

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.

Embargoed until 0001hrs (UK) Wednesday 12 January 2022

RISING LIVING COSTS ERODE HOUSEHOLD FINANCES AT FASTEST PACE SINCE THE START OF THE PANDEMIC

- **Fastest fall in UK household financial wellbeing since Q2 2020**
- **23% of households would have withdrawn from their pension pot if possible**
- **Cash available to spend drops at strongest rate for almost eight years**

UK households saw their financial wellbeing deteriorate at the fastest rate since the second quarter of 2020 during Q4, according to the latest **Scottish Widows Household Finance Index**, as surging living costs hit people's pockets and led to the steepest fall in cash availability since the start of 2014.

The Index, which measures households' overall perceptions of financial wellbeing, fell from 44.0 in Q3 to 40.1 in the final quarter of 2021, as household savings were squeezed to the greatest extent since Q4 2013. The latest survey also revealed a slight reduction in income from employment.

Worries about the impact of inflation meant that households were increasingly pessimistic towards their future finances over the course of 2022, with the respective seasonally adjusted index down from 49.2 to 43.8. In fact, sentiment was the most downbeat since the third quarter of 2020. Expectations in December were downgraded particularly sharply amid fears surrounding the new omicron COVID-19 variant.

Planning for and protecting the future

Survey data covering UK households' plans for the future highlighted that around 2 in 5 households (41%) were saving for emergencies during Q4, up noticeably from 1 in 3 (34%) in the first quarter of 2021. Other savings priorities were holidays/travelling (26%) and retirement (20%), although the former dropped from 29% at the start of 2021. Meanwhile, only 14% of UK households reported that they were regularly saving more for their retirement during the fourth quarter compared with a year ago, and 22% said less.

Unexpected expenses continue to impact some households' cash flow. One in five (20%) of those surveyed during Q4 reported that they had faced unexpected expenses in the last month, while 14% had seen their household income decline. At the same time, nearly a quarter (23%) of UK households said they would have been likely to withdraw money from their pension if they could have, rising to 27% for those aged between 35 and 44, highlighting a continued impact on some households' financial resilience from the pandemic.

Emma Watkins, Managing Director of Retirement and Longstanding, Scottish Widows said:

"It was a challenging end to another year dominated by the coronavirus pandemic for UK Households as rising living costs pinched the pockets of people in the fourth quarter, causing finances to deteriorate at the fastest rate since Q2 2020. With inflation soaring into the new year and cash availability at its lowest since 2014, households' expectations of future financial wellbeing were the most downbeat since the third quarter of 2020.

"As a result, the strain on current finances has had a knock-on effect to future financial planning. One in five are not currently saving any money, slightly up from the same time last year, and almost a quarter would now consider withdrawing from their pension early if it was possible. With the emergence of the Omicron variant adding to uncertainty, households will undoubtedly be hoping that the impact to their finances is modest as we enter 2022."

Scottish Widows UK Household Finance Index

sa, >50 = improvement since previous quarter



Sources: Scottish Widows, IHS Markit.

Workplace activity, income and job security

While UK households reported further growth of workplace activity during the final quarter of the year, many experienced a fresh reduction in income from employment, reversing the marginal gains in the prior quarter.

Worries surrounding job security intensified, particularly in December as a result of the Omicron variant, with sentiment the weakest since Q1 2021.

Household finances

As rising living costs hit household budgets, pressure intensified on people's saving and disposable income with both declining quicker than at any time in over the past 7 years. Only the highest earners added to their short-term saving pots during Q4, with lower earners struggling to put money aside.

At the same time, UK households recorded a renewed increase in demand for unsecured credit, such as overdrafts and credit cards, while reporting that their availability had declined at the fastest rate since the start of this year.

Contact

Scottish Widows

James Birch

Media Relations

Telephone: 07786 074 642

Email: james.birch@loydsbanking.com

IHS Markit

Lewis Cooper

Economist

Telephone +44 1491 461 019

Email: Lewis.Cooper@ihsmarkit.com

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 the UK, 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 four 2021 surveys)

Ipsos MORI interviewed 4500 adults aged 18-64 across the UK from its online panel of respondents. Interviews were conducted online between, October 21st – 25th, 11th – 17th November, and 2nd – 6th December 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 UK 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 £170bn assets under administration and 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.

Whilst every effort is made to ensure the content of this news release is accurate at the time of publication, Scottish Widows Ltd disclaims liability for any losses, disputes or claims which may arise as a result of the use of this information.

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.

IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates. All other company and product names may be trademarks of their respective owners © 2022 IHS Markit Ltd. All rights reserved.

The intellectual property rights to the HFI provided herein are owned by or licensed to IHS Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit's prior consent. IHS Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall IHS Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Household Finance Index and HFI are either registered trademarks of Markit Economics Limited or licensed to Markit Economics Limited. IHS Markit is a registered trademark of IHS Markit Ltd.