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IHS Markit UK Household Finance Index™

Financial wellbeing expectations hit survey-record high in February

Key findings

IHS Markit Household Finance Index rises to 47.6, from 44.6 in January

UK households foresee a solid improvements in financial health over next 12 months

Inflation expectations continue to retreat

Proportion of UK households expecting a Bank of England rate cut rises to 27%

This release contains the February 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 – increased to 47.6 in February, a notable rise from January's 44.6 and the highest index reading since the survey began 11 years ago.

While still below the neutral 50.0 mark, and thus indicative of financial health being under pressure, the rise suggests that the conditions faced by UK households has become less challenging so far in 2020.

Looking ahead, UK households signalled positive expectations towards their financial health. The Future Household Finance Index - which measures expected change in financial health over the next 12 months - rose to 52.7 in February, from 49.6 in January. The level of optimism was at its highest since the data were first collected in February 2009, exceeding the previous peak seen in January 2015.

IHS Markit UK Household Finance Index
sa, 50 = no change in household finances since previous month



Source: IHS Markit.

Financial wellbeing expectations
50 = no change over next 12 months



Source: IHS Markit.

Current house prices
50 = no change since previous month



Source: IHS Markit.

continued...

Workplace activity, income and job security

UK households recorded a lessened degree of pessimism towards their job security during February, with the respective index rising (but remaining below 50.0) to a seven-month high. Meanwhile, the rate of growth in both workplace activity and income from employment accelerated from January.

Living costs and inflation expectations

Helping to alleviate the pressure on current finances was a falling rate of living cost inflation in February. According to latest survey data, the perceived rate of living cost inflation faced by UK households eased to a 40-month low. Inflation expectations were also trimmed in February, easing to their weakest since September 2016.

House prices and expectations

Survey data for the UK housing market moved in a positive direction once again in February. Perceptions of current house prices rose at the strongest rate in almost three years, while house price expectations were at the strongest since August 2018.

Households' views on next move in Bank of England base rate

A continued shift in UK households' interest rate expectations was seen in February. Most notably was the rise in expectations of the Bank of England's next move being an interest rate cut, with the proportion at around 27%, its highest since August 2016.

Household Interest rate expectations

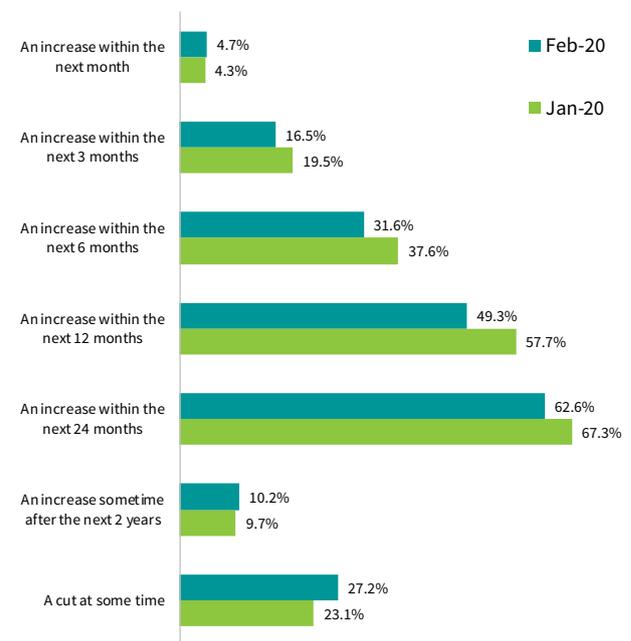
% of households expecting the next Bank of England move to be a rate cut



Source: IHS Markit.

UK households' views on next change in Bank of England base rate*

% of UK households



Source: IHS Markit.

*"The interest rate set by the Bank of England is currently 0.75%. Please let us know when and how you think the Bank will next change interest rates by choosing one of the options below: Please choose one answer."

Comment

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

"Survey data are leading the way for information on the post-election and post-Brexit period in the UK, and our latest Household Finance report signals a number of developments that should keep the Bank of England doves at bay and build optimism towards the UK's immediate economic prospects.

"Living cost perceptions suggests that a further slowing of inflation in the UK is on the horizon. Household inflation expectations were also trimmed, which bodes well for near-term consumer spending prospects given that nominal wages are still robust. A key driving force in 2019, a continuation of this trend will be crucial in 2020 as well.

"Housing market data were also upbeat, with current prices perceived to have risen strongly in February and expectations signalling further growth over the coming year. Less concern towards job security, which was heightened by various uncertainties last year, could also help stimulate demand.

"Post-election survey data so far scores a fairly good chance a first quarter GDP pickup following a flat end to 2019."

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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 gender, region and age to ensure the survey results accurately reflect the true composition of the population. Results are also weighted to further improve representativeness.

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