Consumer spending declines at quickest rate since October 2012

Headline Findings:

- **Consumer spending** falls -2.3% on the year, after -1.2% drop in August
- Expenditure falls through both **Face-to-Face** (-4.5%) and **eCommerce** (-0.6%) channels
- Majority of broad spending categories record lower expenditure, led by **Clothing & Footwear** (-7.5%)

Visa’s UK Consumer Spending Index, compiled by IHS Markit, showed that household spending continued to decline during September. The rate of contraction quickened from -1.2% year-on-year in August to -2.3% at the end of the third quarter, to signal the steepest drop in expenditure since October 2012. The latest reduction extended the current downward trend to 12 months.

Spending also fell on a quarterly basis (-0.3%), but rose slightly when compared to the previous month (+0.2%).

Channel data showed the reduction in expenditure was broad-based, with declines seen in both Face-to-Face and eCommerce categories. Face-to-Face recorded the quickest drop in spend since April 2018 (-4.5% on the year). Meanwhile, expenditure via eCommerce channels fell at a similar pace to that seen in August (-0.6%).

(Continues overleaf)

Annabel Fiddes, Principal Economist at IHS Markit, said:

“The latest Visa CSI data showed that UK consumer spending continued to decline in September, to round off the worst quarterly performance since 2012. Heightened uncertainty regarding the path to Brexit and concerns over the resilience of the economy have likely been the main factors dampening household confidence and expenditure, and there are no clear signs that this will improve any time soon.

“The high street remained a key source of weakness, which saw spend fall 4.5% on an annual basis in September, as expenditure fell at a notably softer rate through eCommerce (-0.6%).”

Adolfo Laurenti, European Principal Economist, Visa, commented:

“Consumer spending suffered another setback in September as the decline in spend accelerated to -2.3% year-on-year, after slipping -1.2% in August. The weakness appears to be broad based, affecting both Face-to-Face (-4.5%) and eCommerce (-0.6%). This is the second consecutive month in which we report a drop in eCommerce.

“Weakness was consistent across the spending categories, with declines in six of the eight categories we track. Hotels, Restaurants and Bars, and Recreation & Culture were the only categories to buck the downward trend last month. It appears that retail ended the summer on a subdued tone, despite some still favourable readings on employment and wages. The British consumer has yet to gain a stronger footing in terms of confidence, although hopes remain in place for a turnaround in the autumn.”
Visa’s UK Consumer Spending Index

(Continued from page 1)

Six of the eight broad spending categories registered reduced expenditure during September. The steepest reduction was once again seen in Clothing & Footwear, which saw the sharpest decline in nearly two years (-7.5%). Household Goods (-5.5%) meanwhile saw the quickest fall in spend since April 2018, while the drop in Transport & Communication categories (-6.7%) was the fastest for a year-and-a-half.

The two sectors that registered higher expenditure signalled relatively subdued increases in the context of historical data. Notably, Recreation & Culture saw only a slight expansion (+0.4% on the year), while spending growth slowed across Hotels, Restaurants & Bars to +2.7%.

ECommerce and Face-to-Face Spend
Data broken down by channel showed that expenditure fell across both Face-to-Face and eCommerce categories at the end of the third quarter.

Face-to-Face expenditure has now decreased in 11 of the past 12 months. The pace of reduction quickened from August, declining by -4.5% on an annual basis in September, which was the steepest fall seen in this category for nearly one-and-a-half years.

ECommerce meanwhile posted a fall in spending for the third time in the past four months. Expenditure through this channel declined -0.6% on the year in September, which was little-changed from August (-0.5%).

Spending by Sector
Visa’s UK Consumer Spending Index monitors eight broad sectors. Summary data for annual growth rates in July, August and September, which are not adjusted for seasonality and trading days, are provided in the table opposite.

The majority of broad spending sectors saw expenditure fall on an annual basis during September. The quickest drop was seen for Clothing & Footwear retailers, where the rate of reduction was the most marked since October 2017. Spending also declined sharply in Misc. Goods & Services, Transport & Communication and Household Goods categories. A renewed fall in expenditure was meanwhile seen at Food & Drink retailers, which has now recorded lower spend in six of the past ten months.

After stagnating in August, expenditure in Recreation & Culture categories rose only slightly in September. Hotels, Restaurants & Bars extended its current run of growth to eight-and-a-half years, though the rate of expansion softened since August.

UK CSI: eCommerce vs Face-to-Face*
Annual % Change

<table>
<thead>
<tr>
<th>Broad Sector</th>
<th>Jul’19</th>
<th>Aug’19</th>
<th>Sep’19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food, Beverages &amp; Tobacco</td>
<td>-2.8%</td>
<td>+1.0%</td>
<td>-2.5%</td>
</tr>
<tr>
<td>Clothing &amp; Footwear</td>
<td>-5.4%</td>
<td>-6.2%</td>
<td>-7.5%</td>
</tr>
<tr>
<td>Household Goods</td>
<td>+0.5%</td>
<td>-2.8%</td>
<td>-5.5%</td>
</tr>
<tr>
<td>Health &amp; Education</td>
<td>+0.1%</td>
<td>-2.2%</td>
<td>-2.1%</td>
</tr>
<tr>
<td>Transport &amp; Communication</td>
<td>-3.1%</td>
<td>-3.3%</td>
<td>-6.7%</td>
</tr>
<tr>
<td>Recreation &amp; Culture</td>
<td>+0.1%</td>
<td>0.0%</td>
<td>+0.4%</td>
</tr>
<tr>
<td>Hotels, Restaurants &amp; Bars</td>
<td>+1.4%</td>
<td>+4.3%</td>
<td>+2.7%</td>
</tr>
<tr>
<td>Misc. Goods &amp; Services</td>
<td>-0.9%</td>
<td>-3.7%</td>
<td>-7.0%</td>
</tr>
</tbody>
</table>

Annual Growth Rates By Sector
Data not adjusted for seasonality and trading days

*Data not adjusted for seasonality and trading days
Official Data Comparisons

Annual percentage changes in Visa’s UK Consumer Spending Index have a good relationship with a number of official data series, such as Gross Domestic Product (GDP) from the Office for National Statistics (ONS).

More recently, Visa’s UK Consumer Spending Index (CSI) data have successfully pointed to softer economic growth and expenditure trends.

CSI data for September rounded off a disappointing third quarter, with expenditure falling on an annual basis for the twelfth month in a row. Notably, the latest drop in spend marked the weakest quarterly performance since Q4 2012. This suggests that official data regarding GDP and household spending, which both softened in Q2 2019, could also disappoint in Q3.

Weaker expenditure trends coincided with relatively subdued consumer confidence in the UK. Data published by the European Commission show that consumer confidence remains stuck close to its lowest since 2013.

At the same time, the IHS Markit/CIPS UK Purchasing Managers’ Index (PMI) surveys, which cover services, manufacturing and construction, showed a renewed fall in output during September as political and economic uncertainty continues to dampen business activity.

The labour market remains a bright spot, with historically low unemployment and rising wages. However, total job vacancies have steadily fallen since the start of the year.

Visa’s UK Consumer Spending Index uses card transaction data to provide a robust indicator of total consumer expenditure across all payment methods and is used by a range of stakeholders to gain insights into consumer spending, including HM Treasury. It is based on spending on all Visa debit, credit and prepaid cards which are used to make an average of over 2.3 billion transactions every quarter and account for £1 in £3 of all UK spending.

Visa’s card spending data figures are adjusted for a variety of factors such as card issuance, changing consumer preferences to pay by card rather than cash and inflation. These adjustments mean that these data are distinct from Visa’s business performance and the Index reflects overall consumer spending, not just that on cards.

Further information:

Ian Burge, Visa
Tel: +44 (0) 203 144 2196
Email: burgei@visa.com

Sources for Charts: Visa, ONS, European Commission
NSA: Non-Seasonally Adjusted, SA: Seasonally Adjusted
Utilising Visa’s unique position at the heart of the payments ecosystem – with £1 in every £3 spent in the UK on a Visa card – Visa’s UK Consumer Spending Index is designed to provide a monthly assessment of underlying consumer spend patterns in the UK economy. The Index is based on data for all Visa debit, credit and prepaid cards held by UK cardholders, with a number of adjustments made to ensure an accurate indication of consumer spending trends is provided.

First, the data are cleaned to remove any spending on items that are not ordinarily classified as consumer expenditure (such as spending on savings products or taxes). Moreover, refunds and cashback are also accounted for at this stage. Second, the data are deflated by changes in the number of active Visa cards in order to account for the expansion of Visa’s card operations, particularly on the debit side. Thirdly, an adjustment is made to offset changing consumer preferences for card usage. This is based on data on payments at terminals and cash withdrawals sourced from a report published by the ECB. Fourthly, to account for inflation, the data are deflated by changes in the consumer price index to provide an indicator of real changes in household spending. Finally, the headline data are seasonally and trading day adjusted.

From September 2015, in addition to spending at domestic-based merchants in the UK, we also include spending at selected online companies operating outside of the UK that sell items such as clothing, holidays, books, etc. The addition is designed to ensure that we successfully capture changing trends in spending and confidence amongst UK consumers – primary aims of our research.

‘Visa’s UK Consumer Spending Index’ spending by product categories consist of the following standard Classification of Individual Consumption According to Purpose (COICOP) groups:

- Food, Beverages & Tobacco Group 1,2
- Clothing & Footwear Group 3
- Housing & Household Goods Group 4,5
- Health & Education Group 6,10
- Communication & Transport Group 7,8
- Recreation & Culture Group 9
- Hotels & Restaurants Group 11
- Miscellaneous Goods & Services Group 12

Visa Inc. (NYSE: V) is the world’s leader in digital payments. Our mission is to connect the world through the most innovative, reliable and secure payment network - enabling individuals, businesses and economies to thrive.

Our advanced global processing network, VisaNet, provides secure and reliable payments around the world, and is capable of handling more than 65,000 transaction messages a second.

The company’s relentless focus on innovation is a catalyst for the rapid growth of connected commerce on any device.

As the world moves from analogue to digital, Visa is applying our brand, products, people, network and scale to reshape the future of commerce.

For more information, visit (www.visaeurope.com), the Visa Vision blog (vision.visaeurope.com), and @VisaInEurope

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 © 2019 IHS Markit Ltd. All rights reserved.