

Household Finance Index™
MARKET SENSITIVE INFORMATION
EMBARGOED UNTIL: 09:30 (London / UTC) January 18th 2017

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

Financial squeeze worsens as price pressures hit three-year high

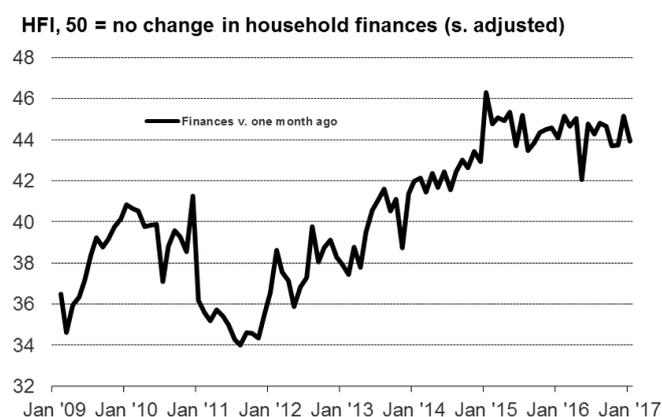
Key points for January 2017:

- HFI dips below 2016 average, down from December's ten-month high
- Households see finances depressed by rising inflation
- Current and future price perceptions both around three-year highs
- Majority of households predict monetary policy tightening in 2017

Data collected January 11-15th 2017.

This release contains the January findings from the **Markit Household Finance Index™ (HFI™)**, which is intended to anticipate changing consumer behaviour accurately. The HFI is compiled each month by Markit, using data collected by Ipsos MORI.

Current finances

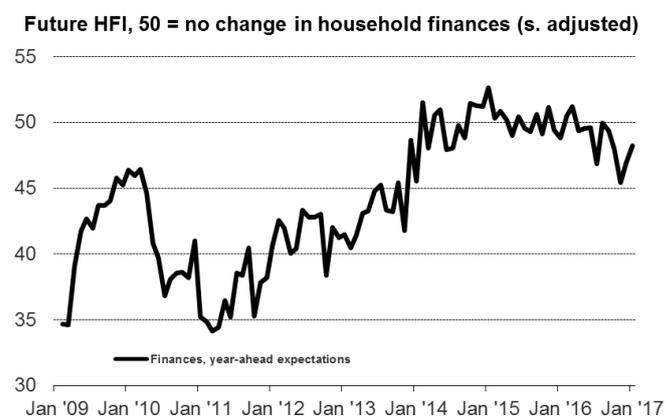


Source: IHS Markit

After having eased in December, the financial strain on UK households intensified at the start of 2017. This was signalled by the seasonally adjusted **Household Finance Index (HFI)** falling from 45.2 to 43.9. The latest reading was slightly below the average over 2016 as a whole (44.3).

Price pressures played a key role in depressing financial perceptions in January. Inflation was perceived to be the highest in three years, with households also predicting a further acceleration over the coming 12 months. As a result, households' appetite for major purchases was close to its lowest since the beginning of 2015.

Expectations for finances in the next 12 months



Source: IHS Markit

UK households remained pessimistic about their financial outlook in January. Despite climbing from 46.9 to 48.2, the seasonally adjusted index measuring **expectations for finances in 12 months' time** pointed to downbeat sentiment for the ninth time in the past ten months.

Workplace activity, job security and incomes

Growth of **workplace activity** was sustained for the sixth straight month in January, following a one-off decline after the Brexit vote in mid-2016. Moreover, the rate of expansion quickened to a seven-month high. Out of the eight monitored job sectors, manufacturing saw the sharpest rise.

Households reported further **job insecurities** in the first month of 2017. In fact, data highlighted greater worries than in November and December.

Meanwhile, **income from employment** dropped slightly in January. That followed a three-month sequence of broadly stagnant pay. Both private and public sector workers noted a marginal fall in wages at the start of the year.

Current and future inflation perceptions

Current inflation perceptions picked up for the fourth month running to a three-year high in January. The seasonally adjusted index posted 80.3, above the series average of 76.9.

The index measuring **expected living costs** showed an almost identical trend, surging to its highest since February 2014. The reading of 90.5 signalled that forecasts of further inflation were widespread among surveyed households.

Expectations for living costs in the next 12 months



Source: IHS Markit

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

With price pressures intensifying in January, UK households see an increased likelihood of the next move in the Bank of England base rate being a rise.

The proportion of respondents expecting tighter monetary policy in 2017 has risen from 56% in December to 62% in January. Likewise, a greater percentage of households foresee higher interest rates on a two-year horizon (78% compared to 71% in December). Both proportions are the highest since January 2016.

Fewer households anticipate a rate cut. Just 11% predict further loosening from the MPC, the lowest percentage since the June 2016 survey (which was conducted prior to the EU referendum).

Comment:

Philip Leake, economist at IHS Markit, which compiles the survey, said:

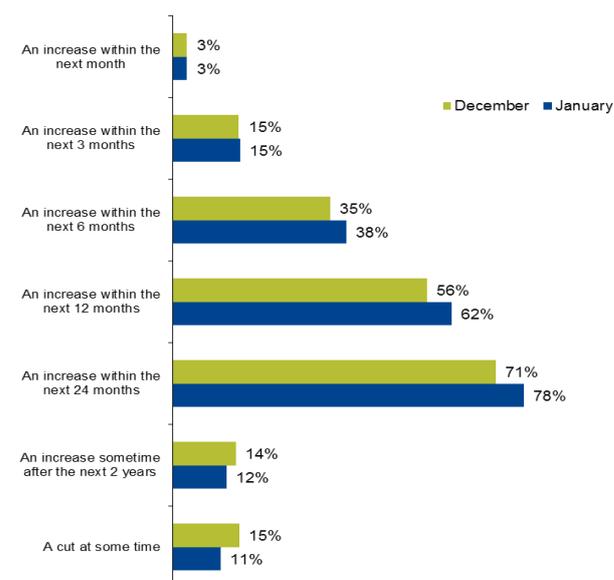
“The first HFI survey of 2017 suggested that mounting price pressures pose a threat to UK households’ financial wellbeing. Current finances deteriorated in January amid the sharpest rise in price perceptions since early-2014.

“As well as signalling the fastest inflation for three years, the survey (which was conducted before Tuesday’s release of the Consumer Price Index) pointed to widespread expectations of further price hikes. ONS data, which yesterday showed the largest increase in consumer prices since July 2014, is likely to highlight rising inflation in coming months amid sterling weakness and higher material costs.

“Price pressures were accompanied by slightly lower pay rates in January, meaning that households’ financial outlook remained downbeat.

“With regard to monetary policy, the consensus among households appears to be that tightening to curb inflation is more likely than loosening to stimulate growth. Around 62% foresee a rise in the Bank of England base rate this year, the highest proportion since January 2016.”

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



* “The interest rate set by the Bank of England is currently 0.25%. 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.” Historical data available upon request.

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 Markit. The survey methodology has been designed by 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 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 11th – 15th 2017. 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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