

Household Finance Index™
MARKET SENSITIVE INFORMATION
EMBARGOED UNTIL: 09:30 (London) October 22nd 2018

IHS Markit Household Finance Index™ (HFI™) – United Kingdom

Household sentiment falls in October despite weakest inflation expectations for two years

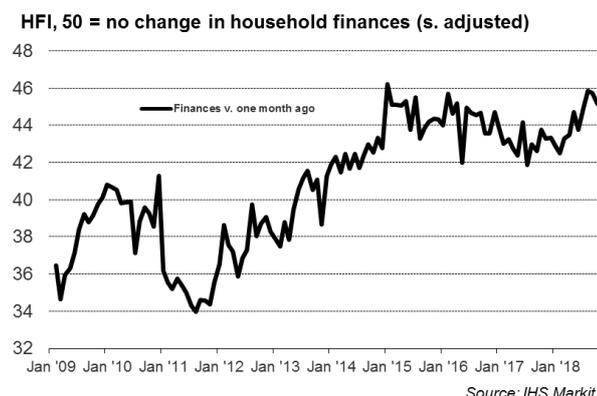
Key points for October 2018:

- Household savings decline amid slower growth in earnings from employment
- Inflation expectations ease to two-year low
- Households least upbeat on property price outlook since July 2016
- Half of UK households expect Bank of England rate rise in coming six months

Data collected October 11th-16th 2018

This release contains the October findings from the **IHS Markit 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 finances



Latest survey data indicated a further deterioration in UK household finances at the start of the fourth quarter. In fact, the headline seasonally adjusted **IHS Markit Household Finance Index (HFI)** – which measures households' overall perceptions of financial wellbeing – declined to 45.1 in October, from 45.7 in September. Although this signalled a

stronger degree of pessimism by UK households towards their current financial situation, it was a relatively low level of negativity compared with the average since 2009.

The more pessimistic tilt since September was partly driven by weaker employment income growth and the resulting squeeze cash availability. However, households boosted spending in October, with survey data suggesting that both savings and unsecured credit were used to facilitate higher expenditure.

Survey respondents were less concerned about job security than in September, while living costs are expected to rise at the weakest rate in two years.

Expectations for finances in the next 12 months

The index measuring year-ahead expectations towards finances fell to 48.5 in October, from 49.2 in September, and therefore pointed to a more subdued judgement for future financial wellbeing. Regional data indicated that the overall fall was driven by those living in the South of England.

Workplace activity, income and job security

Higher levels of workplace activity was signalled by UK households in October. People employed in the retail sector were the least positive, while the strongest sentiment was seen at those working at energy, transport or utilities companies.

Meanwhile, although perceptions regarding job security remained negative, UK households provided the second-least downbeat assessment since the survey's inception in February 2009. The seasonally adjusted index rose to 49.7 in October, from 48.4 last month.

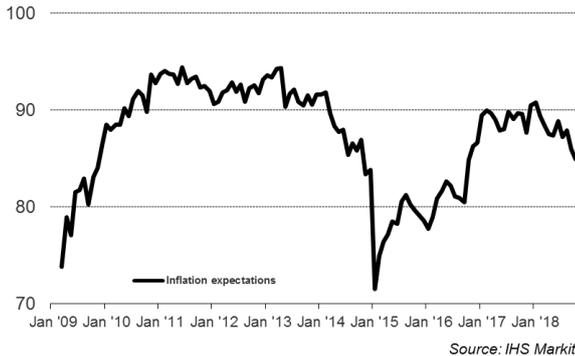
Increased earnings from employment were reported by UK households, bringing the current run of income growth to one year. However, the latest expansion was the weakest since February, which

contributed to a stronger erosion of savings to support household spending.

Living costs and inflation expectations

UK households reported a further steep rise in living expenses in October, but cost pressures eased since September and were the weakest in almost two years. Inflation expectations over a 12-month horizon moderated for the second month running and was the lowest since October 2016.

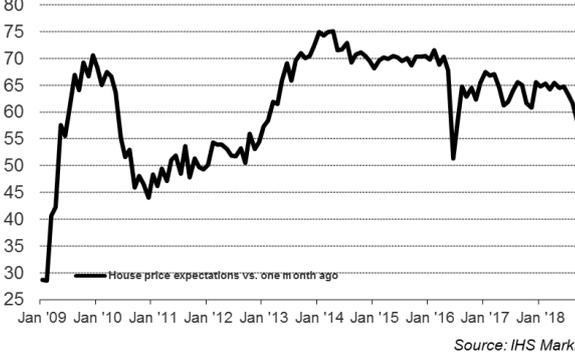
Cost of living expectations, 50 = no change (s. adjusted)



House price expectations drop

UK households are generally projecting higher house prices over the forthcoming 12 months in October, but the degree of optimism regarding property values dipped to the lowest since the immediate aftermath of the EU referendum in July 2016.

House price expectations, 50 = no change (s. adjusted)



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

Latest expectations towards the interest-rate setting behaviour of the Bank of England were little-changed since the September survey. Half of the surveyed UK household anticipate a rate rise in the next six months, and almost three-quarters forecast a hike to come within the next year.

Comment:

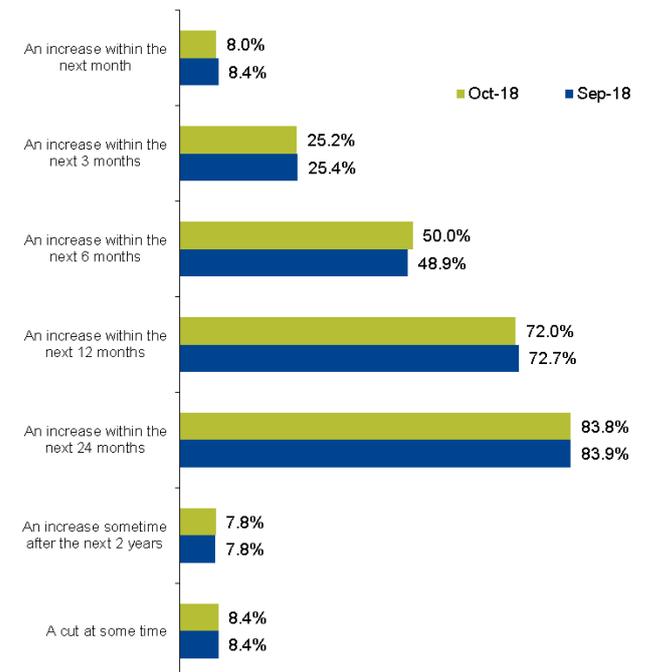
Joe Hayes, Economist at IHS Markit, which compiles the survey, said:

“UK households casted their most downbeat assessment of current finances in three months in October as weaker earnings growth from employment limited cash availability. Looking ahead, households were more concerned about their future budgets. Sentiment may have been impacted by the property price outlook dropping to the least optimistic level since the Brexit vote.

“Nonetheless, the negativity towards current finances was relatively modest. The dip in official UK inflation statistics caught markets off-guard last week, but households surveyed in October by the HFI pared back their inflation expectations to the lowest in two years. Households were also less concerned about job security, encouraging them to use savings and unsecured credit to offset weaker employment earnings.”

-Ends-

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



**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.

Source: IHS Markit

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Note to Editors:

About the HFI

¹ 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.

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 (October survey)

Ipsos MORI interviewed 1500 adults aged 18-64 across Great Britain from its online panel of respondents. Interviews were conducted online between October 11th – 16th 2018. 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.

About IHS Markit (www.ihsmarkit.com)

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