IHS Markit UK Household Finance Index™

Strain on household finances intensifies in August

Key findings

IHS Markit Household Finance Index dips from 41.5 to 40.8 in August

Incomes from employment drop sharply again, while job security perceptions remain pessimistic

Households continue to cut back on spending

Renewed increase in demand for unsecured credit

This release contains the August 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 from 41.5 in July to 40.8 in August, signalling a further, slightly sharper, deterioration in the financial situation of UK households.

Looking into the future was just as gloomy, as households in the UK remained highly pessimistic of their financial wellbeing over the coming 12 months. The respective index gained only one-and-a-half points from July and remained firmly below the 50.0 neutral mark, signalling that UK households anticipate their finances will have worsened by August 2021.

Household spending and demand for credit

Caution surrounding non-essential expenditure continued in August, with UK households recording a further reduction in their overall spending. The rate of decline did ease from July, but was still sharp. This was not helped by falling cash availability, with the latest survey data highlighting a marked reduction in

continued...
the amount of cash available to UK households.
Subsequently, the survey measure regarding the need for unsecured borrowing returned above the 50.0 no-change mark in August, indicating that households were again expanding credit facilities such as overdrafts and credit cards.

Workplace activity, income and job security
August data highlighted another reduction in income received from employment, with the latest decline sharp, despite easing further from May’s record drop. Troublingly for the UK economic outlook, the survey measure of job security perceptions was also negative amid the ongoing COVID-19 pandemic and a substantial number of redundancies. Although the least downbeat for five months, households were still more pessimistic regarding their job security than at any other time since April 2011.

With some businesses still impacted by lockdown measures, or yet to fully reopen, workplace activity declined further in August according to UK households. Mirroring the fall in job security, the latest decline was the softest registered since the downturn began in March.

Households’ views on next move in Bank of England base rate*
Just under two-thirds of survey respondents (62.6%) expect interest rates to increase by August 2022, according to the latest survey data. This was slightly down from July’s 65.3%, whereas the proportion who anticipate higher interest rates within the next year was broadly unchanged at (48.9%).

Meanwhile, despite the record low Bank of England base rate at present, over one fifth (20.9%) of UK households surveyed in August predict another rate cut at some time.

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

“The latest survey data highlight a continued strain on the finances of UK households, with the headline figure dipping in August as pressure intensified slightly. The 12-month outlook for finances remained highly negative amid substantial uncertainty surrounding the economic impact of the COVID-19 pandemic.

“Incomes from employment fell sharply again, while the survey measure of job security perceptions remained firmly in negative territory as the winding down of the government’s furlough scheme looms.

“Overall, the data hint at some worrying trends when put in the context of the significant recession facing the UK. Although lockdown measures are looser; households are spending less, earning less and unsure about their jobs, all of which has the ability to add severe friction to the pace of the economic recovery.”

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.”
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 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 population. Results were 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 (August survey)

Ipsos MORI interviewed 1500 adults aged 18-64 across Great Britain from its online panel of respondents. Interviews were conducted online between August 6th – 9th 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.

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