Visa’s UK Consumer Spending Index - July 2019

Compiled by IHS Markit on behalf of Visa

14 August 2019

Household spending falls again in July

Headline Findings:

Consumer spending declines by -1.2% year-on-year in July

eCommerce expenditure returns to growth (+1.1%), but Face-to-Face spend dips again (-2.9%)

Clothing & Footwear is worst performing sector, while Hotels, Restaurants and Bars see further rise in expenditure

Visa’s UK Consumer Spending Index, compiled by IHS Markit, signalled a further fall in overall household spending during July. At -1.2% year-on-year, the reduction was modest and softer than that seen in June (-1.4%). Nonetheless, this extended the current period of declining spend to ten months, to mark the longest sequence of falling expenditure since 2011/12.

The slightly softer reduction in total spend was supported by a renewed upturn in expenditure via eCommerce channels. Spending in this category grew +1.1% year-on-year in July, which was the quickest rate of increase since October 2018.

In contrast, Face-to-Face spend fell for the third month running, and at a quicker rate than in June (-2.9% on the year, compared to -2.1%).

(Continues overleaf)

Spending annual % change

<table>
<thead>
<tr>
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<th>May’19</th>
<th>Jun’19</th>
<th>Jul’19</th>
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<tbody>
<tr>
<td>Overall spending</td>
<td>-1.4</td>
<td>-1.4</td>
<td>-1.2</td>
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<tr>
<td>Face-to-face</td>
<td>-3.6</td>
<td>-2.1</td>
<td>-2.9</td>
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<tr>
<td>eComm.</td>
<td>+0.7</td>
<td>-0.8</td>
<td>+1.1</td>
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Adolfo Laurenti, European Principal Economist, Visa, commented:

“The UK Consumer Spending Index continues to portray a rather soft picture for consumption during Summer. The decline of -1.2% year-on-year marks the tenth consecutive month of weakness, and it illustrates the persisting headwinds that the retail industry is facing. The drop in Face-to-Face transactions aligns with other retail indicators which show weakness in sales. In particular, Clothing & Footwear registered some of the largest declines, followed by Transport & Communication and Food, Beverages & Tobacco. There are a few bright spots in the report, eCommerce bounced back after hitting a soft patch in June, while Recreation & Culture, Household Goods, and Hotels, Restaurants & Bars posted some gains after a late Spring lull. We take this as evidence that, despite an overall lack of confidence and weak expectations for the future, consumers have the wherewithal to return to the High Street for selective purchases, as wages continue to improve and the unemployment rate stays at modest level.”

Annabel Fiddes, Principal Economist at IHS Markit, said:

“UK Consumer spending remained subdued in July, with the latest Visa CSI data pointing to another year-on-year drop in overall expenditure. Although the rate of reduction softened from -1.4% in June to -1.2%, underlying data show that there is notable weakness stemming from the High Street, with Face-to-Face spending declining -2.9% on the year in July.

“Lower expenditure coincides with an increasingly uncertain economic outlook and broadly stagnant business activity across the UK at the start of the third quarter, according to the latest IHS Markit PMI surveys. The disappointing GDP number for Q2 will also add to concerns that heightened uncertainty is acting as an increasing drag on economic performance.”
Visa’s UK Consumer Spending Index

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Broken down by sector, the weakest performance was seen in Clothing & Footwear categories, which recorded a -5.2% year-on-year decline in spend. Transport & Communication also saw a marked decline in expenditure (-3.1%). After rising slightly in June, Food & Drink retailers noted a drop in spend for the second time in three months (-2.8%).

Although Hotels, Restaurants & Bars saw a sustained upturn in expenditure, the rate of growth was the weakest seen for six months (+1.7%). Renewed increases in spend were meanwhile seen in Household Goods, Health & Education and Recreation & Culture categories, though rates of expansion were marginal in each case.

**eCommerce and Face-to-Face Spend**

The slightly softer reduction in overall spend was supported by a renewed increase in expenditure via eCommerce channels, as Face-to-Face spending declined again in July.

On an annual basis, eCommerce expenditure rose +1.1% during July, which helped to offset a -0.8% reduction in June. Spending through this channel has now increased in three of the past five months, with the latest expansion the quickest recorded since October 2018.

July data signalled a faster reduction in Face-to-Face spending during July, with expenditure falling -2.9% year-on-year compared to -2.1% in June. This marked the second-steepest decrease since April 2018 (after May 2019).

**Spending by Sector**

Visa’s UK Consumer Spending Index monitors eight broad sectors. Summary data for annual growth rates in May, June and July, which are not adjusted for seasonality and trading days, are provided in the table opposite.

Latest data showed that expenditure fell in half of the eight monitored broad spending categories on an annual basis in July. Clothing & Footwear registered the steepest reduction, followed by Transport & Communication and Food & Drink retailers. Misc. Goods and Services categories also registered lower expenditure, though the rate of decline was the slowest seen for four months.

Meanwhile, Household Goods, Health & Education and Recreation & Culture all saw renewed increases in spending volumes, albeit only slight. Notably, this was the first time that higher expenditure had been recorded for Recreation & Culture for just under two years. Hotels, Restaurants & Bars sustained its current run of growth, though the rate of expansion eased and was much softer than the average seen over the series history.
Official Data Comparisons

Annual percentage changes in Visa’s UK Consumer Spending Index have a good relationship with a number of official data series, such as Gross Domestic Product (GDP) from the Office for National Statistics (ONS).

More recently, Visa’s UK Consumer Spending Index (CSI) data have successfully pointed to softer economic growth trends.

The CSI indicates that household spending fell for the tenth month in a row during July, albeit at a softer rate. Nonetheless, the data continue to point to a sluggish UK economic performance and follows on from recently published ONS data showing the first drop in GDP since 2012 in the second quarter of 2019.

Other more timely indicators also suggest muted growth trends persisted into the third quarter, with the IHS Markit/CIPS UK Purchasing Managers’ Index (PMI) surveys, which cover services, manufacturing and construction, highlighting broadly stagnant business activity across the economy in July.

The labour market remains a bright spot, with unemployment at a four-decade low, which has fed through to stronger wage growth. However, the European Commission’s measure of consumer confidence remains firmly in negative territory due to the prevailing political and economic uncertainty, which may mean spending trends could remain muted in the months ahead.

Visa’s UK Consumer Spending Index uses card transaction data to provide a robust indicator of total consumer expenditure across all payment methods and is used by a range of stakeholders to gain insights into consumer spending, including HM Treasury. It is based on spending on all Visa debit, credit and prepaid cards which are used to make an average of over 2.3 billion transactions every quarter and account for £1 in £3 of all UK spending. Working with IHS Markit, these card spending data figures are adjusted for a variety of factors such as card issuance, changing consumer preferences to pay by card rather than cash and inflation. These adjustments mean that these data are distinct from Visa’s business performance and the Index reflects overall consumer spending, not just that on cards.

Further information:

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Utilising Visa’s unique position at the heart of the payments ecosystem – with £1 in every £3 spent in the UK on a Visa card – Visa’s UK Consumer Spending Index is designed to provide a monthly assessment of underlying consumer spend patterns in the UK economy. The Index is based on data for all Visa debit, credit and prepaid cards held by UK cardholders, with a number of adjustments made to ensure an accurate indication of consumer spending trends is provided.

First, the data are cleaned to remove any spending on items that are not ordinarily classified as consumer expenditure (such as spending on savings products or taxes). Moreover, refunds and cashback are also accounted for at this stage. Second, the data are deflated by changes in the number of active Visa cards in order to account for the expansion of Visa’s card operations, particularly on the debit side. Thirdly, an adjustment is made to offset changing consumer preferences for card usage. This is based on data on payments at terminals and cash withdrawals sourced from a report published by the ECB. Fourthly, to account for inflation, the data are deflated by changes in the consumer price index to provide an indicator of real changes in household spending. Finally, the headline data are seasonally and trading day adjusted.

From September 2015, in addition to spending at domestic-based merchants in the UK, we also include spending at selected online companies operating outside of the UK that sell items such as clothing, holidays, books, etc. The addition is designed to ensure that we successfully capture changing trends in spending and confidence amongst UK consumers – primary aims of our research.

‘Visa’s UK Consumer Spending Index’ spending by product categories consist of the following standard Classification of Individual Consumption According to Purpose (COICOP) groups:

- **Food, Beverages & Tobacco** Group 1,2
- **Clothing & Footwear** Group 3
- **Housing & Household Goods** Group 4,5
- **Health & Education** Group 6,10
- **Communication & Transport** Group 7,8
- **Recreation & Culture** Group 9
- **Hotels & Restaurants** Group 11
- **Miscellaneous Goods & Services** Group 12

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Our advanced global processing network, VisaNet, provides secure and reliable payments around the world, and is capable of handling more than 65,000 transaction messages a second.

The company’s relentless focus on innovation is a catalyst for the rapid growth of connected commerce on any device.

As the world moves from analogue to digital, Visa is applying our brand, products, people, network and scale to reshape the future of commerce.

For more information, visit (www.visaeurope.com), the Visa Vision blog (vision.visaeurope.com), and @VisaInEurope.

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