News Release

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IHS Markit UK Household Finance Index™

Household finances remain under severe pressure in May

Key findings

IHS Markit Household Finance Index creeps up slightly to 37.8, from 34.9 in April

Incomes from employment deteriorate at fastest rate on record

Job security perceptions remain highly pessimistic

Household spending falls at a survey-record pace in May

This release contains the May 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 – recorded 37.8 in May, up only slightly from April's eight-and-a-half year low of 34.9. While the headline number did rise, it remained among the worst seen since the survey's inception in 2009 and signalled a further sharp deterioration in the financial health of UK households.

There was also a small rise in the Future Household Finance Index, although the figure remained indicative of a strong degree of pessimism towards the outlook for financial health.

Workplace activity, income and job security

UK households reported a further severe decline in workplace activity during May. The rate of decrease was unchanged from April's survey record, with those employed in media, culture or entertainment sectors signalling the sharpest decline in activity.

Incomes from employment fell drastically and at an accelerated

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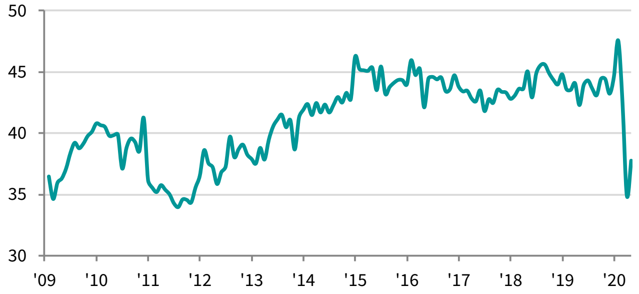
IHS Markit UK Household Finance Index

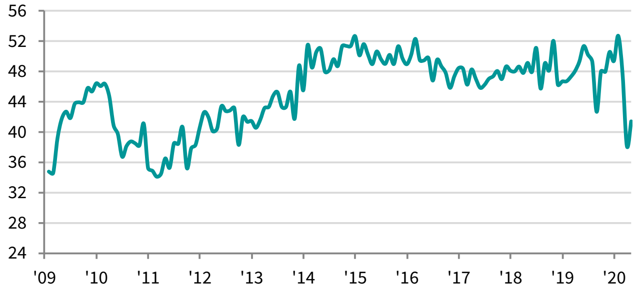
sa, 50 = no change in household finances since previous month



Source: IHS Markit.

Financial wellbeing expectations

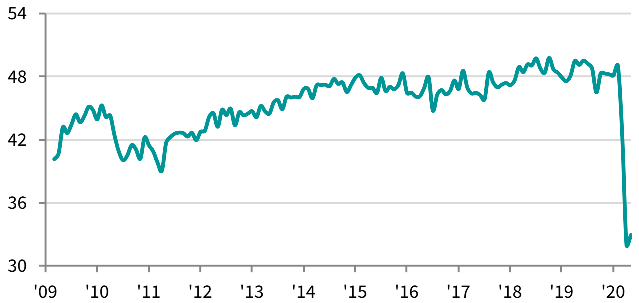
50 = no change over next 12 months



Source: IHS Markit.

Job security perceptions

50 = no change in job security perceptions since previous month



Source: IHS Markit.

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rate during May. Overall, the decline in incomes was the sharpest ever seen since data collection began in February 2009. Prior to April, the strongest decline was seen in March 2009, although the two most recent drops in incomes outpaced this by a wide margin.

Job security perceptions sank into deep pessimistic territory in April, and latest data revealed that perceptions remained at this level during May. Detailed data indicated that the negative job security outlook was broad-based across all industries.

That said, as was also the case in April, there were little signs of stress on household balance sheets despite a further strong deterioration in earnings. Debt levels held stable once again, while unsecured lending needs rose only slightly. The avoidance of rising consumer borrowing was largely achieved through a rapid drop in household spending, with this index falling to a survey-record low in May. More than half of all survey respondents (51%) reported a drop in household spending since April, with falling expenditure most widespread in the highest income brackets.

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

There were no significant changes in UK households' outlook on interest rates during May, although there was a slight pick-up in the proportion that anticipate the next move by the Bank of England to be an interest rate cut.

Overall, the majority of UK households expect the Bank of England to increase interest rates, with most expecting this happening within the next 2 years.

Comment

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

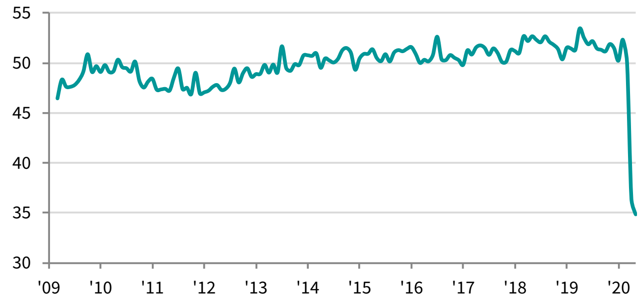
"It is unsurprising to see further woe for UK households in May, with our UK Household Finance Index revealing that finances remained under severe pressure. The financial toll of the coronavirus pandemic and the consequent public health measures has been heavy, with recent survey data showing unparalleled declines in workplace activity and incomes from employment.

"It is also disconcerting to see so many survey respondents indicating concern towards job security, which could have a significant impact on consumer spending if the negative economic impact of the pandemic is protracted.

"Nevertheless, there still appears to be little stress on household balance sheets, although this partly reflected a survey-record slump in household spending during May. Debt levels were broadly unchanged and unsecured lending needs such as credit cards barely rose. The concern for the household sector remains the labour market, which will be vital in determining the speed at which consumer spending can return once the economy emerges from the lockdown."

Income from employment

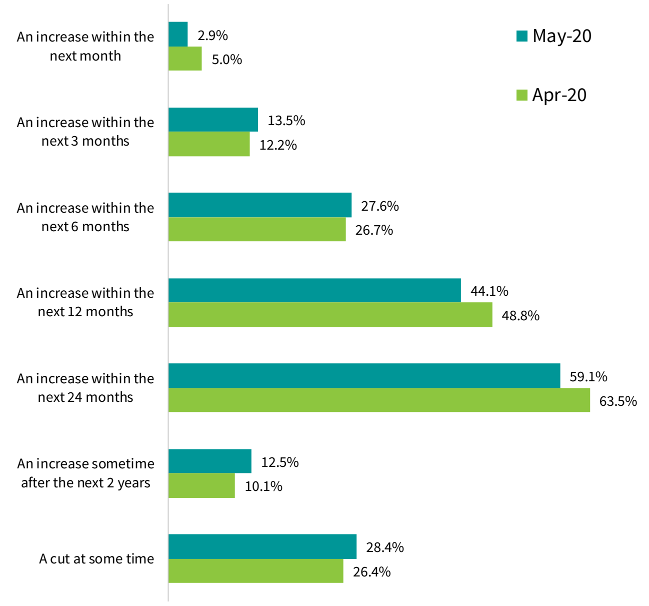
50 = no change in income from employment since previous month



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."

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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.

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 (May survey)

Ipsos MORI interviewed 1500 adults aged 18-64 across Great Britain from its online panel of respondents. Interviews were conducted online between May 7th – 10th 2020. 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

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