LV Longview Economics

Investments. Trades. Macro.

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Britain -> Due a Credit Boom

Summary & Conclusion

- The pre-conditions for a UK credit boom are in place: i) Household borrowing capacity is high (from both a balance sheet and a debt serviceability perspective); ii) banks profitability has stepped up since late 2022, and capital ratios are high; while iii) policy rates, and therefore loan rates, are set to fall further over coming months.

- Risks to the thesis, as always, are multiple and include: i) the risk that inflation remains sticky (and policy rates are not cut further), as well as ii) the risk of a fiscal crisis (engendered by poor fiscal management by the current UK government).

- In the long term, credit and consumption booms are a poor way to run an economy, simply pulling forward growth from the future (and eventually generating crisis phases in the economy).

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Important disclosures are included at the end of this report

Britain -> Due a Credit Boom

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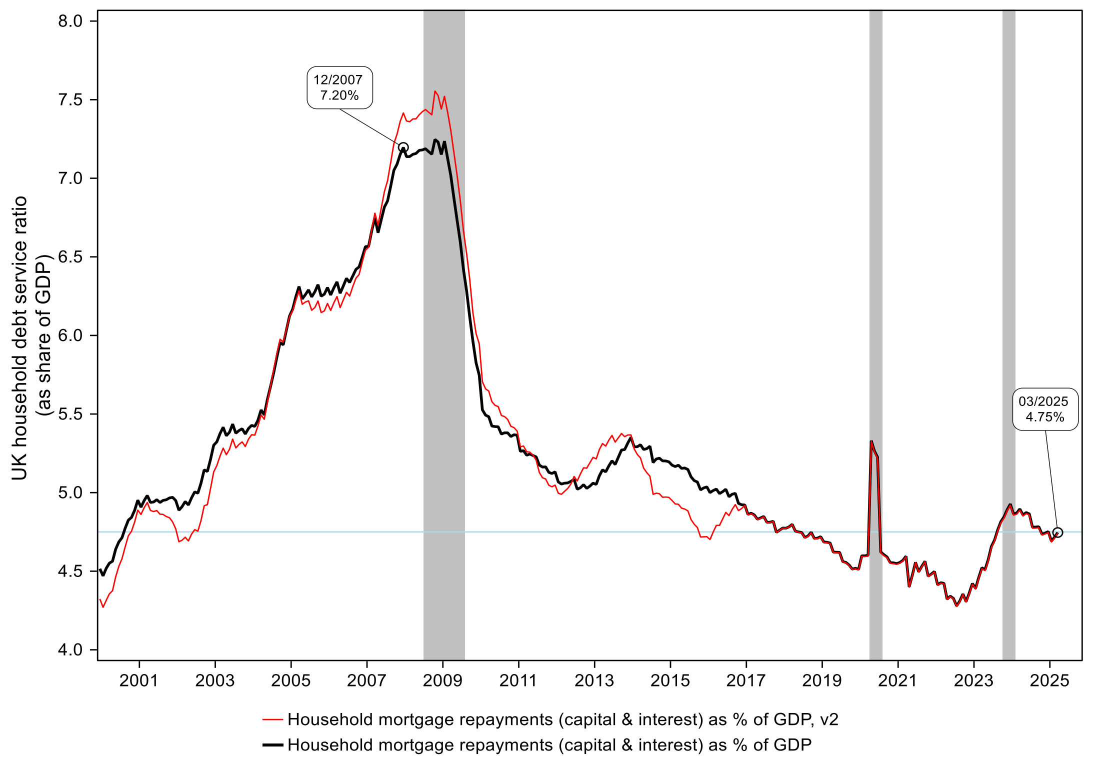
Summary & Conclusion

Britain is due a credit boom (starting sometime in the next year or so). Several factors point to that as the most likely outcome over the next 1 – 3 years.

1. Household indebtedness is at low levels (compared to GDP). UK consumer credit (i.e. credit card debt, overdrafts, consumer and other personal loans) is 8.2% of GDP. That is its lowest since the mid 1990s (FIG 7). UK household mortgage debt is 57% of GDP (lowest since 2003 – FIG 8). Overall UK household debt to GDP (the combination of mortgage and consumer credit) is 76% of GDP and back to its early noughties levels (NB there are some minor, compositional differences between data used in these three charts).

Fig 1: UK household mortgage payments incl. capital & interest (% of GDP),



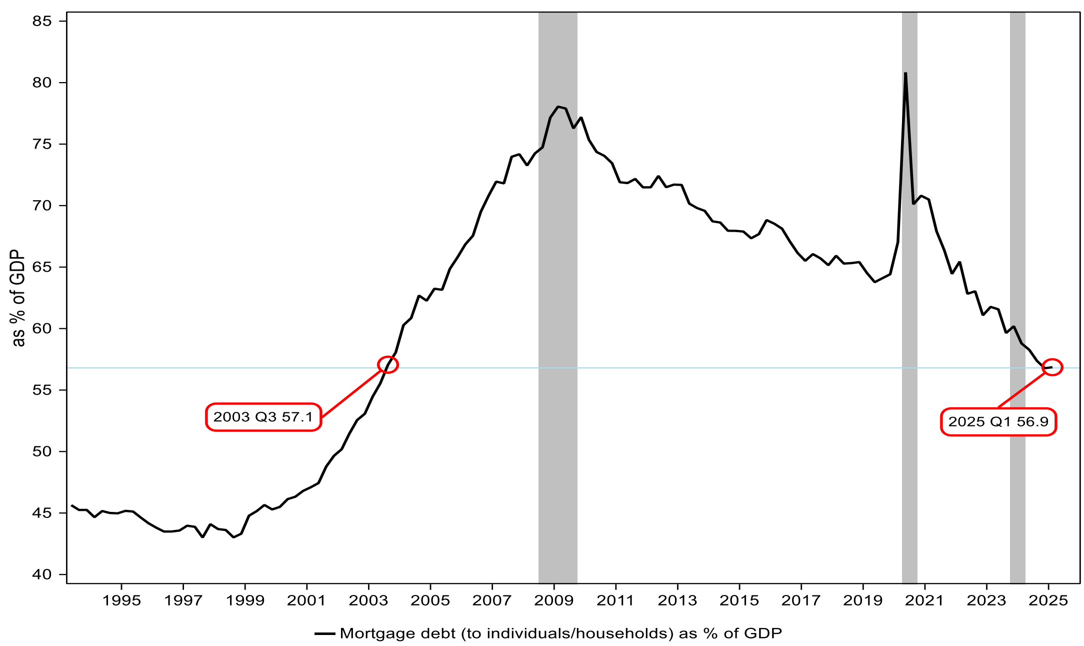
Source: Longview Economics, Macrobond

2. Households' ability to service that debt is good (with debt service ratios at low levels). We show various approaches to calculating debt serviceability ratios in FIGs 9 to 12. According to BIS data, UK households had a debt service ratio of 8.9% of income at the end of Q4 2024 (FIG 9) – lowest since early 2000s. According to the Bank of England's latest calculations (published in their July BoE FPC report), households' debt service ratio is about

7% of income, with record lows at around 6% in mid-90s and 2019 (see FIG 12); while on our estimates UK households' debt service ratios are running at around 4.75% (of GDP) – also one of their lowest levels since the early 2000s (FIG 1).

NB that last calculation is relative to GDP (rather than household income – hence why it's a lower percentage). We also split out the monthly mortgage repayments costs, breaking them down into capital repayments (of mortgage debt) and interest payments (i.e. debt servicing costs). Monthly mortgage repayments are running at around £11.7 billion (split almost 50:50 between the two component parts, i.e. latest monthly split is £6.3 billion capital repayments in May 2025; & £5.4 billion in interest costs, FIGs 10 & 11).

Fig 2: UK mortgage debt to GDP (%)



Source: Longview Economics, Macrobond

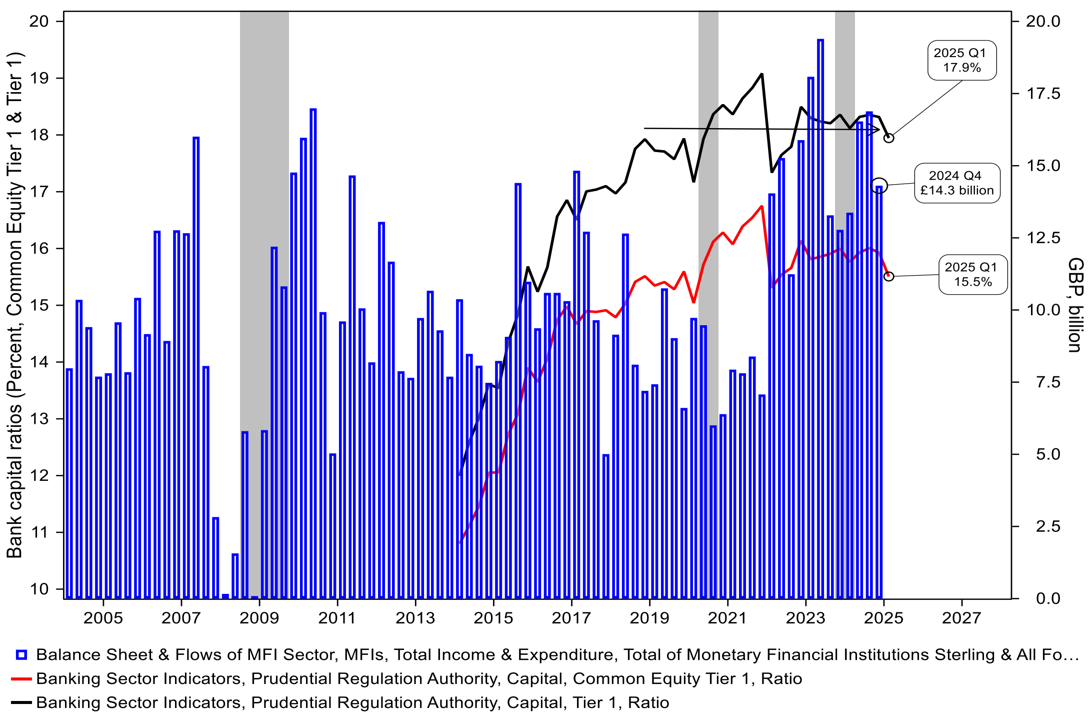
In part that reflects the **low number of UK households with a mortgage**. According to BoE data there are less than 9 million mortgaged households in the UK ("There are around 8,889,000 mortgages in the UK.", July 2025 Financial Stability Report**). Total number of UK households is around 28.4 to 28.8 million. As such, only around 30% of households have a mortgage (NB a small number of households will have two or more mortgages - hence that percentage is slightly overstated). Of the remaining ~19.4 to 19.8 million households, 9.4 million own their houses outright (i.e. owner occupiers without a mortgage), 5.4 million are private rented accommodation, while the remaining 4.6 million households are in social housing***.

**NB according to the BoE 'Mortgage Lenders and Administrators Statistics - 2024 Q4', the number of mortgage loan accounts (not necessarily exactly the same as the number of mortgages) has fallen by around 14% from its peak in 2008 – whilst the population has grown. It's likely, therefore, that the number of mortgages has fallen by the same percentage.
***NB estimates extrapolated from 2022 percentage housing ownership data.

3. Banks have high capital ratios, are making money and need to put it to work. According to the BoE, the UK commercial banking sector has an aggregate 'Tier 1' capital ratio of 17.9% (& a common equity tier 1 ratio of 15.5% - FIG 3). Quarterly profits are running at/close to record levels (having stepped up in 2022). Latest quarterly profits were £14.3 billion (FIG 3). Much of that will end up in retained earnings, thereby enhancing capital ratios and requiring more lending/risk taking by the bank (i.e. putting capital to work).

Hence why, according to the **UK's credit conditions survey, banks are keen to lend** more (i.e. credit conditions are loose) – see FIG 13. Furthermore that keenness by banks to lend has been increasing in recent quarters. In contrast, households' desire to borrow has fallen away (of late). That may simply reflect the impact of the stamp duty change in early April (which is likely to have pulled forward some demand). Or potentially it also highlights the need for further BoE rate cuts (see below).

Fig 3: UK commercial banks' aggregate qtrly profit (£bn) & capital ratios (%)



Source: Longview Economics, Macrobond

4. Finally, UK policy rates have been falling and look set to fall further. BoE policy rates are currently at 4.25%, having been cut 4 times since summer 2024 (NB first cut was on 1st August 2024). According to market expectations those rates are expected to fall a further 83bp, reaching 3.42% by mid 2026.

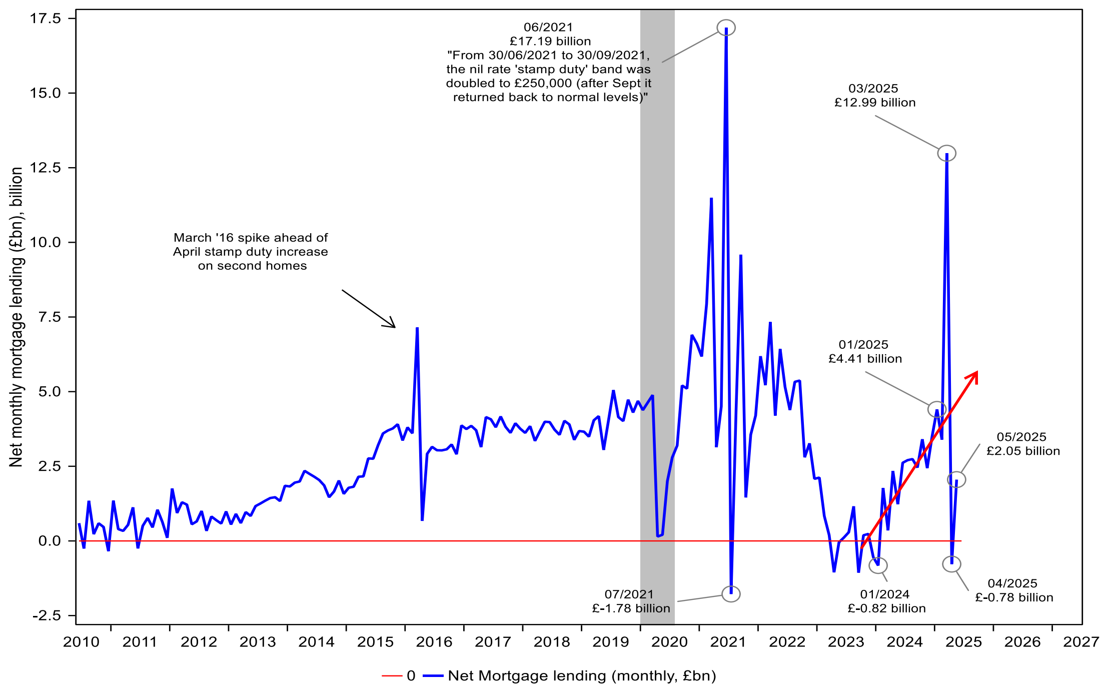
Conclusion: A UK credit boom is likely brewing. The pre-conditions are in place: i) Households have the capacity to borrow more; ii) banks want to lend;

& iii) policy rates, and therefore loan rates, are set to fall further. The ingredients for a lending boom are, therefore, in place.

Over the past 18 months, net mortgage lending totals (monthly) have been picking up. In January 2024, net lending was -£0.8bn. By the start of 2025 it was £4.4 billion, while in March it picked up sharply ahead of the imposition of stamp duty increases in April (FIG 4). For now, the data series is attempting to get back onto its pre-March trend line. Time will tell. However, the structural set up above supports an expectation that it returns to that uptrend. The scene, therefore, looks set for UK household indebtedness to pick up once again and with that generate a repeat of the consumer boom which occurred under Brown/Blair in the noughties, and Lawson in the late 1980s (FIG 6).

As always **risks are multiple**. Two, in particular, are key: i) That UK inflation remains sticky (NB the next UK inflation data point is published later this week); & ii) the UK enters into a fiscal crisis because of the current Labour government's inability to control government spending. That was on show earlier this month during the labour party rebellion on welfare spending cuts. Overnight, with Japanese 30 and 40 year bond yields backing up close to record highs (from late May), then once again that issue is becoming a key focus of the market.

Fig 4: Net mortgage lending (£bn, monthly)



Source: Longview Economics, Macrobond

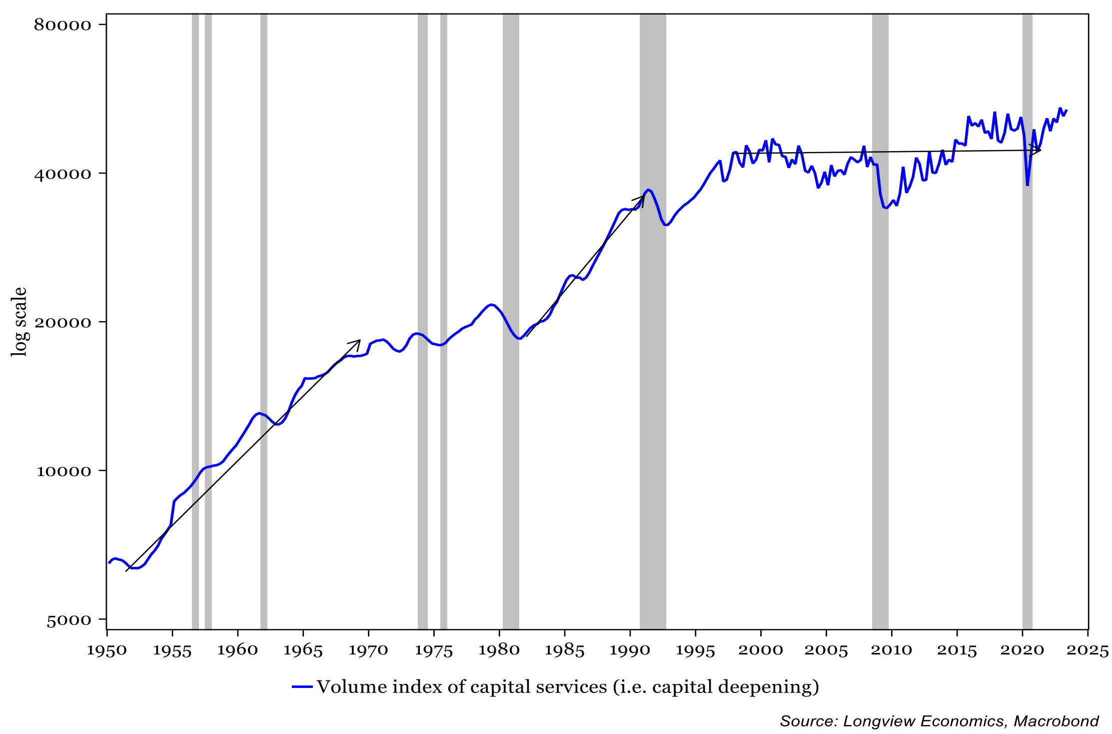
In The Long Run, Though…

Of course in the long term this is not a good economic model – i.e. building leverage into the system to drive house prices higher, create wealth effects and push higher consumption growth. Whilst in the near term that's effective and creates better growth rates, in the end there's a price to pay as it's false/artificial growth. That concept was, of course, clearly illustrated post GFC, when the UK (and other Western economies) underwent prolonged periods of sub trend growth as households deleveraged and governments (at least initially) engaged in austerity.

Ultimately, long term economic growth should be driven by productivity growth. This is the true ingredient of long term sustainable wealth creation. In the UK, as we have written about on a number of occasions, this type of growth has been undermined by housing booms (and subsequent busts). Mortgage & housing booms attract capital, thereby drawing it into unproductive uses (and away from business investment/productive uses).

That idea is illustrated by the lack of capital deepening in the UK since the late 1990s. As FIG 5 shows, the level of capital deepening is largely unchanged in over 25 years.

Fig 5: UK capital deepening trends (log of capital services index)



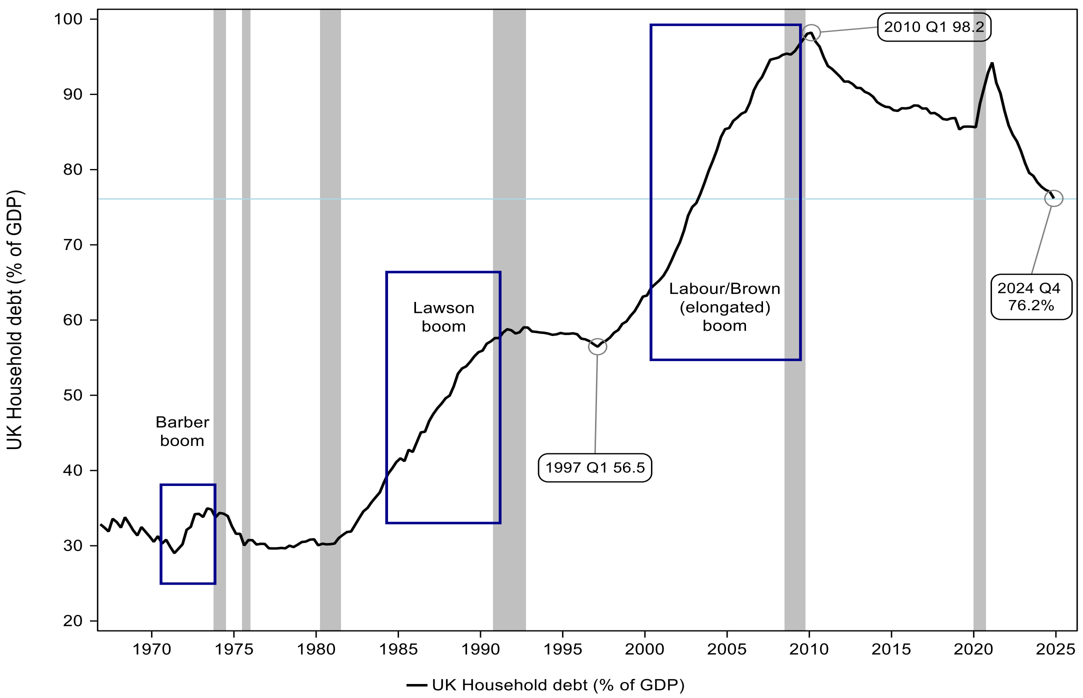
Source: Longview Letter no 147, 12th February 2025: "The British Economy –> Ways to Fix the Lack of Growth; Section 2: The Absence of Capital Deepening"

As such, in the long term one of the key economic adjustments which is required in the UK to improve the economy (across all income groups) is policies which address the problems created by housing (& mortgage borrowing) absorbing too much of banks' capital.

One obvious way to start to address that is to adjust the very low risk weightings which are assigned to mortgage lending by banks (especially when considered versus corporate lending). Recent data puts those risk weightings for mortgage debt at low double digit percentage levels (versus 100% for most corporate debt). That, in and of itself, highlights the skewed incentive for banks to make mortgage loans rather than corporate loans. That is one of the key reasons why capital deepening for the past quarter of a century has been so poor. In turn that goes a long way to explaining stagnant real wages for many income groups.

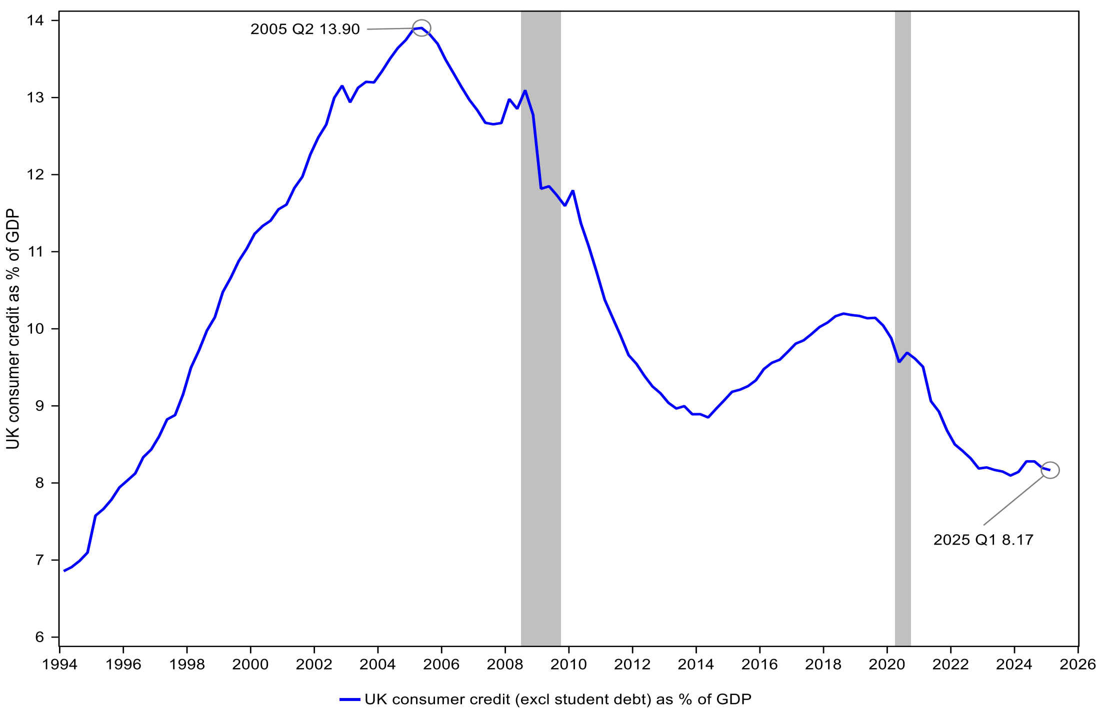
Total Debt to GDP Ratios

Fig 6: UK household debt to GDP (%), shown with consumer booms



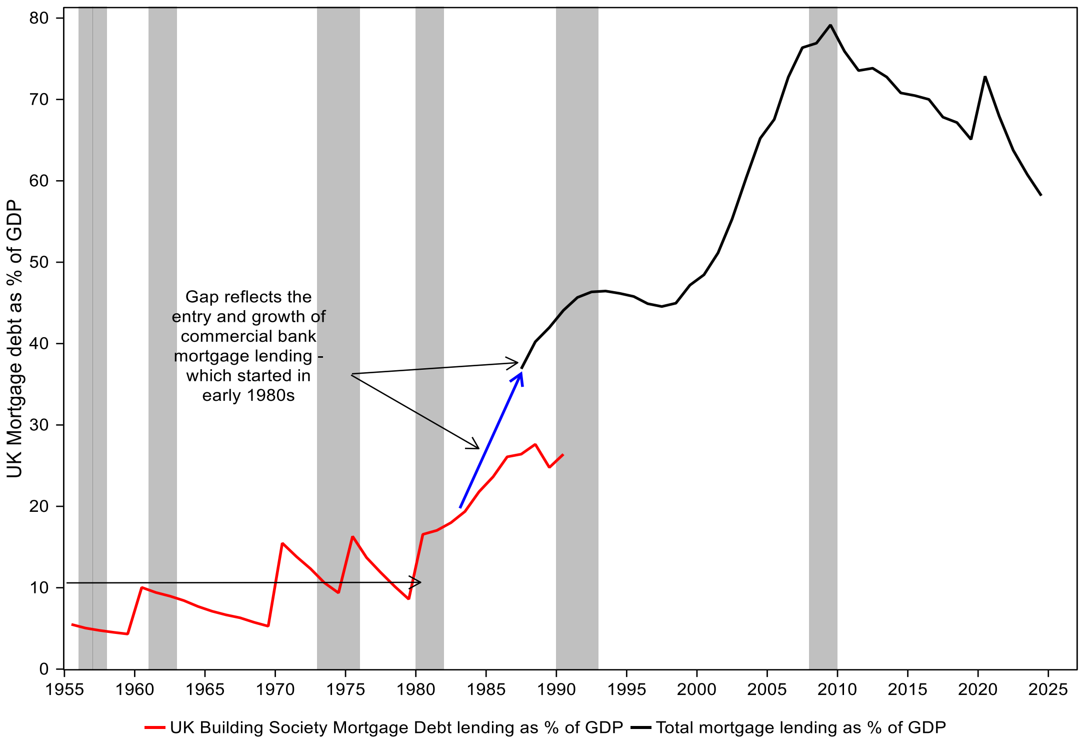
Source: Longview Economics, Macrobond

Fig 7: UK consumer credit, excl. student debt (as % of GDP)



Source: Longview Economics, Macrobond

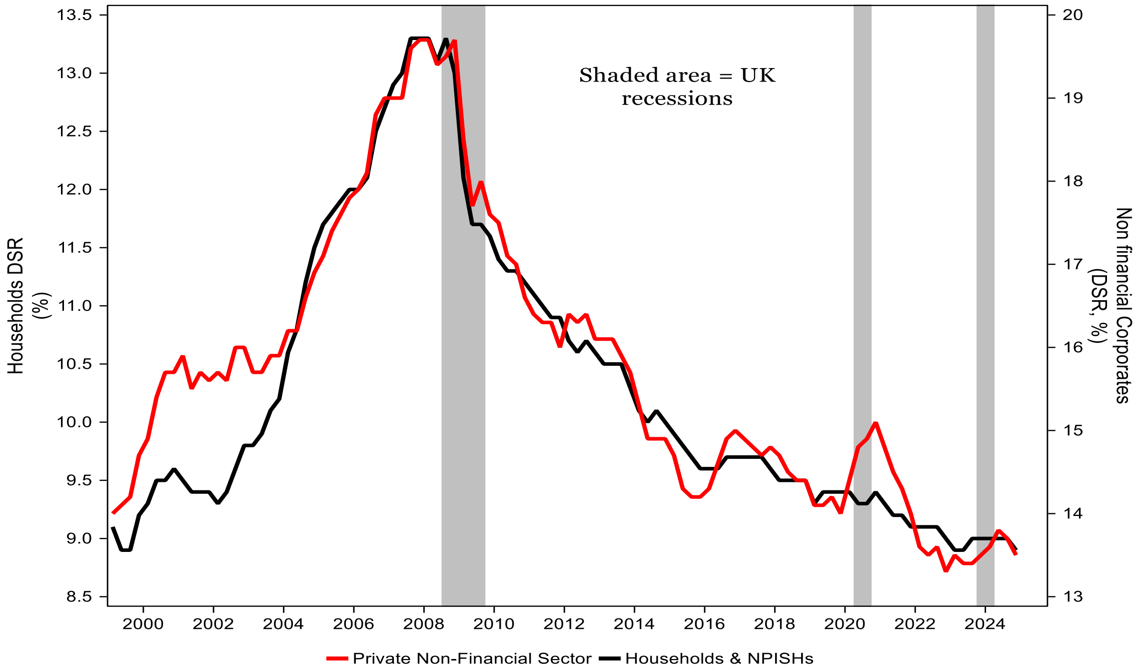
Fig 8: UK long term mortgage debt (as % of GDP) – since 1955



Source: Longview Economics, Macrobond

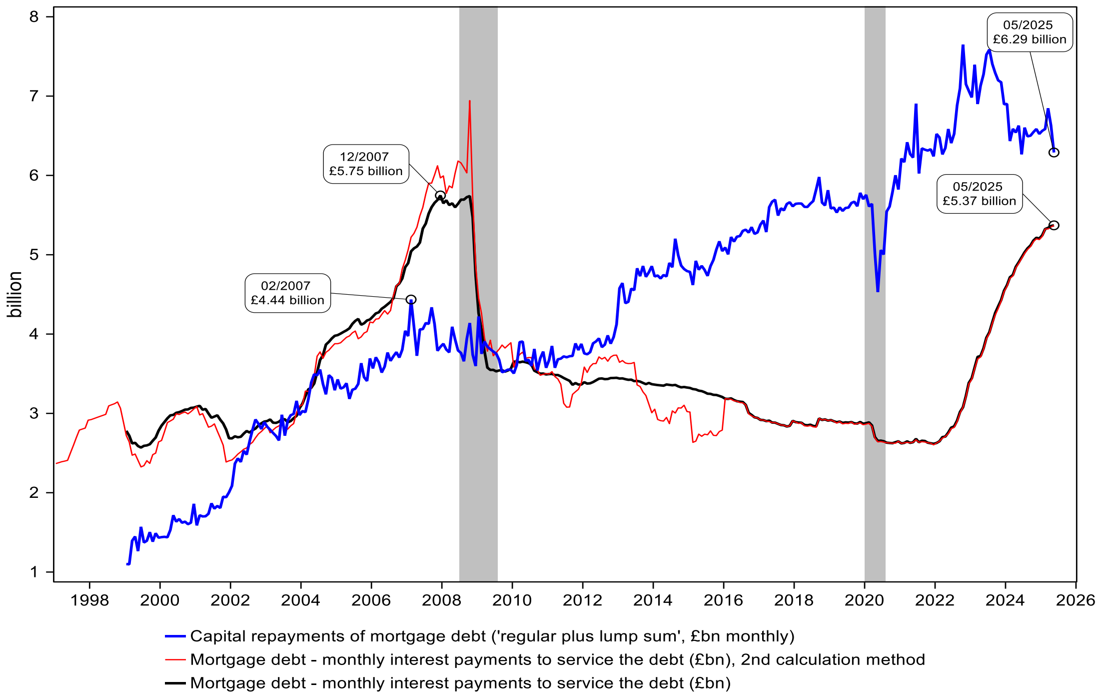
UK Household Debt Service Ratios

Fig 9: UK debt service ratios (households & non-financial corporations, %)



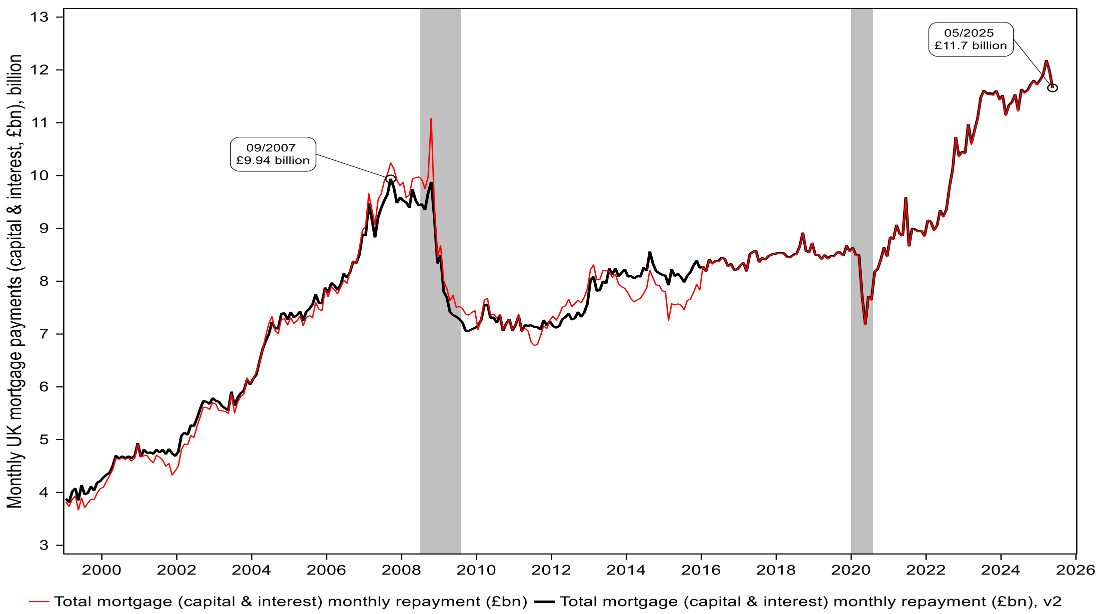
Source: Longview Economics, Macrobond

Fig 10: UK household mortgage payments – capital & interest (£bn, monthly)



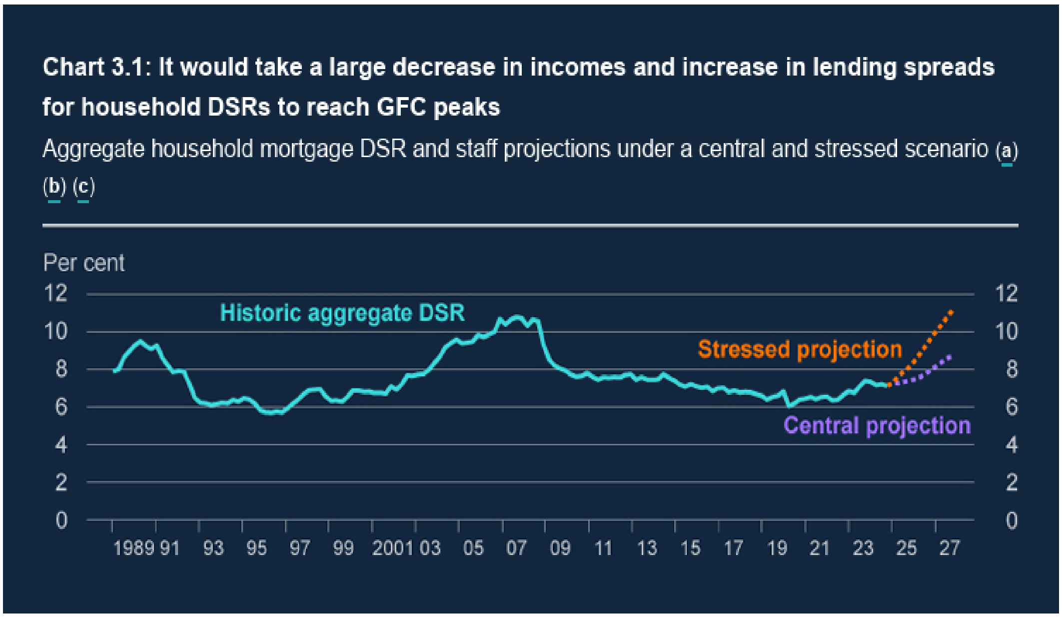
Source: Longview Economics, Macrobond

Fig 11: UK household mortgage payments (capital + interest, £bn, monthly)



Source: Longview Economics, Macrobond

Fig 12: BoE households' debt serviceability ratio* (% of income)

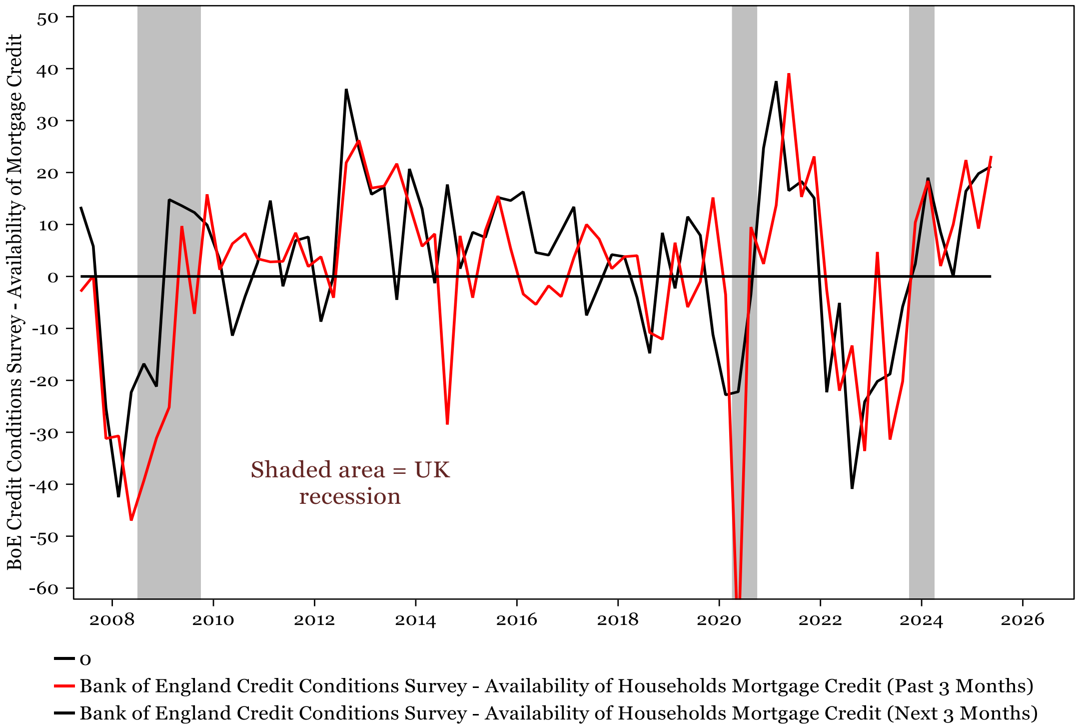


Sources: Bank of England, Bloomberg Finance L.P., FCA Product Sales Data, ONS and Bank calculations.

*Calculated as mortgage interest payments plus principal repayments as a proportion of nominal household post-tax income. Household income is defined as disposable (post-tax) income adjusted for changes in pension entitlements, which is adjusted to exclude gross operating surplus and the effects of financial intermediation services indirectly measured, and to add back interest paid. Mortgage interest payments before 2000 are adjusted to remove the effect of mortgage interest relief at source. **Source:** BoE, July 2025 Financial Stability Report, https://www.bankofengland.co.uk/financial-stability-report/2025/july-2025

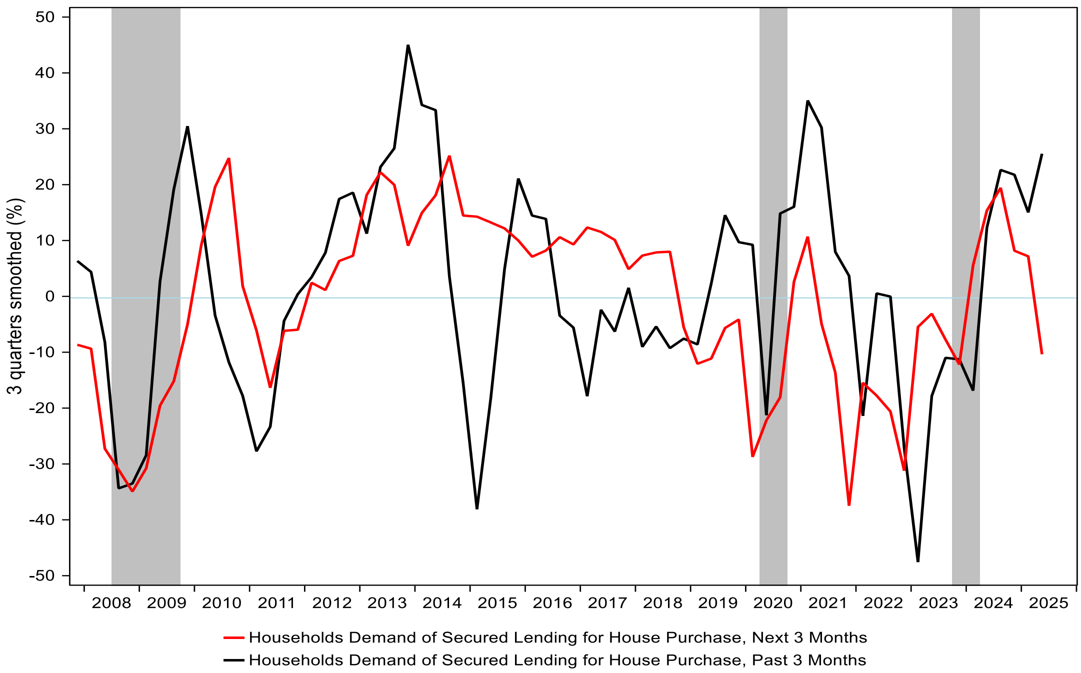
UK Credit Conditions

Fig 13: **Availability** of UK household mortgage credit (BoE Survey)



Source: Longview Economics, Macrobond

Fig 14: Household **demand** for mortgage borrowing (BoE, 3 qtrs smoothed)



Source: Longview Economics, Macrobond

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