

# IHS Markit UK Household Finance Index™

## UK household finances remain under severe strain during October

### Key findings

Headline Household Finance Index signals a sharp deterioration, unchanged on the month at 40.8

Households use up more savings as cash availability falls markedly again

Job security perceptions remain negative, albeit the least pessimistic for seven-months

Over a quarter of households expect the Bank of England to cut interest rates at some time

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 seasonally adjusted IHS Markit UK Household Finance Index (HFI) – which measures households' overall perceptions of financial wellbeing – registered at 40.8 in October, to signal another sharp deterioration in the financial situation of UK households. The index was unchanged since September and substantially below the neutral 50.0 value.

Looking ahead, households expect their situation in 12 months to remain relatively gloomy, with the respective forward-looking index still well below the 50.0 threshold. That said, the outlook was the least pessimistic for four months.

### Household spending and demand for credit

October data highlighted a further reduction in the amount of cash available for UK households to spend, with the overall decline still marked, despite easing. Subsequently, spending fell at a quicker rate than in September and the latest survey suggested that households were still using savings to fund some purchasing. The rate of contraction in the level of savings at UK households was little-changed on the month and sharp overall.

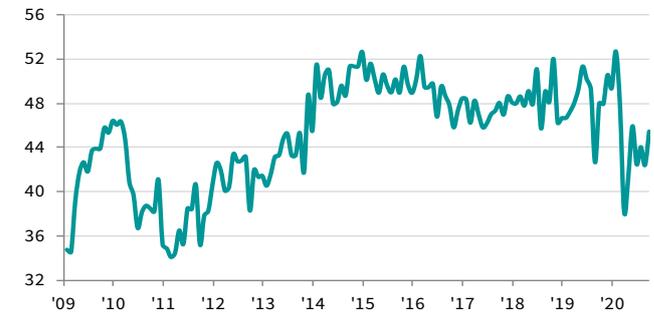
continued...

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.

Incomes from employment  
50 = no change in level of income from employment since previous month



Source: IHS Markit.

A greater proportion of households were also turning to unsecured debt such as credit cards and overdrafts during October. Overall demand for unsecured credit rose to the greatest extent since April. Lenders remained cautious, however, with households reporting a decline in the availability of unsecured credit for the seventh successive month.

### Workplace activity, income and job security

Job security perceptions continued to recover from April's low point, with the respective index climbing to a seven-month high during October. That said, the figure remained well below the 50.0 mark and below the series long-run average, with households still largely pessimistic about their job security.

Incomes from employment followed a similar trend. Although still reducing, the rate of decline in October was the slowest since the current sequence of falling incomes began in April.

In line with lower earnings, falling cash availability and a pessimistic outlook on job security, UK households' appetite for major purchases dropped sharply in October. The rate of reduction quickened on the month, although it was still not as rapid as the unprecedented contractions seen in the spring.

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

Following the Bank of England's decision to keep the base interest rate unchanged, households' views on the bank's next move shifted in October. The proportion of households who anticipate a rate cut at some time rose from 18.7% to over a quarter (26.9%), the highest share since May.

Meanwhile, the proportion anticipating an increase over the next year dropped below half (46.1%). The majority of households (58.8%) still predict a rise within the next 24 months.

### Job Security

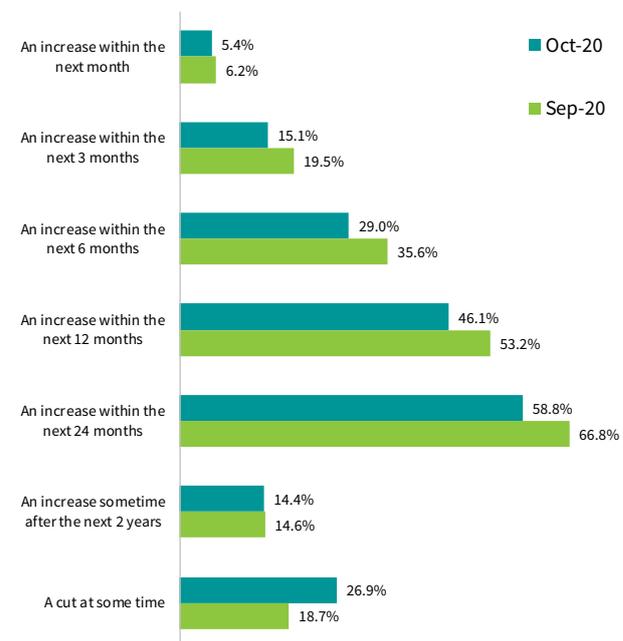
50 = no change in perceptions of job security since previous month



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

Lewis Cooper, Economist at IHS Markit, which compiles the survey, said:

*"October survey data provide little good news, with household finances remaining under severe strain. The overall rate of deterioration did not worsen on the month, but was still sharp overall."*

*"Households reported a fall in the availability of cash, a quicker reduction in their spending, further use of savings and increased demand for unsecured credit, all of which highlight the hardship facing some UK households at present. This again resulted in pessimism with regards to financial wellbeing in 12 months' time."*

*"With new COVID-19 related restrictions introduced, job security perceptions remained negative and incomes from employment fell again in October. Moreover, the measures are likely to have a severely negative impact on household finances, and as such, hopes of a recovery will be on hold until the pandemic is under control and restrictions loosened."*

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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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