

Household Finance Index™
MARKET SENSITIVE INFORMATION
EMBARGOED UNTIL: 01:01 (London / UTC) January 22nd 2018

IHS Markit Household Finance Index™ (HFI™) – United Kingdom

UK households report sharp deterioration in financial wellbeing whilst inflation expectations reach highest for almost four years

Key points for January 2018:

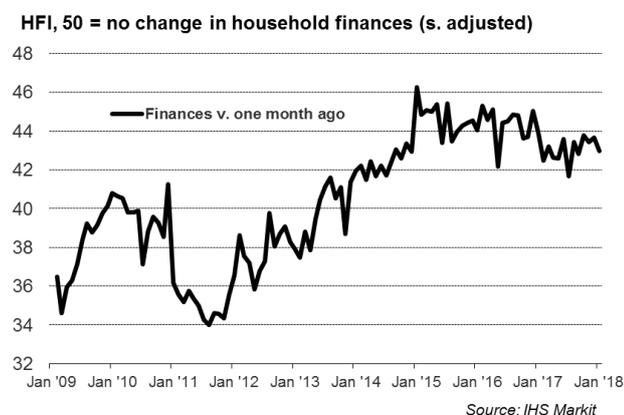
- Household finances worsen at steepest rate since last September
- Inflation expectations reach 47-month high
- Strongest demand for unsecured debt since February 2017
- Job security continues to worsen...
- ...despite increasing income and greater workplace activity

Data collected January 10-14th 2018

This release contains the January findings from the **IHS Markit 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 finances



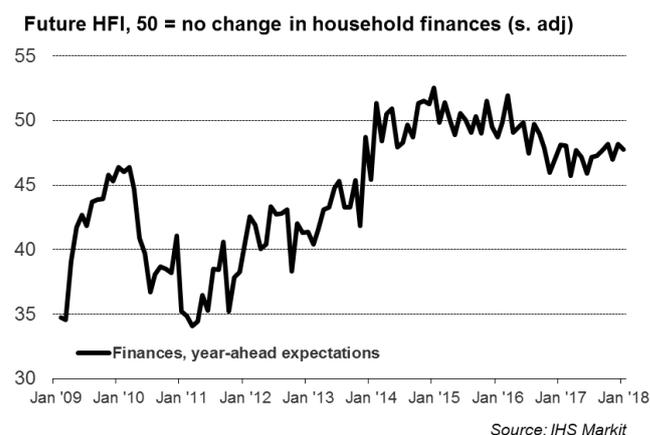
January data pointed towards the fastest downturn in UK household financial wellbeing for four months at the start of 2018. The seasonally adjusted **Household Finance Index (HFI)** fell to 43.0 during

January, from 43.7 in December. The latest reading signalled a sharp squeeze on household finances and was the lowest since September 2017.

Despite a modest increase in income, households continued to utilise unsecured borrowing to bridge the gap between falling current account balances and rising spending. Moreover, the need for unsecured debt rose at the fastest pace for 11 months during January.

The latest data indicated that higher living costs remain a key factor behind the household finance squeeze. The balance of respondents reporting increased prices for goods and services was less marked than the peak seen in the preceding survey, but still among the highest since 2013.

Expectations for finances in the next 12 months



UK households remained downbeat about their financial prospects over the next year, which continues the trend seen since April 2016.

In response to fragile consumer finances, appetite for major purchases (such as cars and large household appliances) fell at the sharpest rate since September 2017.

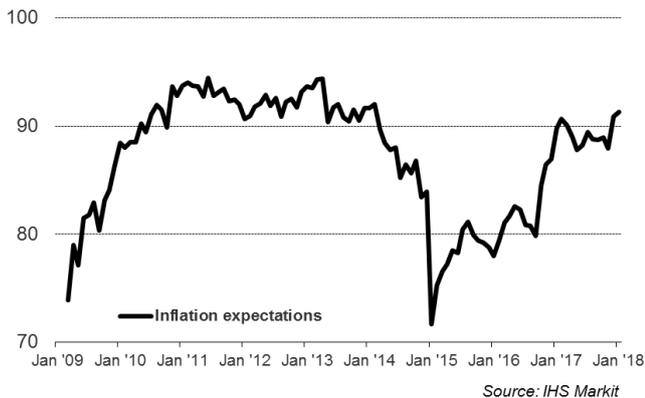
Workplace activity and job security

At 54.0 in January, a marked increase in workplace activity was signalled by the seasonally adjusted index. People employed in Finance/Business services were the most upbeat in January.

Despite the positive picture in terms of workplace activity, the most recent data signalled the sharpest worsening in job security for six months. Survey respondents in every region apart from the South East reported a decline in job security.

Living costs and inflation expectations

Cost of living expectations, 50 = no change (s. adjusted)



Adjusted for seasonal influences, the index measuring cost of living expectations reached 91.3 during January, to signal the strongest inflation expectations registered for 47 months.

Price pressures faced by UK households remained sharp and well above average in the latest survey. That said, the seasonally adjusted current living costs index eased marginally to 83.3 during January, from 83.5.

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

Households' interest rate expectations softened during January's survey period. Over 45% of households anticipate a Bank of England rate hike within the next six months, down from 48% in December. Nonetheless, the vast majority (74%) forecast that the Bank of England will raise the base rate in the next 12 months.

Comment:

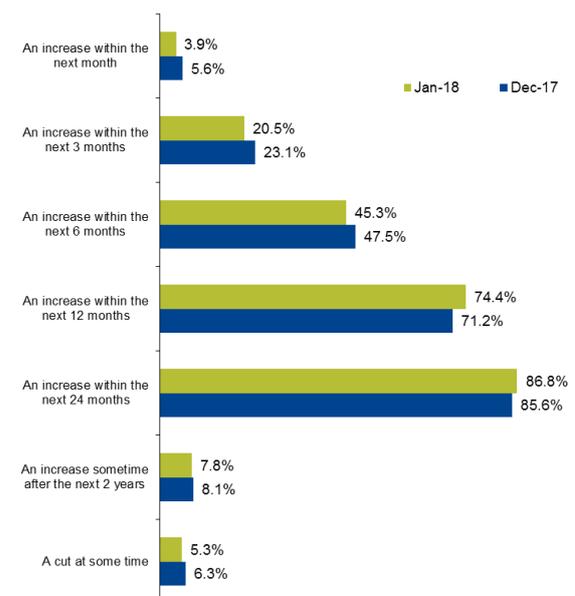
Sam Teague, Economist at IHS Markit, which compiles the survey, said:

"January data revealed that pressures on UK household finances intensified at the fastest pace in four months, as rising living costs and subdued pay growth have led to a renewed squeeze on cash available to spend."

"Inflation expectations reached the highest recorded for almost four years, whilst optimism towards future financial wellbeing continued to worsen. In response to lacklustre budget forecasts, households reduced their appetite for big ticket items (such as cars) at the fastest pace since September. That said, there was little evidence to suggest that households reined in day-to-day spending, as households increased their expenditure at a modest rate whilst utilising additional unsecured debt to balance budgets."

"The latest survey also highlighted a robust increase in workplace activity in January, with the fastest growth seen in the South East. With rises in both spending and workplace activity, the survey provides a positive signal towards UK economic growth in the first quarter of 2018."

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



*The interest rate set by the Bank of England is currently 0.5%. 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.

Source: IHS Markit

-Ends-

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Note to Editors:

About the HFI

¹ 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.

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 (January survey)

Ipsos MORI interviewed 1500 adults aged 18-64 across Great Britain from its online panel of respondents. Interviews were conducted online between January 10th – 14th 2018. 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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