding mortgages)
- Household debt to Income ratio (of which mortgages)
- Total household debt to Income ratio

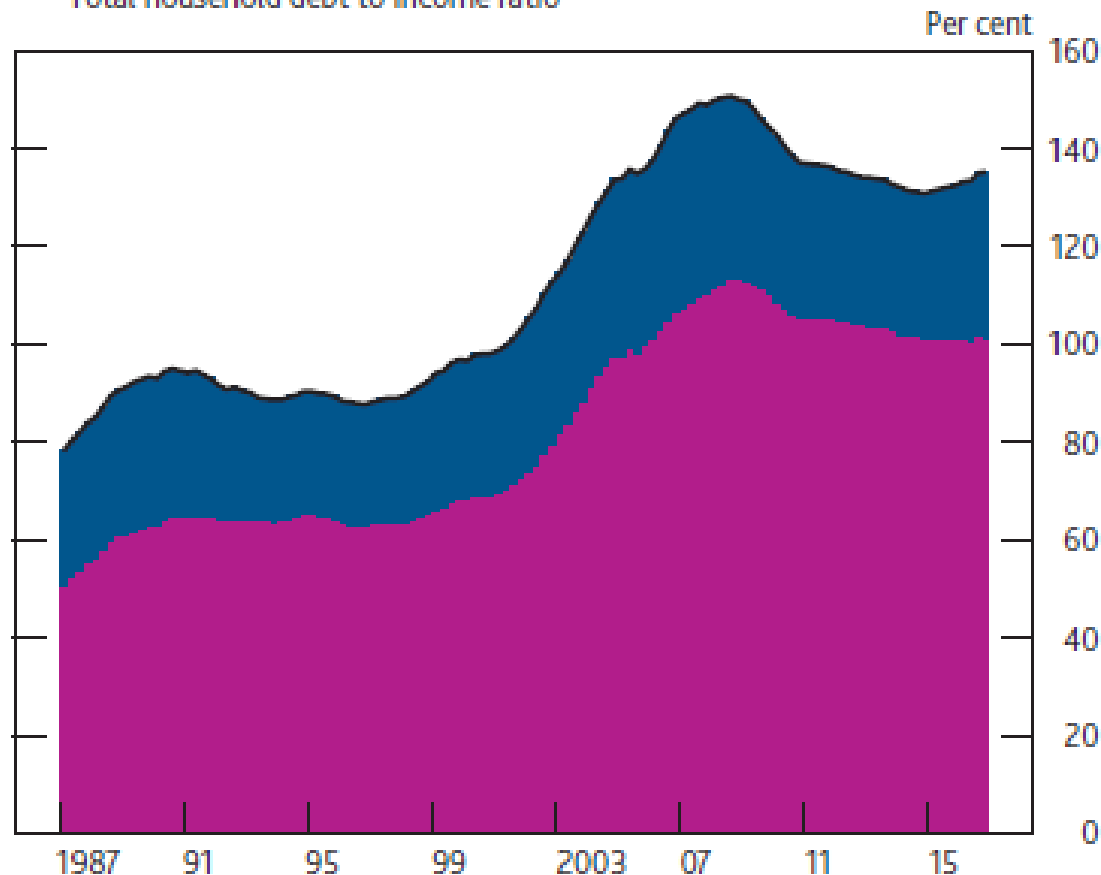


Chart A.4 Countries with higher levels of household debt relative to income saw larger consumption falls in the crisis

Household debt to income ratio and consumption growth over 2007–12^(a)

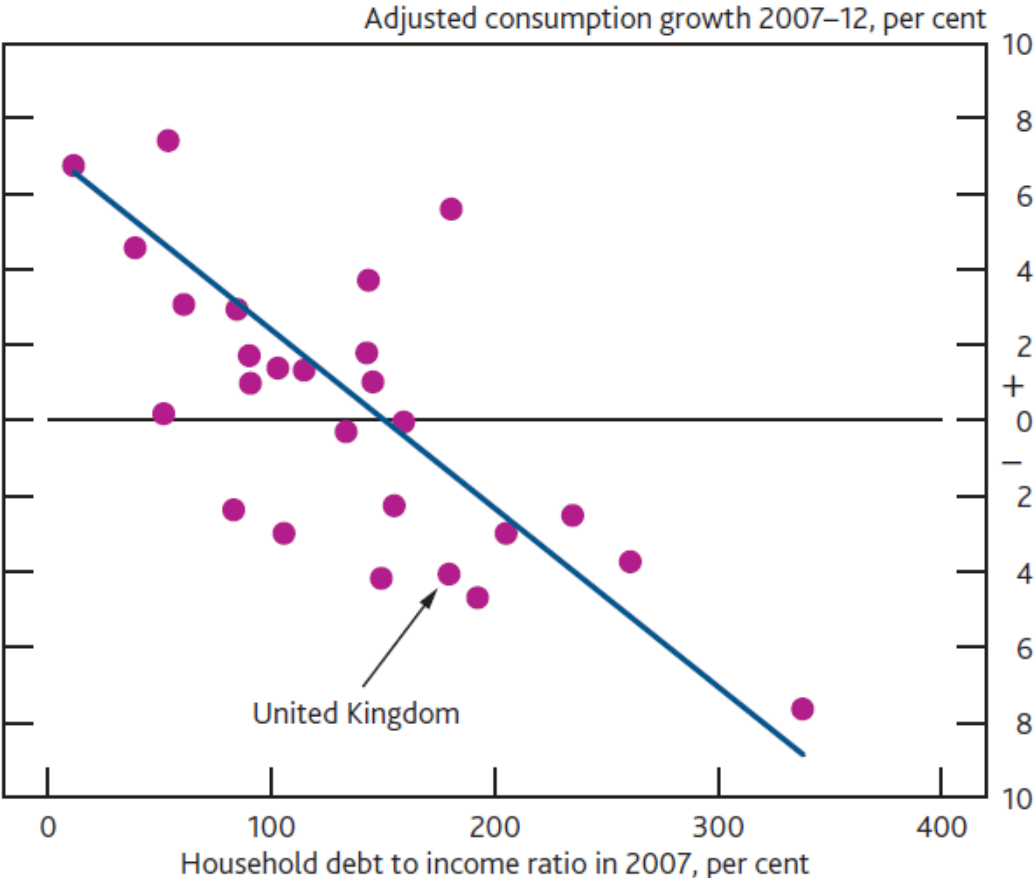


Chart A.5 UK households with higher levels of mortgage debt relative to income adjusted spending more sharply during the crisis

Change in consumption relative to income among mortgagors with different LTI ratios between 2007 and 2009(a)(b)(c)

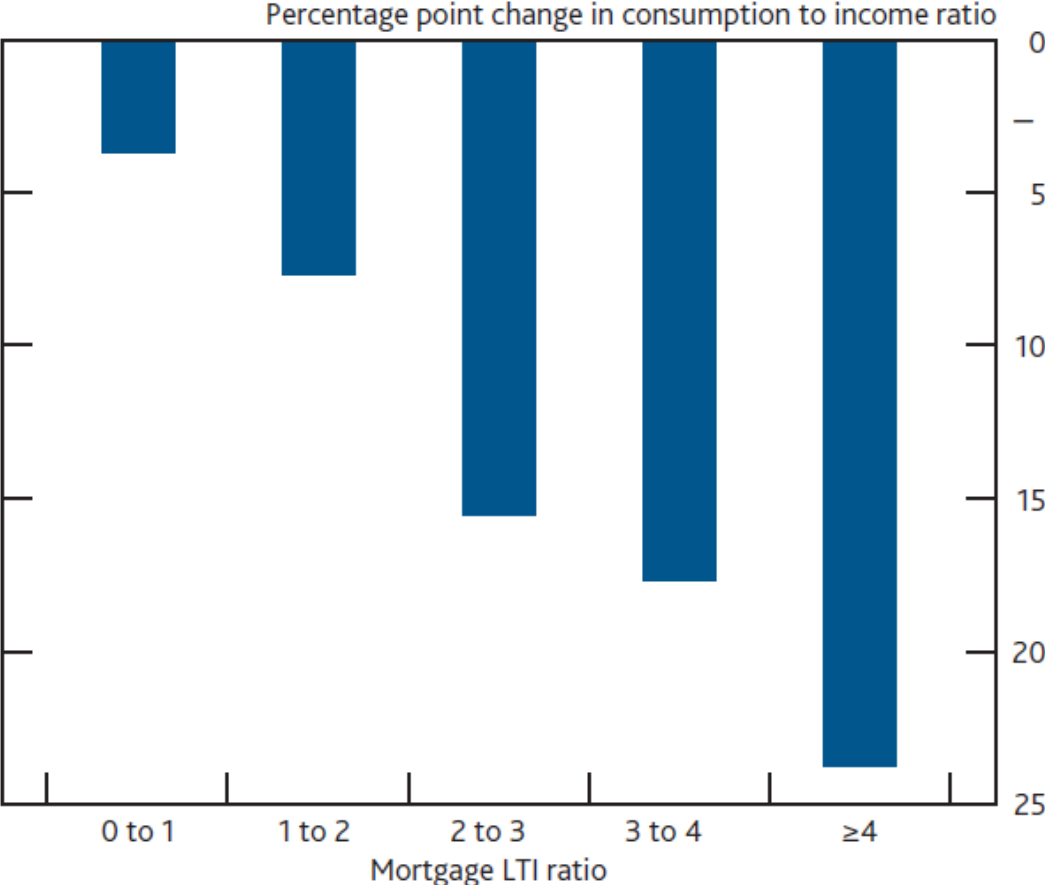


Chart A.6 Households with high debt-servicing ratios (DSRs) are more likely to experience repayment difficulties

Households in two-month arrears by mortgage DSR

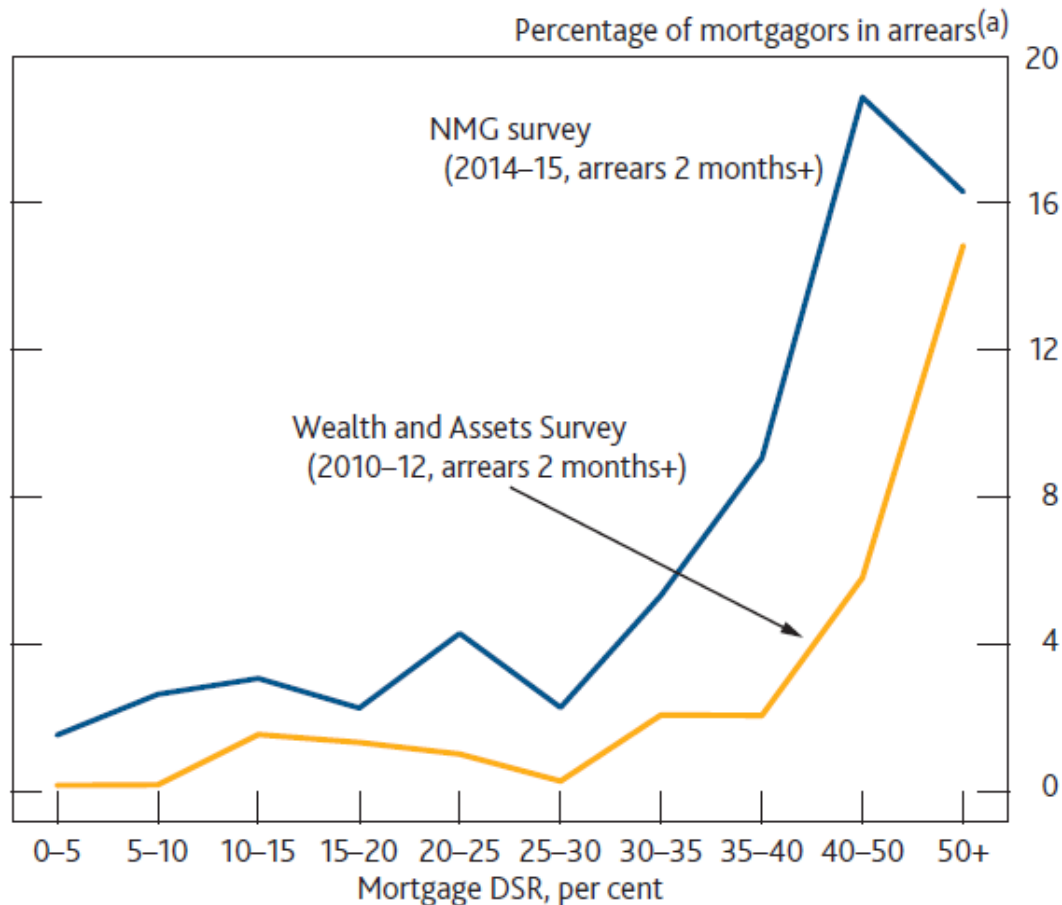


Chart A.7 An increase in unemployment could double the proportion of vulnerable households

Percentage of households with mortgage debt-servicing ratios of 40% or greater(a)(b)(c)

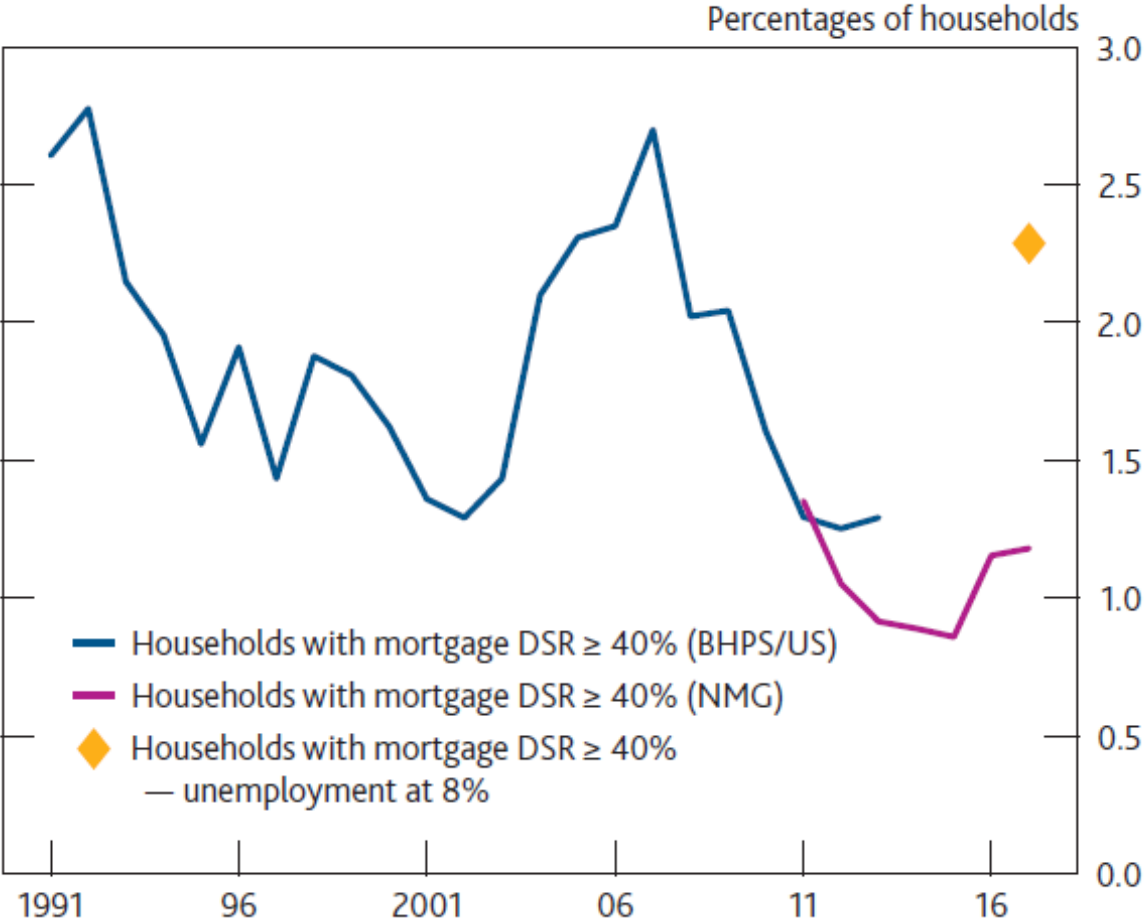
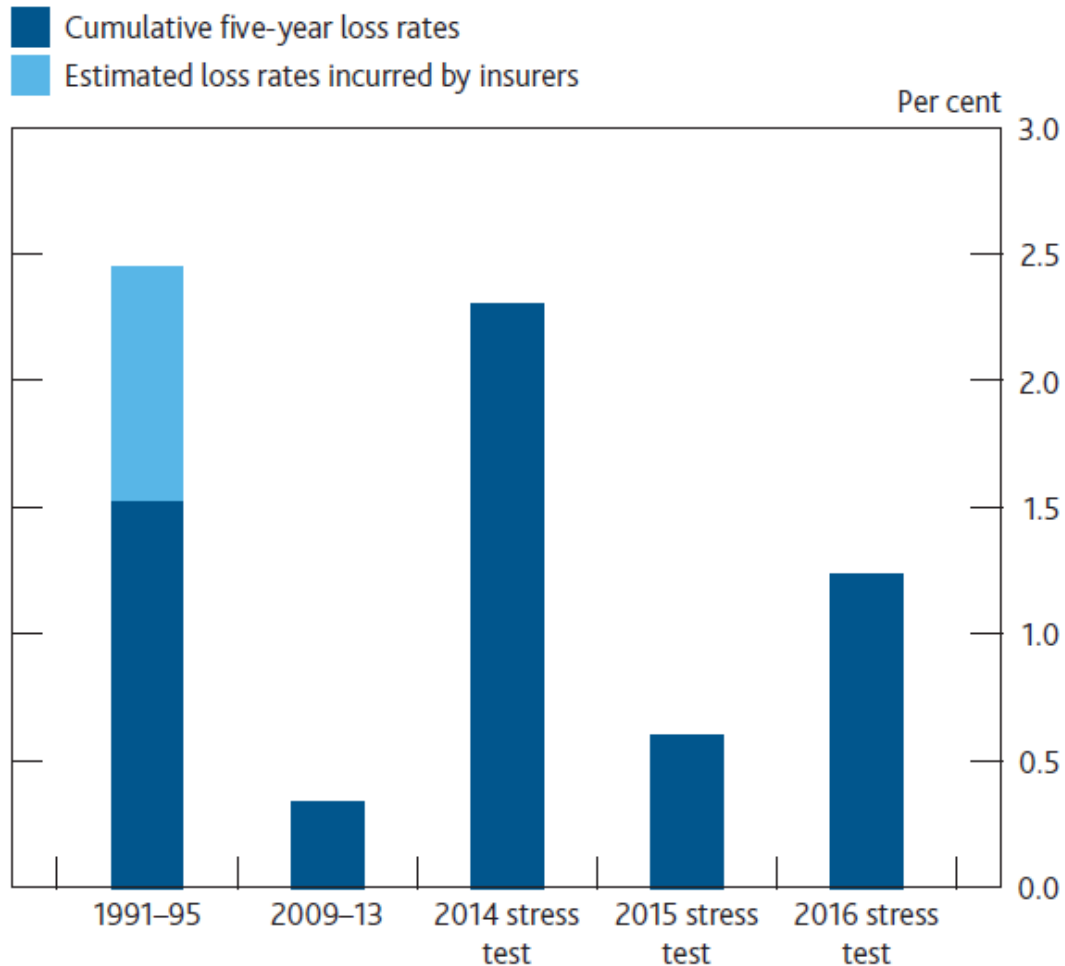


Chart A.8 Loss rates on UK mortgages could reach material levels in a severe stress

Cumulative five-year loss rates on UK mortgages in past downturns and in stress tests(a)(b)(c)(d)(e)



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Sources: Acadametrics, Bank of England, lenders' stress-testing submissions and Bank calculations.

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Chart A.9 High LTV mortgage lending remains lower than at any point between 1982 and 2008

New mortgage lending by LTV at origination^{(a)(b)(c)}

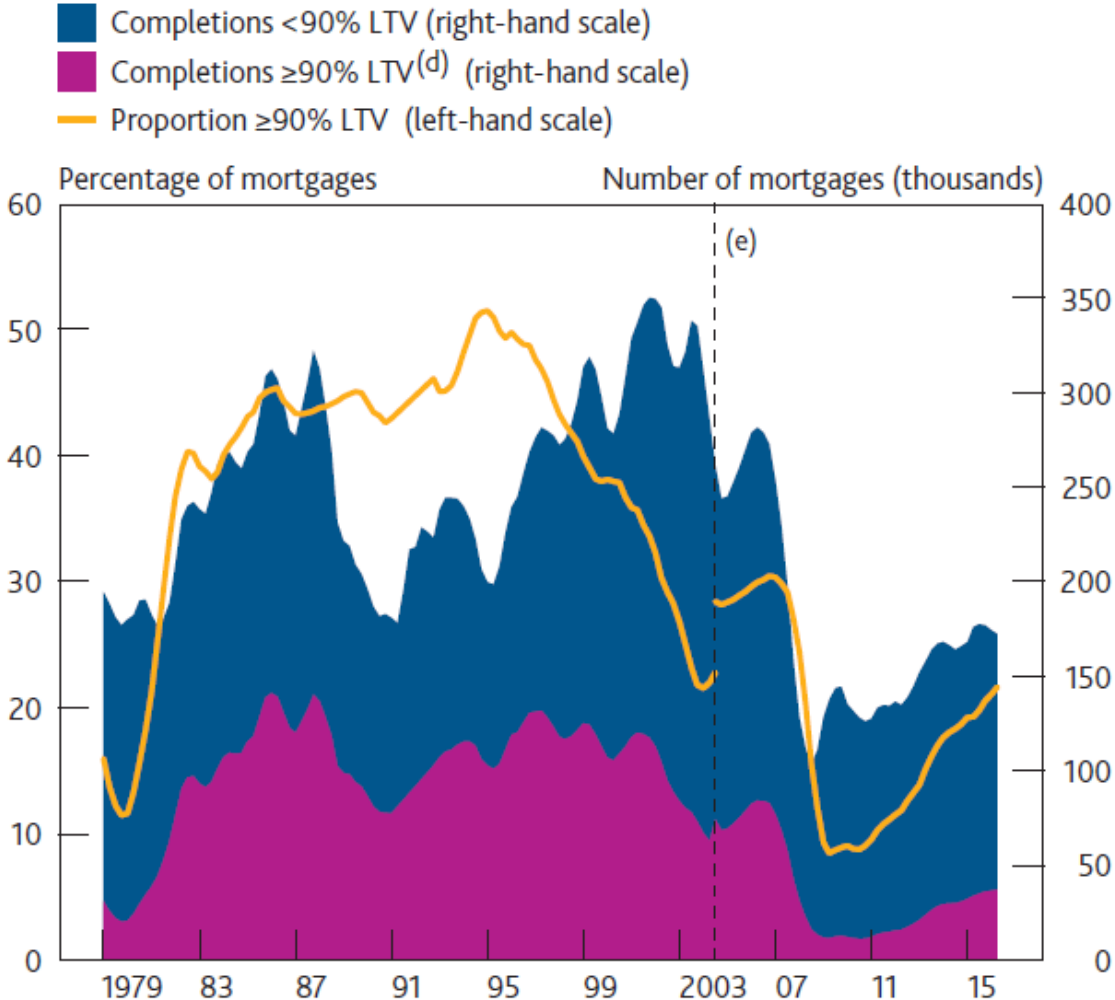


Chart A.10 The LTV distribution of the stock of mortgages has improved since the crisis

UK mortgage books by indexed LTV(a)

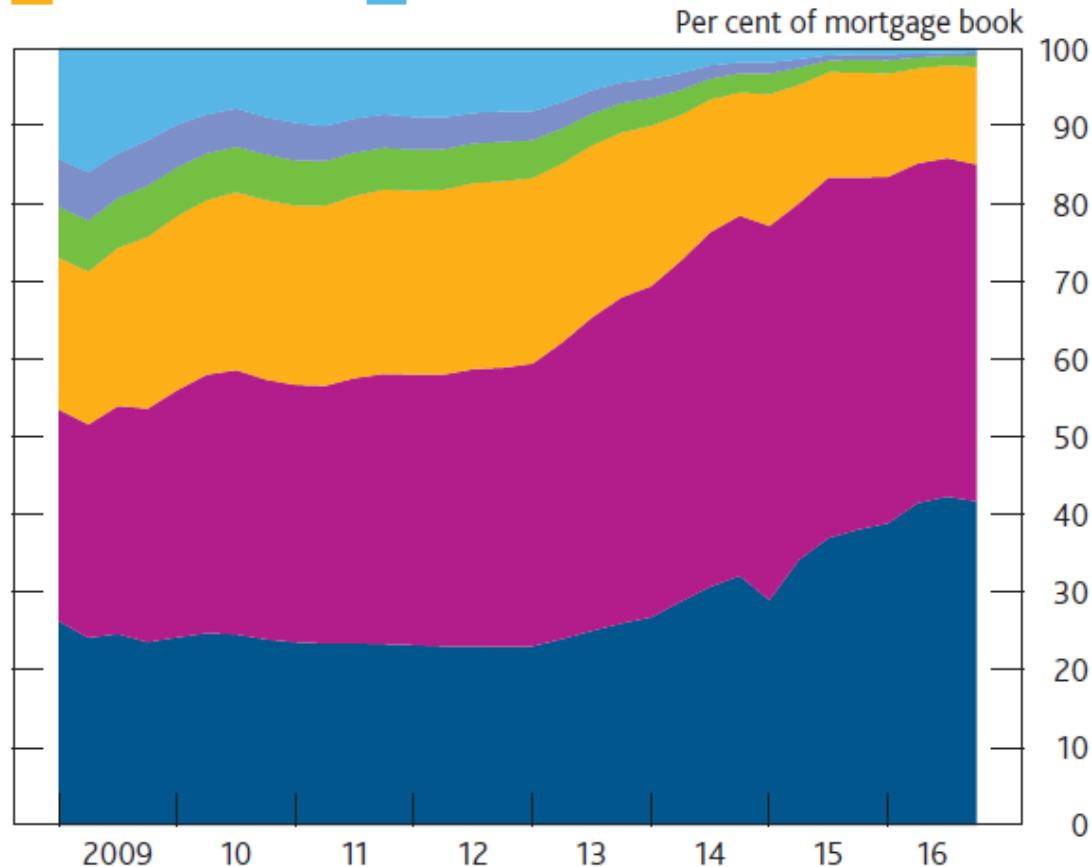
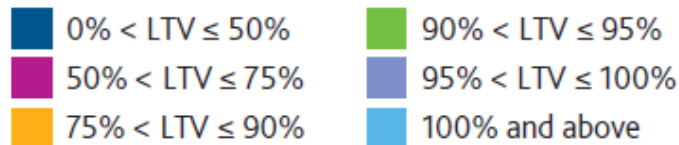
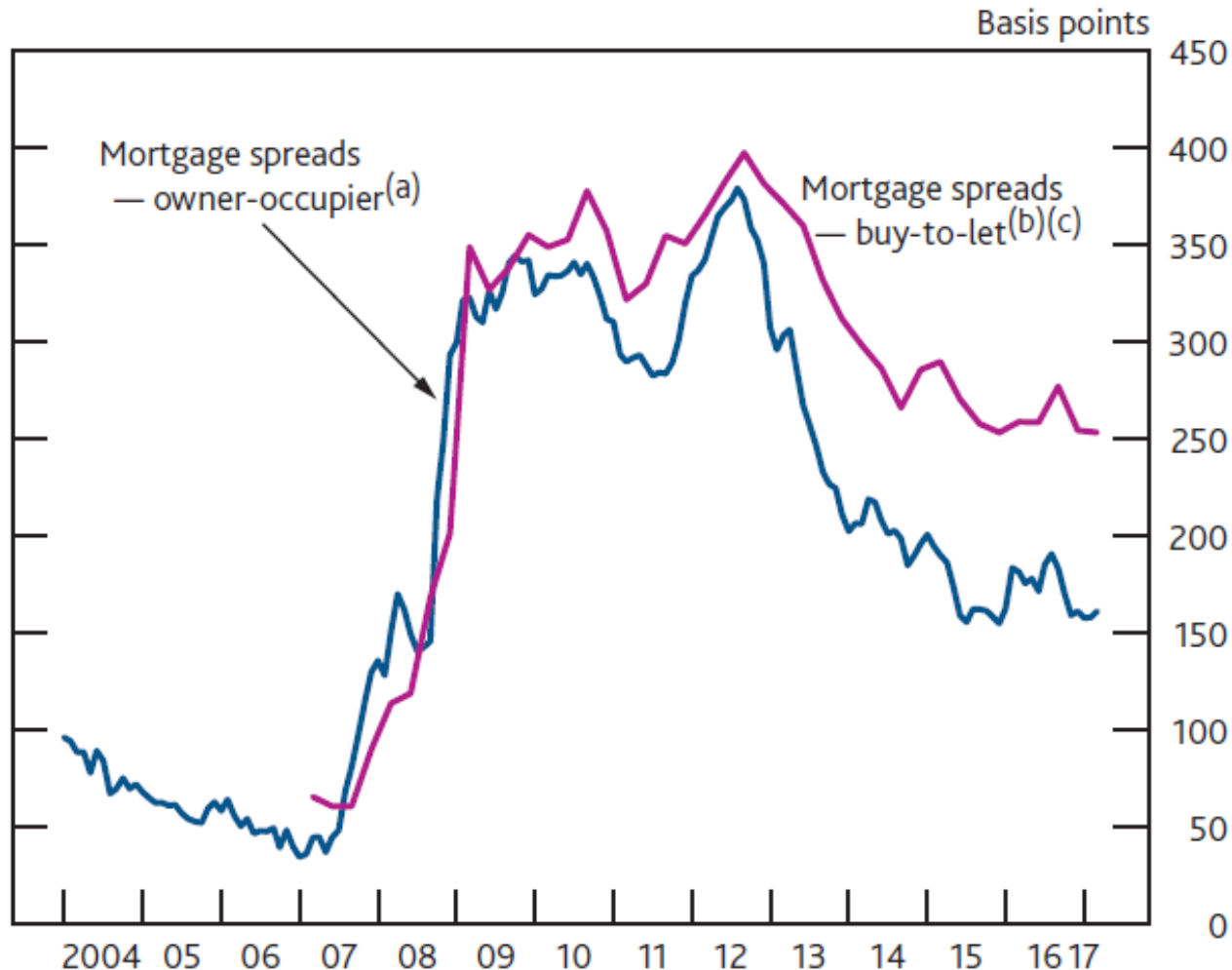


Chart A.11 Mortgage spreads have fallen

Mortgage rates on owner-occupier and buy-to-let lending relative to risk-free rates



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Sources: Bank of England, Bloomberg, Council of Mortgage Lenders, FCA Product Sales Database, Moneyfacts and Bank calculations.

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Chart A.12 The proportion of mortgages with no fees has increased

Proportion of new mortgages with no fees^(a)

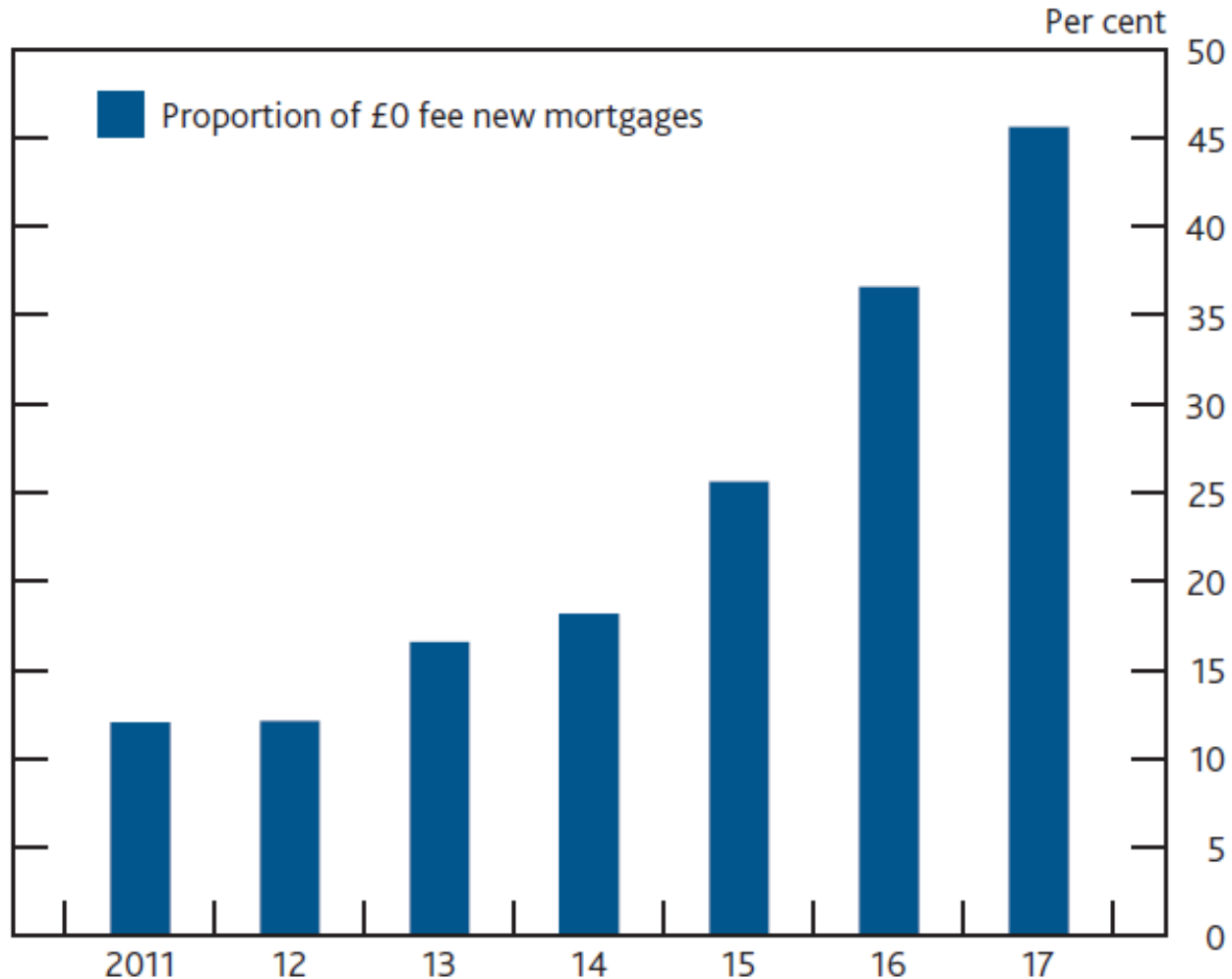


Figure A.1 Feedback loops between mortgage credit and house prices can amplify a downturn

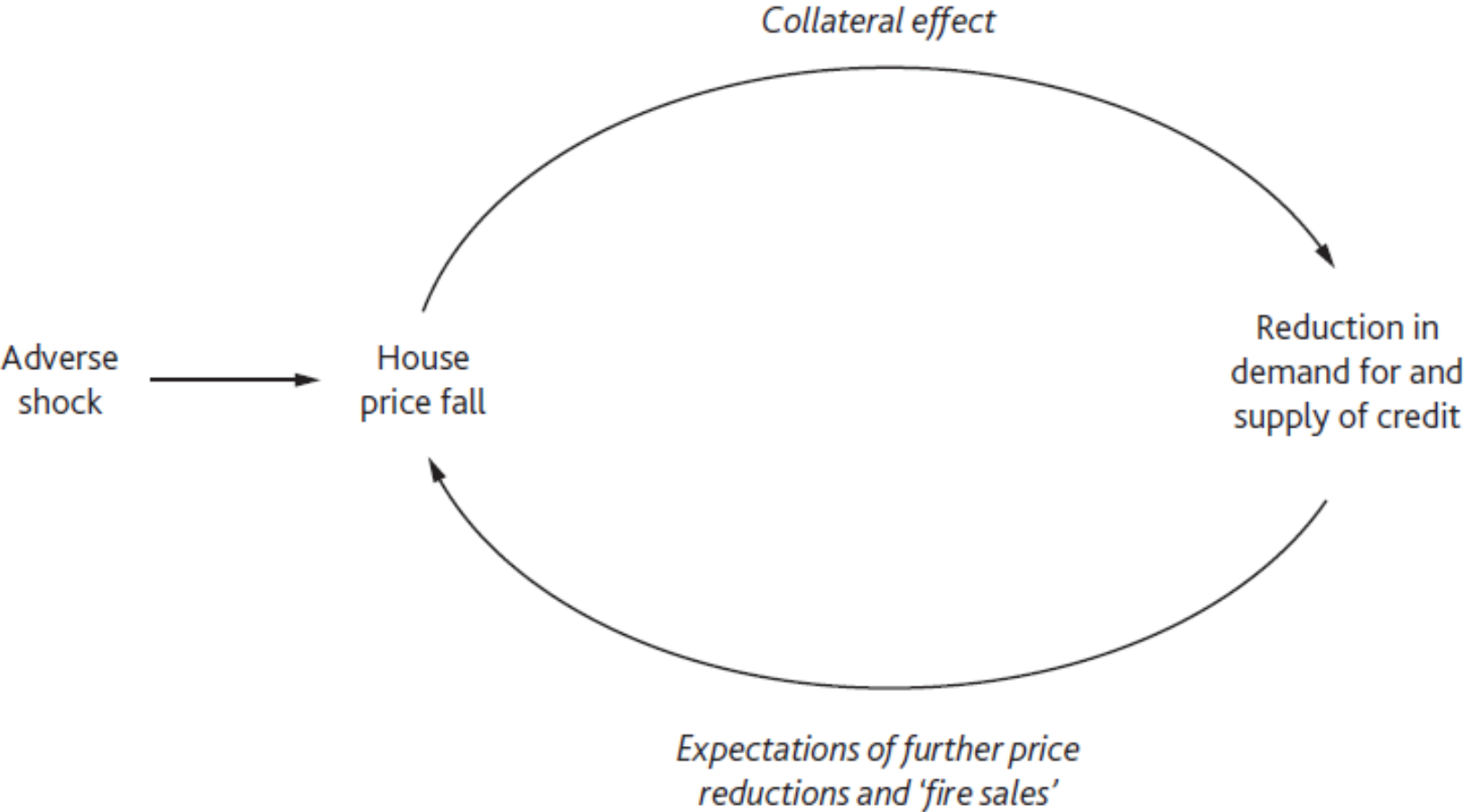
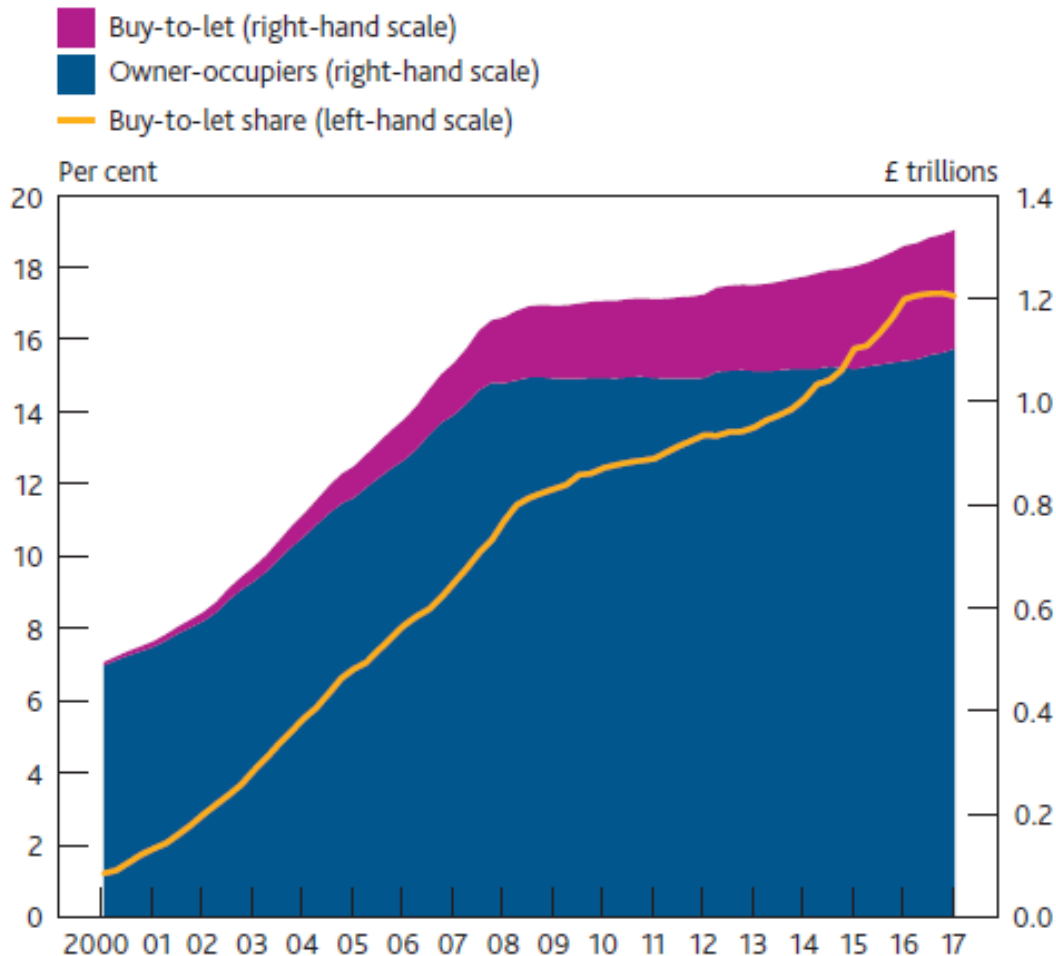


Chart A.13 The size of the buy-to-let segment of the mortgage market has almost doubled since the period before the crisis

Composition of the outstanding mortgage stock^(a)



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Sources: Bank of England, Council of Mortgage Lenders and Bank calculations.

Table A.1 The Bank has an extensive toolkit to address risks from the UK mortgage market

	Owner-occupier	Buy-to-let
Loan to value policies	Loan to value limit	Loan to value limit
Affordability policies	Loan to income limit* Affordability test* Debt to income limit	Affordability test* Interest coverage ratio limit
Capital policies	Stress-testing framework* UK countercyclical capital buffer (CCyB) rate*(a) Sectoral capital requirements	

* Policies marked with an asterisk are currently in place.

(a) The CCyB is not a power of Direction, but the FPC is the designated authority to set the UK CCyB rate.

Colour scheme:

FPC's power of Direction

FPC's Recommendation

PRA's Supervisory Statement

The Bank's annual stress test is conducted under the guidance of the FPC and the PRC.



Chart A.14 The affordability test and LTI flow limit complement each other in protecting households

Relationship between the affordability test and the LTI flow limit in constraining lending^{(a)(b)}

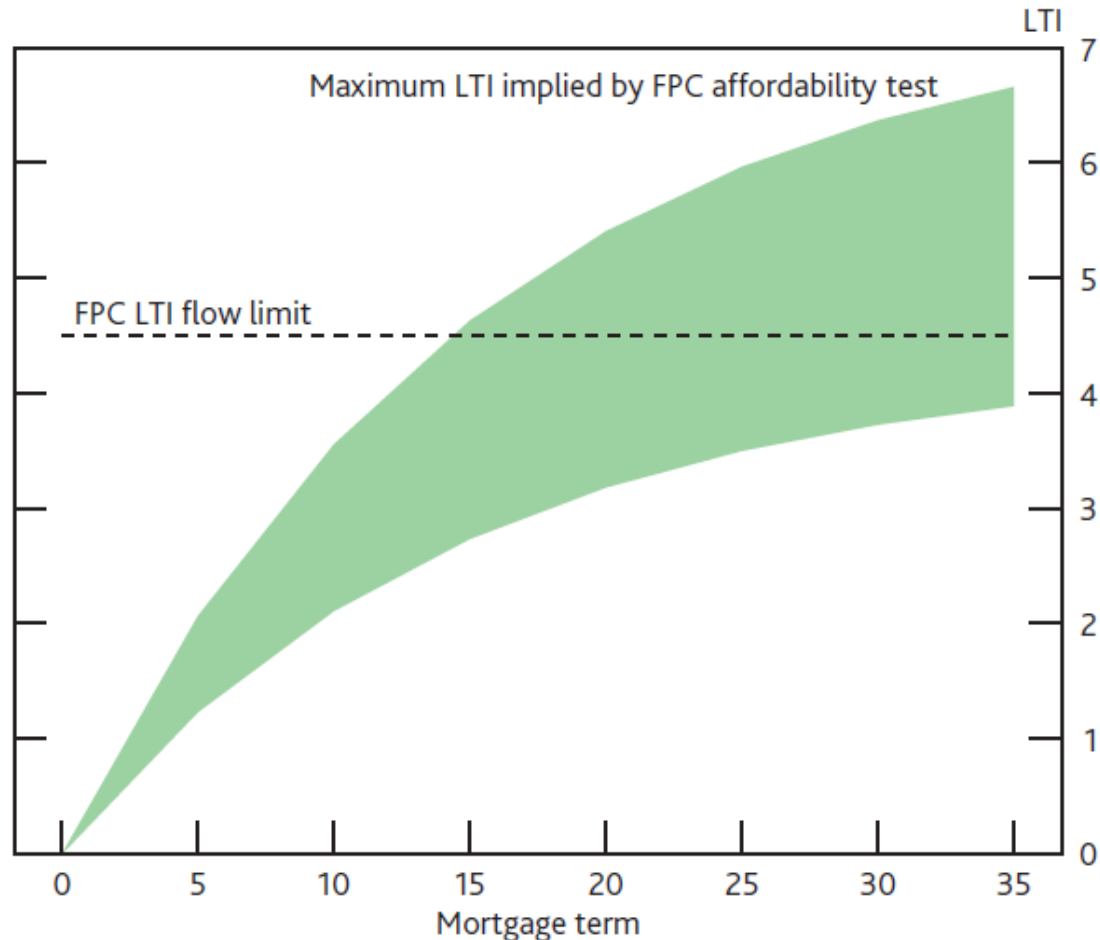


Chart A.15 There remains headroom for further high LTI lending in aggregate

Flow of new mortgages by LTI(a)(b)

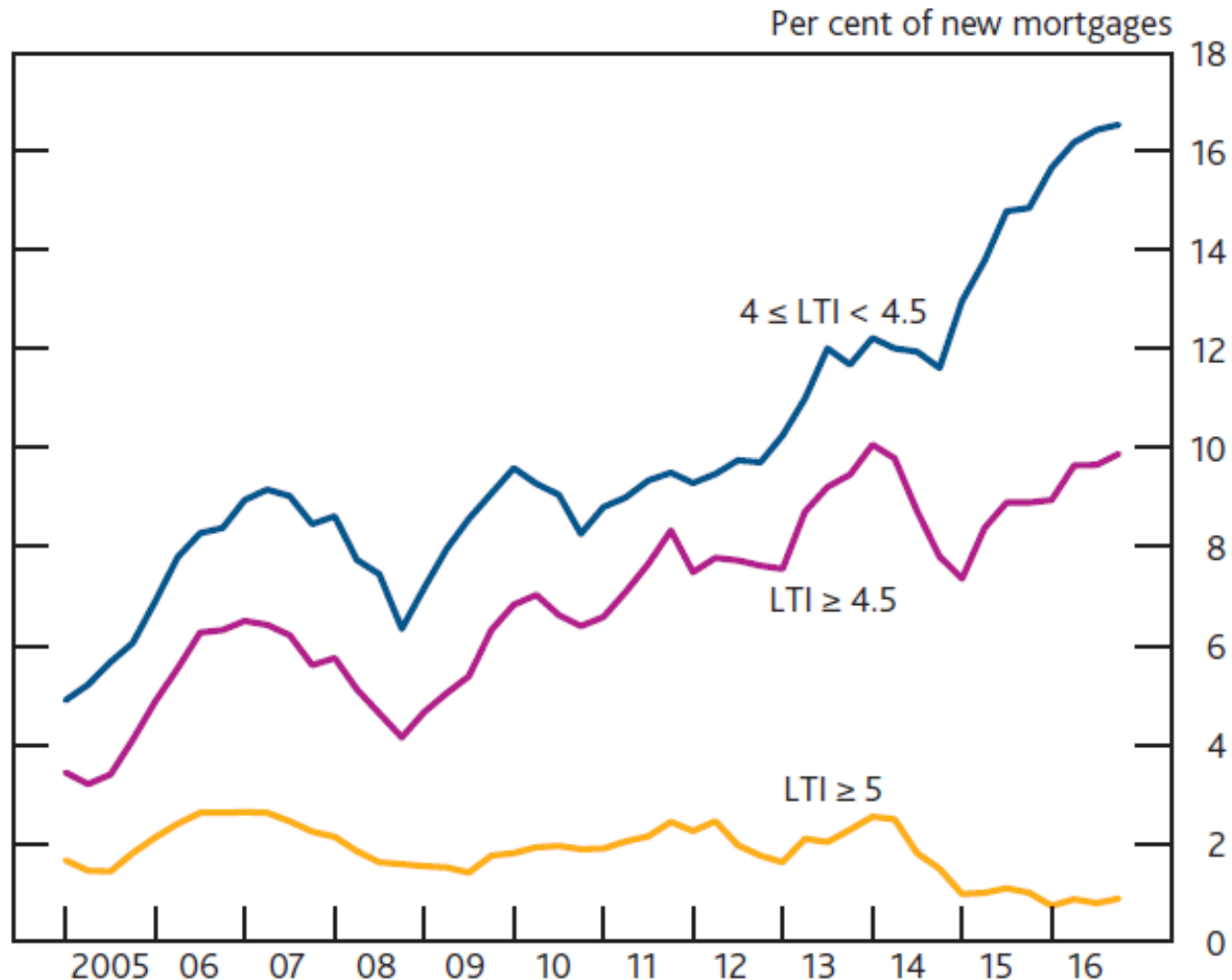


Chart A.16 There has been a long-run trend towards longer mortgage terms, but no acceleration more recently

Share of new mortgages by mortgage term^{(a)(b)}

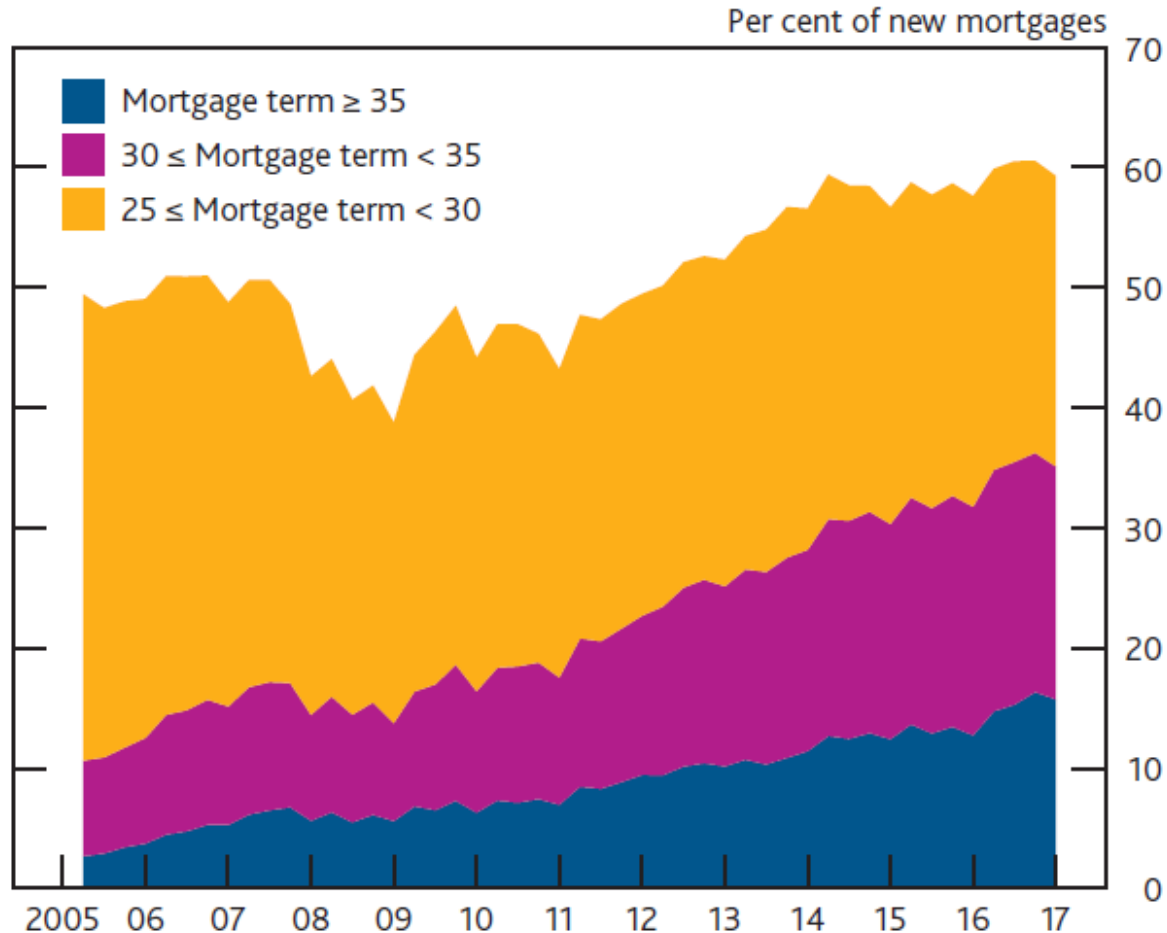


Chart A.17 In an 'upside' scenario, the flow of mortgage lending would be skewed towards higher LTIs without FPC policies in place

LTI distribution of new mortgage lending^{(a)(b)}

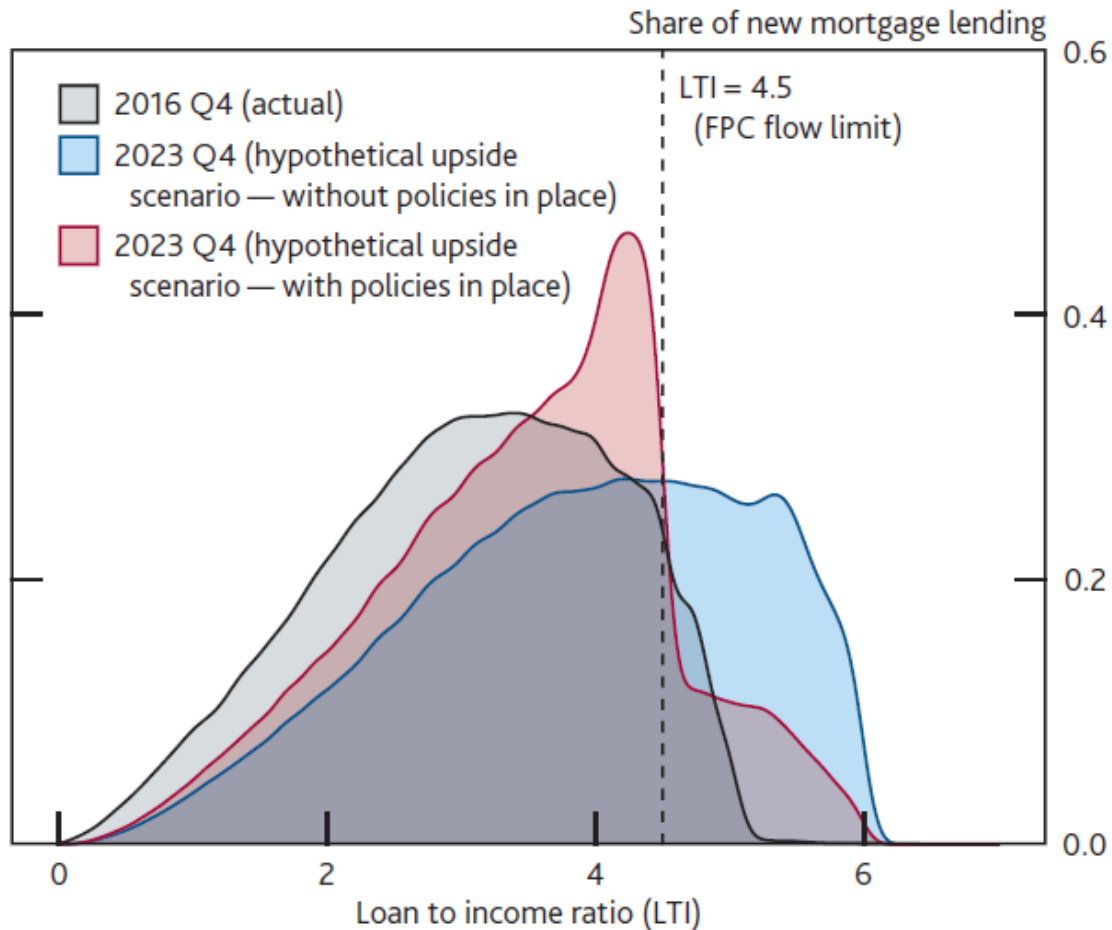


Table A.2 More highly indebted mortgagors made larger spending cuts during the crisis

Cuts in consumption between 2007 and 2009 among mortgagors with different LTI ratios

LTI ratio	United Kingdom ^(a) (per cent)	Denmark ^{(b)(c)} (per cent)	Norway ^{(b)(d)} (per cent)
0 to 1	-1.4	1.2	1.9
1 to 2	-4.2	1.9	-6.3
2 to 3	-7.0	1.0	-11.5
3 to 4	-9.8	-2.3	-21.3
4 to 5	-12.6	-5.8	-28.9
5 to 6	n.a.	-7.9	n.a.



Chart A.18 Lenders allocate more capital to mortgages with higher LTV ratios

Risk weights on UK 'prime' mortgages by LTV(a)

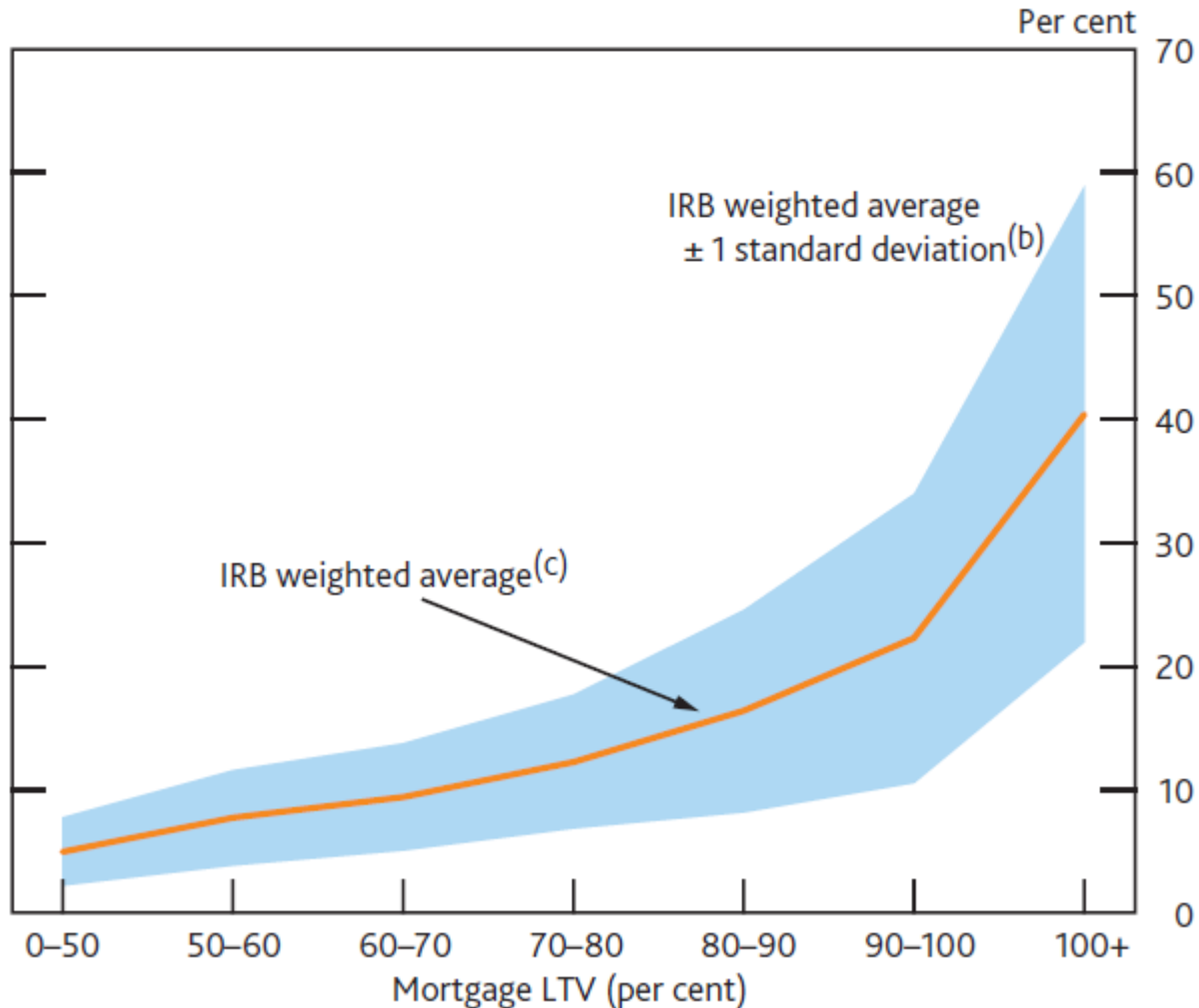


Chart A.18 There is greater scope for an increase in mortgage LTVs in regions outside London and the South East

Mortgages' LTV ratio and house price to income ratio^{(a)(b)}

