Bank Of England Notes Rise In Borrowing

Consumers are borrowing more money, new figures have indicated.

August 5, 2007 (FPRC) -- In figures released by the Bank of England, total lending to individuals rose by some £10.4 billion over the course of June in comparison to an increase of £9.6 billion noted in the previous month. Although the 12-month rate of growth remained unchanged at 10.2 per cent, lending over the last three months was shown to have fallen by 0.1 percentage points to 9.2 per cent.

Meanwhile, consumer credit uptake was reported to have remained consistent - increasing by 5.2 per cent (£0.9 billion) this was the same rate of growth as noted in May. During the month, credit card lending rose by £0.2 billion compared to a previous decrease of the same figure. The study also indicated that borrowing via other forms of low cost loans and advances increased by £0.7 billion.

The Bank also revealed that growth in secured loan borrowing (£9.6 billion) was above the previous month's figures and the highest recorded since March. However, the twelve-month growth rate was reported to have remained unchanged from May at 11.2 per cent. Despite this, the level of uptake for 'new' secured loans was reported to have decreased during June. Over the course of last month, £32.1 billion was lent out, down from £32.7 billion. The study also indicated that the proportion of home loans approvals granted for property purchasing was unchanged from May, while the level of those looking to borrow for remortgaging and other purposes fell.

Commenting on the data, Simon Rubinsohn, chief economist from the Royal Institution of Chartered Surveyors (Rics) claimed the shortfall in borrowing was due to five interest rate rises over the last 12 months impacting on prospective borrowers' day-to-day finances. He said: "The volume of mortgage approvals may have proved more resilient than expected in June but as recent interest rate increases get fully passed through into borrowing costs, we expect to see more evidence of a cooling in demand for property."

The Rics analyst added: "Significantly, the latest numbers point to a modest drop in the level of remortgage activity. This suggests that homeowners may just be becoming a little more wary of continuing to draw on the equity that has built up in their property as a means of financing spending at a time when real incomes growth remains under pressure."

Meanwhile, Ian Kernohan, economist for Royal London Asset Management, suggested that despite a fall in mortgage approvals last month, the impact of recent base rate increases is yet to have a full impact on consumers' finances and is not curbing a general desire to get on to the housing market. He added that although the property sector is starting to show signs of slowing down, the Bank's monetary policy committee is "likely" to increase interest rates again. However, he claimed that there is a "strong possibility" that the committee will decrease the base rate over the course of next year.

Earlier this month, the British Bankers' Association claimed that although mortgage lending increased over June, the growth was below the "strong rise" witnessed in May. Meanwhile, borrowing via methods apart from secured loans such as overdrafts, credit cards and loans was reported to have stayed "relatively flat".

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