Housing equity withdrawal and household saving in the UK – a bivariate approach

Vivien Burrows (University of Reading, United Kingdom)

The period from the mid-1990s until the onset of the current financial crisis witnessed a dramatic rise in housing equity withdrawal in the UK. This was coupled with a general downward trend in the aggregate household saving ratio. While these trends were partly a reflection of rising asset prices and low real interest rates during the period, the aggregate series also mask substantial heterogeneity across individuals. In this paper, data from the British Household Panel Survey is used to investigate the determinants of remortgaging and saving behaviour in the UK, based on the assumption that these two decisions are interrelated. Special attention is given to capturing the impact of expected and unexpected shocks to income and house prices, and their volatility.

The results suggest that the decision to remortgage and the decision to save are not independent. Expected changes in income or housing wealth do not appear to influence the remortgaging decision, but unexpected changes do: unexpected income shocks have a negative impact, reducing the need to resort to home equity borrowing, whereas unexpected house price shocks have a positive effect, which may offer some support for the existence of a housing wealth effect. Unexpected shocks to income have a negative effect on the propensity to save, but households are more likely to save if they expect their housing wealth to increase, which is consistent with higher house prices relaxing borrowing constraints, precautionary saving motives or household myopic behaviour.