IHS Markit UK Household Finance Index™

Expectations of lower interest rates grow as UK household finances remain under pressure

Key findings

UK households cast pessimistic assessment of current finances

Workplace activity rises strongly, but earnings growth eases further

Appetite for major purchases diminishes amid downbeat job security perceptions

One-in-four UK households now expect Bank of England will cut interest rates

This release contains the October 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

The headline index from the survey, the seasonally adjusted IHS Markit UK Household Finance Index (HFI) – which measures households’ overall perceptions of financial wellbeing – edged up to 44.4 in October, from 43.1 in September and its highest mark since January. Nevertheless, latest data was still consistent with a negative assessment from UK households regarding their finances.

Looking ahead, a downbeat outlook for financial health over the coming 12 months was signalled, although UK households curbed their pessimism, with the Future Household Finance Index rising sharply from September’s near six-year low.

Workplace activity, income and job security

UK households signalled robust growth in workplace activity during October. Furthermore, the expansion gathered pace from September and was stronger than the historical average. Income from employment grew overall, but the increase slowed for a third month running and was the weakest for 10 months.

Appetite for major purchases diminishes amid downbeat job security perceptions

One-in-four UK households now expect Bank of England will cut interest rates
Meanwhile, job security perceptions remained negative during the latest survey period, although the level of pessimism was weaker than seen in September. Appetites for major purchases also remained in decline during October.

Living costs and inflation expectations
Living cost perceptions remained firmly inside inflation territory during September, although the rate of inflation signalled by UK households was the softest since February. Looking ahead, survey data indicated that firms strongly anticipate living costs to increase over the coming 12 months.

Households’ views on next move in Bank of England base rate
Some interesting developments were seen across UK households’ views regarding the next Bank of England interest rate decision.

At the start of the year, around 73% of UK households foresaw the next base rate move being an increase within 12 months, however, latest data showed that proportion has fallen now to around 58%, its lowest since September 2017.

Meanwhile, there was a further shift towards expectations of looser monetary policy, with the percentage of UK households predicting the next move to be a cut reaching just over 25%, its highest since October 2016.

Comment
Joe Hayes, Economist at IHS Markit, which compiles the survey, said:

"Real incomes have been rising for some time now in the UK, while labour market trends have been generally supportive of the UK consumer. However, latest survey results from UK households continue to show how economic and political uncertainty is holding back what could have been a more resilient growth period for the UK economy.

"Negative job security perceptions and a pessimistic financial health outlook have led UK households to delay spending, with major purchases suffering as a result.

"These concerns, coupled with the uncertain economic outlook, have led to an increased proportion of UK households expecting the Bank of England to cut interest rates, with one-in-four UK households now foreseeing looser policy on the horizon."
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. Ipsos MORI interviewed 1500 adults aged 18-64 across Great Britain from its online panel of respondents. Interviews were conducted online between October 10th – 14th 2019. 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.

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 October 10th – 14th 2019. 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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