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IHS Markit UK Household Finance Index™

Financial health deteriorates despite slowest rise in living costs since November 2018

Key findings

UK Household Finance Index dips to three-month low of 43.2 in November

Appetite for major purchases decreases at sharper rate

Tentative signs of improving outlook as financial health expectations turn positive

Living cost inflation eases to 13-month low

This release contains the December 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 – fell to a three-month low of 43.2 in December, down from 44.4 in November. This signalled a further deterioration UK households' perceptions towards their current financial health.

However, the current assessment contrasted with UK households' outlook towards their finances over the coming 12 months, with latest survey data showing renewed optimism towards the year ahead. Although expectations of improved financial wellbeing were only marginally positive, they were the strongest since July.

Workplace activity, income and job security

As has been the case for over three years, UK households reported greater levels of activity at their workplaces in December. The rise was solid overall and slightly stronger than seen in November. Incomes from employment also grew

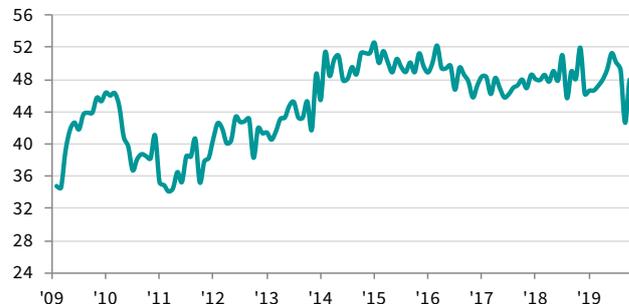
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IHS Markit UK Household Finance Index
sa, 50 = no change in household finances since previous month



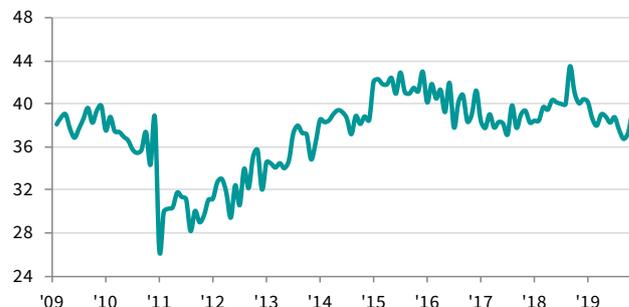
Source: IHS Markit.

Financial wellbeing expectations
50 = no change over next 12 months



Source: IHS Markit.

Appetite for major purchases
50 = no change since previous month



Source: IHS Markit.

further, although the rate of increase was modest and eased since November.

On a less positive note, latest survey data highlighted that UK households were concerned about their job prospects, with job security perceptions deteriorating in December. However, the respective index was above its long-run average and unchanged for a third successive month. Appetite for major purchases also decreased at a faster rate in December.

Living costs and inflation expectations

Strains living costs was signalled by the latest survey data, with UK households reporting continued inflationary pressures. However, the increase slowed for a third month in a row and was the softest since November 2018. That said, living cost expectations remained in strong inflationary territory.

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

With regards to interest rate expectations, UK households shifted slightly towards anticipating faster monetary policy tightening in December.

An increased proportion of UK households at the three-, six-, 12- and 24-month time horizon anticipate the next Bank of England move will be a rate rise. Approximately 60% expect a rate rise within 12 months will be the next policy move.

UK households also trimmed their expectations of a rate cut, with the proportion down to 19%, from as high as 26% in October.

Living cost perceptions

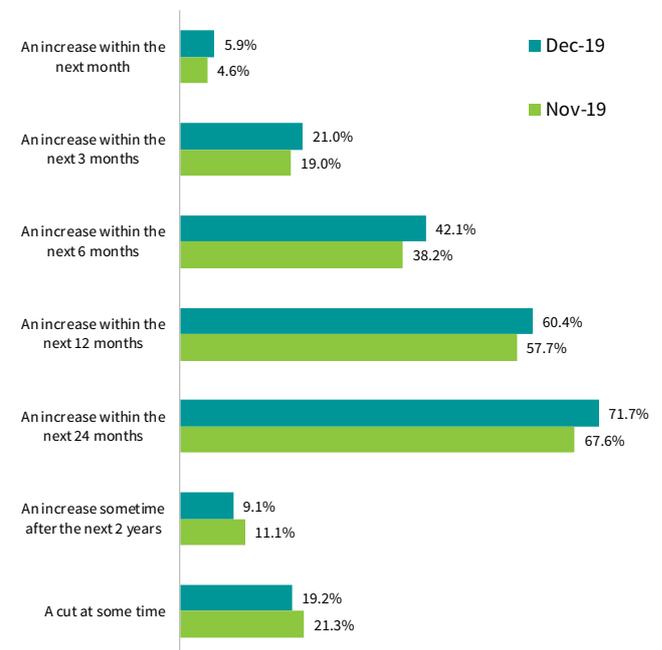
50.0 = no change since previous month



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 0.75%. 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."

Comment

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

"Latest survey data from UK households presented a mixed bag. On the one hand, we're still seeing current finances deteriorate, appetites for major purchases falling and concerns about job security.

"On the other hand, however, living cost inflation eased, workplace activity rose solidly and future financial wellbeing is expected to improve over the next 12 months.

"Some improvement in future finances could be households pre-empting improvements stemming from a new government, particularly if uncertainties which have dented consumer confidence lift in the new year. Nevertheless, expectations were still only marginally positive at best, suggesting that prospects for UK households still hang in the balance."

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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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