

20 June 2014

Supplementary forecast information release

Household debt

The OBR are releasing the information below following a request for further detail underlying the March 2014 *Economic and fiscal outlook*. The OBR will where possible meet requests to release supplementary forecast information, where this will improve the quality of public debate on the public finances. Our full release policy can be found on our website.

The request for further information asked for the stock of mortgage debt that is a component of our forecast for gross household debt. The new table, attached, is an extension of Table 1.11 in our March 2014 *Economic and fiscal outlook* supplementary economy tables: 'Balance sheets and lending'.¹ It includes four extra columns: 'Secured liabilities', 'Other liabilities' and their ratios to household disposable income. 'Secured liabilities' and 'Other liabilities' sum to 'Liabilities', and sources for historic data are noted at the bottom of the table.

When forecasting gross household debt ('Liabilities' in Table 1.11), we consider a number of factors, including prospects for disposable income, household consumption and net acquisition of assets (including housing assets and financial assets). By accounting identity:

Net acquisition of debt = consumption + net acquisition of assets - disposable income

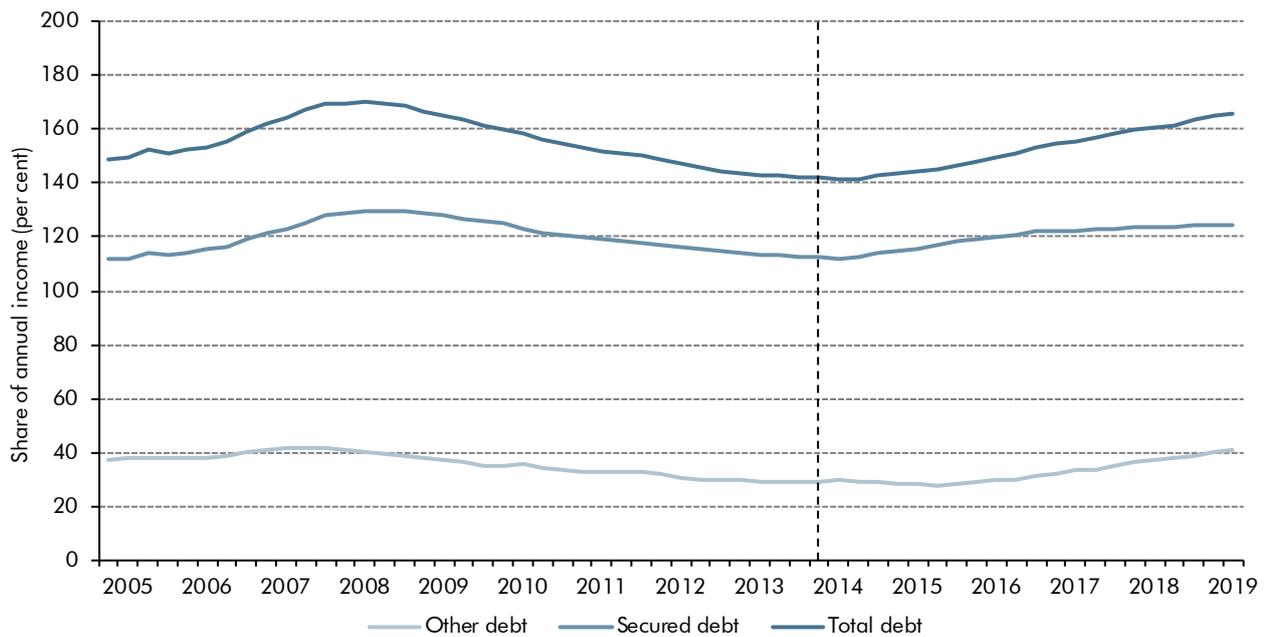
We also consider the factors underpinning demand for household debt, the largest part of which is secured debt (mostly in the form of mortgages).

Our household secured debt forecast is driven by both short-term factors, such as mortgage interest rates and income growth, and, in the long run, by the value of the collateral on which it is secured – houses ('Physical assets' in Table 1.11). Our March 2014 secured debt forecast therefore largely follows our house price forecast, rising fairly rapidly over the next few years before slowing to a pace more consistent with disposable income growth.

The difference between total and secured household debt, 'Other liabilities', is primarily short-term and unsecured debt. Historically, this form of debt relative to income has exhibited large and long-lasting fluctuations. Since 2008, the stock of 'other liabilities' has been particularly weak, falling substantially relative to income, reflecting banks' attitude to risk after the financial crisis, relatively high debt servicing costs and write-offs. Over the forecast period, we expect these other liabilities to rise relative to income, as credit conditions, relative short-term credit costs and economic activity normalise, but not beyond levels observed in the pre-crisis period.

¹ http://budgetresponsibility.org.uk/pubs/March_2014_EFO_Economy_Supplementary_Tables.xls

Chart A: Household debt forecast, March 2014



Source: ONS, OBR

We hope that this extended table offers further improvement to the transparency of our forecasts. We propose to continue publishing this extended table as part of our supplementary economy tables, alongside future publications of our *Economic and fiscal outlook*.