

[How Do Interest Rates Affect Consumption? Household Debt and the Role of Asset Prices](#)

CFM-DP2026-02

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This paper estimates how rate cuts increase consumption, via debt and asset prices. Using administrative UK data on mortgages and consumption, we exploit the expiry of fixed-rate mortgages to construct six million household-level natural experiments. A 1 pp reduction in mortgage rates raises consumption by 3% in the following 6 months. Using plausibly exogenous variation in how house prices respond to rate cuts, we show that consumption increases mostly because households borrow against higher house prices; lower debt service after rate cuts matters less. These results suggest that in large part, monetary policy affects consumption through asset prices and borrowing.