

IHS Markit UK Household Finance Index™

Pressures on current finances ease as headline index hits one-year high

Key findings

UK Household Finance Index rises to 12-month high in January

Living costs continue to rise at an historically weak rate

Households report deteriorating appetite for major purchases

Almost one-in-four UK households expect Bank of England to cut rates as their next policy move

This release contains the January 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 – increased to 44.6 in January, from 43.2 in December, its highest mark in 12 months and indicative of an easing of pressure on UK household finances.

In contrast, the index measuring future financial wellbeing expectations moved in the opposite direction, dipping back into mild negative territory in January following December's renewed bout of optimism.

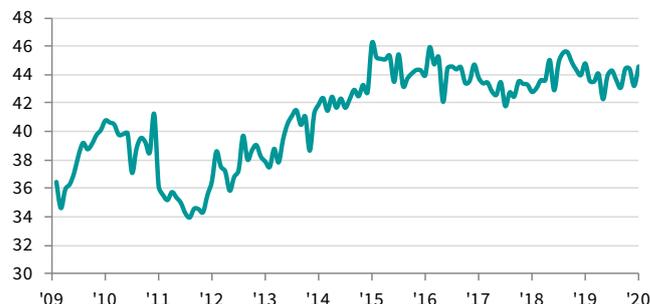
Workplace activity, income and job security

Other positives emerged from the latest survey, with workplace activity and incomes from employment both continuing to grow in January. That said, rates of expansion softened in both cases.

Meanwhile, as has been the case for a year-and-a-half, the perceptions of job security remained downbeat during the latest survey period.

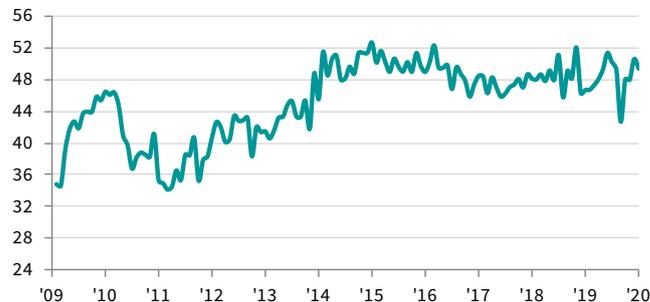
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IHS Markit UK Household Finance Index
sa, 50 = no change in household finances since previous month



Source: IHS Markit.

Financial wellbeing expectations
50 = no change over next 12 months



Source: IHS Markit.

Living cost perceptions
50 = no change since previous month



Source: IHS Markit.

Living costs and inflation expectations

Easing pressure on current finances came in tandem with softer living cost inflation in January. According to latest survey data, UK households reported the joint-lowest increase in expenses since October 2016. A similar trend was seen regarding inflation expectations, which weakened in January to their lowest for over a year.

House prices and expectations

UK households' expectations towards house prices improved notably during January, with optimism strengthening to a 16-month high. Furthermore, current prices ticked up at the strongest pace since last July, according to survey respondents.

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

When polled on their expectations for the next change in Bank of England interest rate policy, there was some evidence of UK households shifting their views in January.

According to latest survey data, close to one-in-four (23%) predict the next interest rate change will be a decrease. This was up from 19% in December and the highest since last October.

Meanwhile, the proportion of panellists anticipating an interest rate increase fell across all but one of the time horizons. The exception was for those foreseeing the next interest rate change being an increase after the next two years, where the percentage increased fractionally to 10%.

Household Interest rate expectations

% of households expecting the next Bank of England move to be a rate cut



Source: IHS Markit.

House price expectations

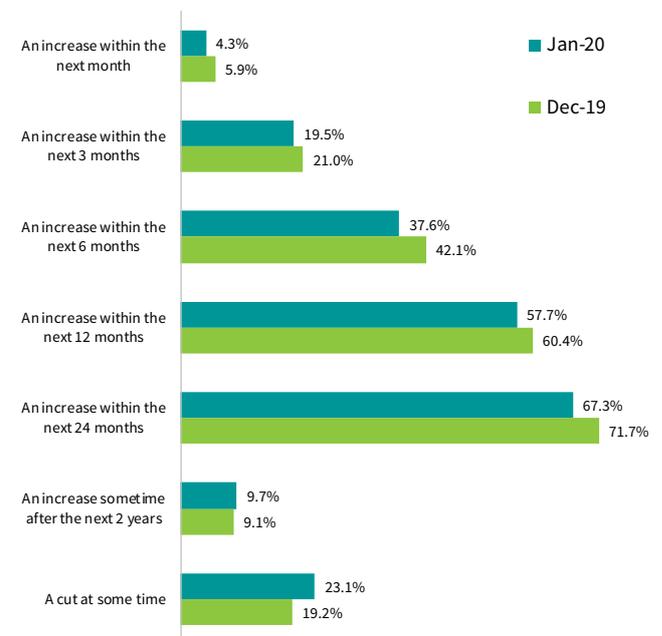
50 = no change over next 12 months



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 certainly show some post-election bounce for UK households, with the headline index up to a one-year high and house price expectations at their strongest since October 2018. That said, cooling inflation was most likely the real driving force, propping up real earnings and disposable incomes.

"A rising proportion of UK households showed that they are in tune with the downbeat message from several monetary policymakers in the last couple of weeks, with almost one-in-four now expecting the Bank of England to cut interest rates as their next move.

"It therefore seems the case that, while falling living cost pressures are stimulating purchasing power, UK households are aware that weak economic conditions have led to an increased likelihood of lower interest rates. How this will impact consumer spending behaviour will be crucial to the UK's growth prospects."

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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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