Household finances continue to worsen in September

Key findings

IHS Markit Household Finance Index unchanged at 40.8 to signal another sharp deterioration

Job security perceptions dip further into negative territory, with incomes from work falling again

Household savings decline at fastest pace since December 2013, as cash availability worsens

Demand for unsecured credit at five-month high

This release contains the September findings from the IHS Markit UK Household Finance Index™ (HFI™), which is intended to anticipate changing consumer behaviour accurately. The HFI is compiled each month by IHS Markit, using original survey data collected by Ipsos MORI. It is the first consumer survey published each month.

Current and future finances

At 40.8 in September, unchanged from the previous survey period, the headline seasonally adjusted IHS Markit UK Household Finance Index (HFI) – which measures households’ overall perceptions of financial wellbeing – signalled a further sharp deterioration in the financial situation of UK households, albeit one that was less severe than the falls recorded at the height of the COVID-19 pandemic in April and May.

Households’ perceptions of their finances in 12 months’ time weakened in September. The respective index was the lowest since May, indicative of a highly pessimistic outlook with regards to household finances over the coming year.

Household spending and demand for credit

The weaker outlook was driven by a further reduction in the availability of cash and declining savings in September. The respective index for cash availability was the lowest since May, and signalled a marked reduction in the amount of disposable income. As a result, spending declined moderately, although the reduction was the weakest in the current six-month sequence of
falls. Amid lower disposable incomes, household savings were again depleted in September. Moreover, the latest fall was the sharpest since December 2013.

Alongside savings, some UK households turned to credit to finance their purchases in September. The survey measure of demand for unsecured credit, such as overdrafts and credit cards, moved further above the 50.0 threshold and was the highest since April.

**Workplace activity, income and job security**

Worryingly, but unsurprisingly given prevailing labour market conditions, UK households perceptions of job security remained extremely weak in September. The respective index dipped further into negative territory, registering at 39.9, as the economic impact of the pandemic continued to be felt in the jobs market. Incomes from employment also fell, but the rate of decline eased further from May’s record. Squeezed wages and high levels of uncertainty about the future meant that households’ appetite for major purchases fell in September.

**Households’ views on next move in Bank of England base rate**

Household views on the Bank of England base rate shifted slightly in September. The survey data were collected before the bank rate decision in September. Although only a small minority, the proportion of households anticipating an increase within the next month was 6.2%, up from just 3.7% in August. An increased majority also (66.8%) expect a rise in the base rate within the next two years.

Meanwhile, the proportion of households who expect the next move by the central bank to be a cut at some time in the future declined from 20.9% to 18.7%.

**Comment**

Lewis Cooper, Economist at IHS Markit, which compiles the survey, said:

“Pressure on household finances in the UK remained intense in September. The headline HFI figure was unchanged on the month and well below the 50.0 threshold, signalling another sharp deterioration in the financial situation of UK households.

"With just over a month to go until the end of the government furlough scheme, the survey measure of job security perceptions dipped further into negative territory, reflecting households’ unease about their jobs, whilst incomes from employment fell for the sixth month in a row.

“September data also signalled reductions in household spending, savings and cash availability, all of which highlight the crunch on finances at present. As a result, UK households were the most pessimistic since May with regards to their financial wellbeing in 12 months’ time.

“Given the latest figures and the recession the UK is facing during the pandemic, there is undoubtedly a long and uncertain road ahead for UK households to recover financially.”

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Methodology

The HFI is a “diffusion index”, which is calculated by adding together the percentage of respondents that reported an improvement plus half of the percentage that reported no change. The resulting index varies around the 50.0 “no-change” level, with readings above 50.0 signalling an improvement and readings below 50.0 a deterioration. The headline survey indices have been seasonally adjusted using the US Bureau of the Census X-12 programme. IHS Markit do not revise underlying (unadjusted) survey data after first publication.

The Household Finance Index™ (HFI™) survey was first conducted in February 2009 and is compiled each month by IHS Markit. The survey methodology has been designed by IHS Markit to complement the Purchasing Managers' Index® (PMI®) business surveys, which are closely watched due to their timeliness and accuracy in anticipating changing business conditions. The HFI is intended to accurately anticipate changing consumer behaviour. Like the PMI surveys, the HFI tracks objective “hard data” on actual month-on-month changes, focusing on household spending, saving and debt levels, but also includes several forward-looking opinion questions to help anticipate future trends.

In a further similarity to the PMI survey methodology, the questionnaire is designed to be quick and easy to complete, incorporating a small number of key questions, which encourages regular participation among even high-level respondents.

The survey is based on monthly responses from approximately 1,500 individuals in Great Britain, with data collected by Ipsos MORI from its panel of respondents aged 18-64. The survey sample is structured according to income, region and age to ensure the survey results accurately reflect the true composition of the population. Results are also weighted to further improve representativeness.

Prior to September 2010, the Household Finance Index was jointly compiled by YouGov and IHS Markit based on monthly responses from over 2,000 UK households, with data collected online by YouGov plc from its representative panel of respondents aged 18 and above. The panel was structured according to income, region and age to ensure the survey results accurately reflected the true composition of the UK population. Results were also weighted to further improve representativeness.

Index numbers

Index numbers are calculated from the percentages of respondents reporting an improvement, no change or decline. These indices vary between 0 and 100 with readings of exactly 50.0 signalling no change on the previous month. Readings above 50.0 signal an increase or improvement; readings below 50.0 signal a decline or deterioration.

Ipsos MORI technical details (September survey)

Ipsos MORI interviewed 1500 adults aged 18-64 across Great Britain from its online panel of respondents. Interviews were conducted online between September 10th - 14th 2020. A representative sample of adults was interviewed with quota controls set by gender, age and region and the resultant survey data weighted to the known GB profile of this audience by gender, age, region and household income. Ipsos MORI was responsible for the fieldwork and data collection only and not responsible for the analysis, reporting or interpretation of the survey results.

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