Classification: Public

Press Release

The Scottish Widows UK Household Finance Index™ (HFI™) is compiled each quarter by IHS Markit, using original monthly survey data collected by Ipsos MORI from a representative sample of 4,500 UK households.

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# UK HOUSEHOLDS PAY DOWN DEBT THROUGH WINTER LOCKDOWN

- **Job security perceptions least downbeat since start of pandemic**
- **Households pay down debt at fastest rate since the survey began in Q1 2009**
- **One in five households saved less for retirement in Q1**

Squeezed savings, lower income from employment and less cash available to spend kept UK household finances under pressure in the opening quarter of 2021 despite greater efforts to pay down debt, according to the Scottish Widows UK Household Finance Index (HFI).

The headline seasonally adjusted index – which measures households' overall perceptions of financial wellbeing – registered 42.0 in Q1, up from 41.1 in Q4 2020. Although still well below the neutral 50.0 value, this change signalled the slowest deterioration in UK household finances since the start of the pandemic.

Monthly data highlighted an increase in resilience over the course of the first quarter, as the headline HFI index gained momentum in both February and March. This provided positive signals that household sentiment has been buoyed by the roadmap for easing COVID-19 restrictions.

While the UK is set to emerge from lockdown in the coming months, the outlook for finances over the year ahead remained downbeat and worsened slightly since Q4 2020.

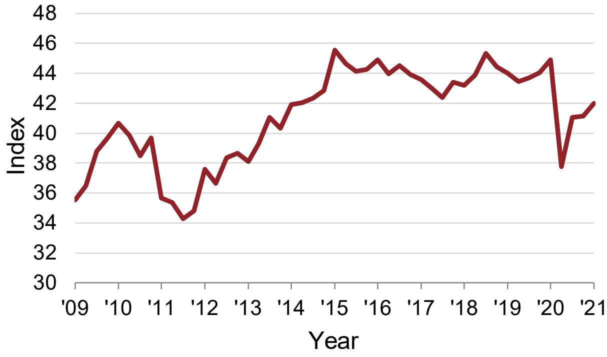
**Jackie Leiper, Pensions, Stockbroking & Distribution Director, Scottish Widows, said:**

"Families' finances remained under pressure as lockdown continued, with shrinking income from employment, higher living costs and a continued squeeze on cash.

"However, the glimmer of hope is that the latest dip in overall financial wellbeing was the slowest since the start of the pandemic, as people focused on paying down existing debt, which saw the quickest fall since the survey began in 2009. This was also supported by a desire to build financial resilience, as saving for an emergency or rainy day was the biggest priority for households in Q1 despite one in five saving less for retirement in the same period.

**Scottish Widows UK Household Finance Index**

sa, >50 = improvement since previous quarter




Sources: Scottish Widows, IHS Markit.

"With a clearer roadmap towards the lifting of restrictions and opening up of sectors forced to pull the shutters down over the past 12 months, attitudes towards major purchases continued to lift from the record lows of last spring. While expected pent up demand as hospitality and travel sectors gear up for reopening and people look forward to doing things again, it's important not to lose momentum on building financial resilience for the long term."

**Planning for and protecting the future**

The index highlighted a sustained squeeze on the longer-term drivers of financial wellbeing during the first quarter of the year. Around one in five (20%) of UK households saved less for retirement during Q1, while 18% would have withdrawn from their pension funds given the chance, down slightly from the previous quarter (19%).

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UK households' savings were focused around having enough cash for emergencies or a rainy day. It was a priority for a third of respondents and topped the savings list amidst uncertainty surrounding the pandemic and falling incomes from employment. The other key savings priorities were holidays (29%), home improvements (22%), retirement (20%), and buying a property (20%).

Heightened economic uncertainty continues to highlight concerns around financial resilience among UK families, with, one in 10 households having no savings at all, and around a third (31%) only having enough savings to cover essentials for up to three months.

Despite this, only just over a third (36%) of households have life insurance, and a further 11% are planning to take out cover in the next two years. A much smaller proportion are currently protected financially for critical illness (17%), and just over one in 10 (12%) have mortgage protection. Looking at sudden loss of income, just 18% have, or plan to take out income protection to sure up their spending.

**Workplace activity, income and job security**

Income from employment continued to decline in the first quarter of 2021, according to the latest survey data, as another national lockdown forced cuts in working hours and continued furlough. The rate of decline was the second-fastest since data collection began in early 2009, slower only than Q2 2020.

The appetite for major purchases such as cars and holidays, fell at the slowest rate since Q1 2020, while the quarter-on-quarter rise was the largest across all survey measures, suggesting a more secure near-term outlook amid the planned easing of restrictions. Those aged 55 to 64 (the oldest age group tracked by the survey) were the most positive towards this type of spending.

In line with lower incomes, UK households more broadly remained concerned about job security in the first quarter of 2021, although this view was much less downbeat than at the end of 2020, and the index was the highest for one year.

At the same time, workplace activity decreased at a faster pace in Q1 2021 according to surveyed households, despite the quarterly decline masking a slight improvement in March.

**Household finances**

Despite a continued drop in the amount of cash UK households have available to spend, the pace of reduction slowed very slightly, with a clear divergence between higher and low income households. Meanwhile, households continued to deplete their savings into 2021, although overall this has moderated since the previous quarter, while the latest fall in overall debt was the fastest in the twelve-year series history.

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**Notes to editors**

**Survey 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 quarter 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. 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 quarterly averages, calculated from the percentages of respondents reporting an improvement, no change or decline in each month. 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 (Quarter one 2021 surveys)**
Ipsos MORI interviewed 4500 adults aged 18-64 across Great Britain from its online panel of respondents. Interviews were conducted online between, January 14th - 17th, February 11th - 13th and March 4th - 6th 2021. A representative sample of 1500 adults was interviewed in each period, 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 Scottish Widows**
Founded in 1815, Scottish Widows is part of Lloyds Banking Group, the UK's largest digital bank and financial services group. With around £160bn assets under administration and [almost 6] million customers, Scottish Widows' award-winning product range includes workplace and individual pensions, annuities, life cover, critical illness, income protection as well as savings and investment products. Customers can access our products and services through independent financial advisers, directly, and through all Lloyds Bank, Bank of Scotland and Halifax branches.

The content of this news release is intended for information only and should not be relied upon for making investment decisions. Pensions are a long-term investment. The retirement benefits you receive from your pension plan will depend on a number of factors, including the value of your plan when you decide to take your benefits, which isn't guaranteed and can go down as well as up.

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**About IHS Markit**
IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.