

# United Kingdom

## Bank of England sounds relaxed note on financial risks, with no sign of housing market 'bubble'

- **Financial Policy Committee notes some concern over rising market interest rates and speed of house price recovery, but merely wishes to keep an eye on future developments.**
- **No immediate policy recommendations, so no 'forward guidance 'knockout' in sight**

The [statement](#) from the Bank of England's Financial Policy Committee points to few worries about financial stability in the UK. While there are some amber warning lights showing, with the FPC keen to keep a close eye on any potential fall-out from recent increases in market interest rates and developments in the domestic housing market, the FPC made no policy recommendations. As such, there is little likelihood of the Bank of England's financial stability 'knockout' clause in relation to its forward guidance on monetary policy being invoked any time soon.

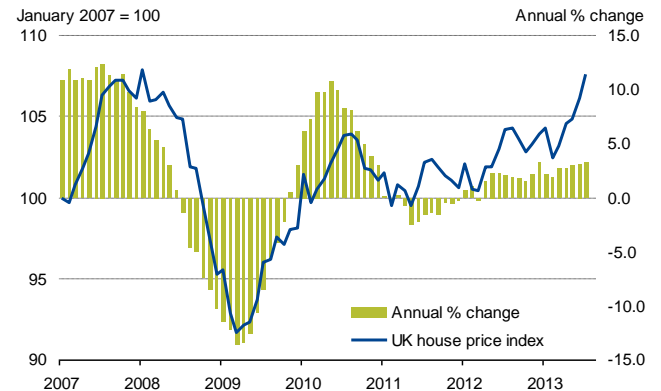
The FPC noted that the global economic environment was continuing to improve, helping to repair bank balance sheets. While noting that market interest rates had moved upwards (largely reflecting the widespread expectation that the US Fed would soon begin to taper its quantitative easing programme), and that the eurozone's recovery in particular remained vulnerable to higher borrowing costs, the FPC sounded a relaxed note that there had yet to be any significant impact on market functioning or financial institutions.

The Committee also seems relaxed about the growing fears voiced by many commentators of a potentially disruptive housing market bubble. While noting that "mortgage approvals in July were 30% higher than a year earlier and average house prices in August were 5% higher than a year earlier and had risen more in some parts of the country, particularly London", the Committee noted that "activity in the housing market and loan-to-value ratios on new mortgage lending remained below their historic averages. Households' debt servicing costs were low and the ratio of house prices to earnings was at its level of a decade ago".

### Mortgage approvals



### UK house prices



### Households' views on property prices



\* Monthly survey of 1500 households. "How do you think the value of your house has changed since last month/will change over the next year?". Index based on 50 = no change on prior month.

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Policymakers merely decided to continue to monitor developments in the housing market, paying particular attention to ensure lending conditions did not ease too much. If risks of a bubble did appear, the FPC spelled out a reassurance that it, and the regulators, had a range of tools to restore stability. These included guidance on underwriting standards, capital requirements and recommendations to the regulators on tightening of affordability tests. However, any such response would be “proportionate to the risks” and “graduated”.

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