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IHS Markit UK Household Finance Index™

Pressure on household finances eases in July, but spending remains very subdued

Key findings

IHS Markit Household Finance Index maintains its recent rebound from April's low

Household spending index remains far weaker than seen prior to the COVID-19 pandemic

Demand for unsecured credit declines for the first time since the survey began in February 2009

Another steep fall in job security recorded during July

This release contains the July 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 41.5 in July, up from 40.7 in June, the headline seasonally adjusted IHS Markit UK Household Finance Index (HFI) – which measures households' overall perceptions of financial wellbeing – reached its highest level since March.

While any reading below 50.0 is indicative of an overall squeeze on household finances, the latest figure highlighted a continued turnaround from the eight-and-a-half year low seen in April (index at 34.9). Moreover, the headline index was broadly in line with its long-run average of 41.2.

The phased reopening across parts of the UK economy appears to have been a factor supporting household finances in July, with this leading to a slightly improved situation for income from employment and workplace activity in comparison those recorded during the lockdown period.

However, households' financial outlook for the next 12 months was one of the few survey measures to worsen since June, with this index dipping from 45.9 to 42.5 in July. As recently as February, financial wellbeing expectations had been at a

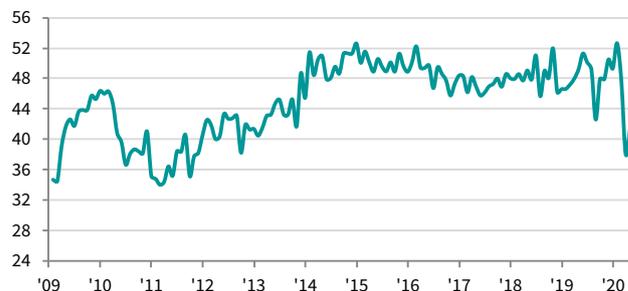
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IHS Markit UK Household Finance Index
sa, 50 = no change in household finances since previous month



Source: IHS Markit.

Financial wellbeing expectations
50 = no change over next 12 months



Source: IHS Markit.

Job security perceptions
50 = no change in job security perceptions since previous month



Source: IHS Markit.

survey-record high of 52.7. This sharp reversal of household sentiment has been overwhelmingly driven by pessimism about job security. Nearly four times as many survey respondents (31%) reported a decline in job security during July as those that indicated an improvement (8%).

Household spending and demand for credit

The relative stability seen for current financial wellbeing in July was achieved in large part by another sharp reduction in household spending. This index registered 41.6 in July, up slightly from 37.8 in June but still much lower than at any time in 11 years of survey data prior to the coronavirus disease 2019 (COVID-19) pandemic.

Households appeared focussed on reining in debt and supporting their savings where possible, according to the latest survey data. As a result, the index measuring demand for unsecured credit fell to 49.3 in July, from 50.1 in June, to signal an overall drop in households' appetite for unsecured borrowing for the first time since the survey began in February 2009.

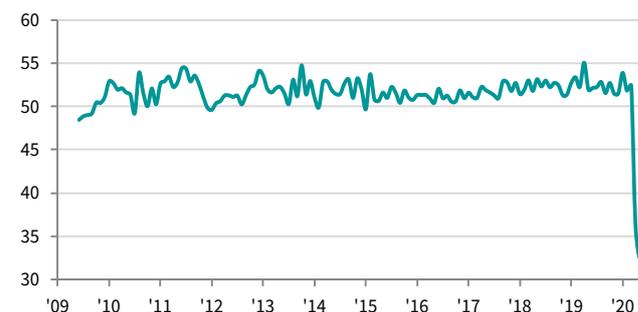
Households' views on next move in Bank of England base rate*

Just under half of surveyed UK households (49%) expect the Bank of England to increase interest rates within the next year, according to our latest data. This was down fractionally since June. Nearly two-thirds expect an increase to come before July 2022.

Meanwhile, around one-in-five households (19%) foresee a cut in interest rates as the next policy change to be made by the Bank of England.

Household spending

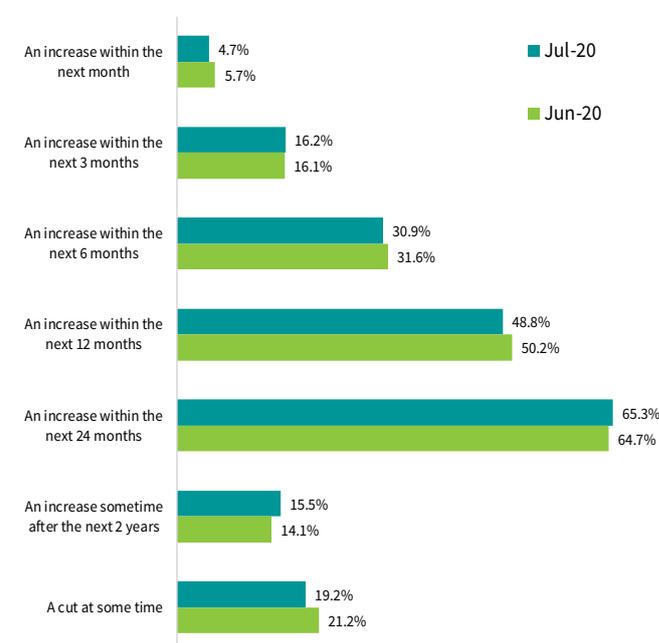
50 = no change in household spending since previous month



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 0.1%. 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

Tim Moore, Director at IHS Markit, which compiles the survey, said:

"July data illustrates that UK households continue to tighten the purse strings despite a phased reopening of the economy and return to work after the lockdown period."

"The survey measure of demand for unsecured borrowing such as personal loans and credit cards has dropped to its lowest mark since the survey began in February 2009, with extremely cautious spending patterns reflecting widespread anxiety about jobs and the outlook for earnings."

"Almost four times as many survey respondents reported a decline in job security as those that saw an improvement in July. Large numbers of households are therefore maintaining the cautious spending habits adopted during the early stages of the pandemic and are now focussed on paying down debt and saving where possible."

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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.

About IHS Markit

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