

# TYCHOS

United Kingdom Commentary 08-10-21

## Commentary:

The United Kingdom has been seeing a slight deleveraging in its private debt relative to GDP, both in the household and non-financial business sectors. While household debt has grown slightly throughout 2020 and continuing into 2021, the business sector, which had seen debt growth throughout 2020, has already been deleveraging as of the first quarter of this year.

Although overall, private debt has been relatively flat, areas of concern do include student loans, which have skyrocketed by 91% relative to GDP over the course of five years, along with Manufacturing and most recently, Accommodation and Food Services; Utility, IT, Mining and Wholesale sector loans while smaller in size, have also shown high growth, along with recent growth in the Retail, Transportation and Recreation sectors.

The country's private sector has also been increasingly reliant on foreign loans, and more recently corporate debt securities.

The UK is showing a growing level of lending to entities in the U.S.

Government debt had been holding in the mid-80% level after rising from 52% in 2008. Government debt, which grew throughout 2020 and into 2021, now stands at 106%.

## Country Net Worth

The UK's overall financial net worth is low but stable, with household financial net worth at an intermediate level compared to others in the Big Seven but is falling, non-financial corporation financial net worth is at an intermediate level compared to others in the Big Seven but is rising. Government financial net worth is low compared to others in the Big Seven.

## Background:

Accelerating private debt for a country is normally a signal for some level of economic boom, which is then often followed by some type of economic reversal or calamity. The same is also true for rapid debt growth within an economic sector. At the point credit growth becomes excessive, the result is credit problems for that country or sector. The reason is this: rapid growth in credit, while usually favorable in the short run, if sustained can lead to oversupply or overcapacity—e.g. too many houses or too much oil extraction capacity—at the country level, or within a given industry or sector. In fact, overcapacity is only possible through rapid debt expansion. Significant overcapacity is generally followed by two events—a drop in sector activity and the necessity of

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sector layoffs during the period while demand catches up, along with high credit losses for lenders in that sector.

There is no hard and fast measure for the level of growth that leads to overcapacity, since the nature of policy responses and other qualitative variables have a significant influence on how events play out. Nevertheless, what has been a useful threshold measure is that if overall private debt to GDP increases by 20% in a five-year window, and reaches 150% in that time frame, credit problems are a likely result. Within a given sector, if sector debt to GDP increases over 40% within five years, credit problems of increased likelihood within that sector. If the sector is large enough, e.g. the real estate sector, that sectors problems can spill over into other sectors bringing systemic national risk.

## Disclaimer:

All data in this report is as current as is readily available. Certain data is less timely than desirable, especially sector level data. However, most adverse volume trends must hold for more than a year or two to create significant credit concerns, so this lag in data, while unfortunate, does not preclude of significant trends.