Household Finance Index™
MARKET SENSITIVE INFORMATION
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Markit Household Finance Index™ (HFI™) – United Kingdom

Squeeze on financial well-being among the largest for 2½ years

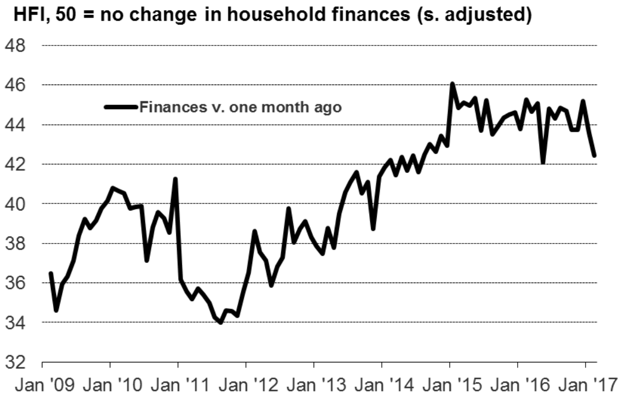
Key points for February 2017:

- Squeeze on household finances accelerates to its second-largest since August 2014
- Greater inflationary pressures offset a sustained improvement in labour market conditions
- Living costs rise at fastest pace since April 2013
- Strongest upturn in workplace activity for 14 months, led by finance & business services
- Job insecurities continue to recede, while income levels pick up since the start of 2017

Data collected February 8-13th 2017.

This release contains the February 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

February data revealed a tighter squeeze on UK household finances, with the seasonally adjusted **Household Finance Index (HFI)** dropping to 42.5, from 43.6 in January. Any reading below 50.0 signals deteriorating financial well-being.

The latest survey indicated that UK household finances worsened at the second-fastest rate since August 2014 (exceeded only by that reported last May). However, the degree of financial pressure remained softer than at any time between 2009 and the end of 2013.

Worsening financial well-being primarily reflected pressure on household budgets from rising **living costs**. February data signalled the steepest increase in prices paid for goods and services since April 2013.

With **income from employment** rising only marginally, households recorded the sharpest drop in their appetite for **major purchases** for just over three years. This was despite reporting the smallest fall in **job security** since December 2015.

Expectations for finances in the next 12 months

At 48.3 in February, down from 48.5 in January, the seasonally adjusted index measuring **expectations for finances in 12 months' time** remained below the 50.0 no-change mark for the eleventh successive month.

However, the headline figure masked a widening divergence between **private and public sector workers**. Those employed in the private sector reported the most upbeat expectations for their household finances since March 2016, while public sector employees signalled the greatest degree of pessimism for just over two-and-a-half years.

Workplace activity, job security and incomes

There was positive news in terms of **workplace activity**, which suggested that the UK economic backdrop has remained supportive in February. Adjusted for seasonal influences, the latest survey indicated that workplace activity expanded at the fastest rate since December 2015. Higher levels of workplace activity were recorded across all job categories (except retail), with finance & business services the strongest performing area.

Job insecurities continued to recede from the three-year low recorded after the EU referendum last summer. The latest survey indicated that worries about job security were the least widespread since the end of 2015.

Improving labour market conditions helped to boost **income from employment** in February. Although only marginal, the rise in employee pay was the fastest since August 2016.

Current and future inflation perceptions

Current inflation perceptions ratcheted up again in February. At 85.2, up from 80.7 in January, the seasonally adjusted index has now risen for five months in a row. Moreover, the latest reading signalled that living costs increased at the fastest pace since April 2013.

UK households' expectations for their living costs over the next 12 months also increased in February. The seasonally adjusted index measuring **expected living costs** picked up from 90.5 to 91.6 in February, which was the highest level recorded for exactly three years.

Expectations for living costs in the next 12 months

Source: IHS Markit

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

The vast majority of UK households (88%) expect that the Bank of England base will raise interest rates next rather than opting for another cut (12%).

Around one-third of survey respondents anticipate a base rate rise in the next 6 months, while just over half (56%) forecast tighter monetary policy on a one-year horizon. However, in both cases, the proportion expecting a rate hike was down from those seen in January (38% and 62% respectively).

Comment:

Tim Moore, senior economist at IHS Markit, which compiles the survey, said:

"UK household budgets are starting to feel the squeeze from rising consumer price inflation, with financial well-being worsening at one of the fastest rates since the summer of 2014. Households also reported the sharpest increase in their living costs for almost four years, which provides an advanced signal that the headline rate of inflation will break through the 2.0% mark as early as February.

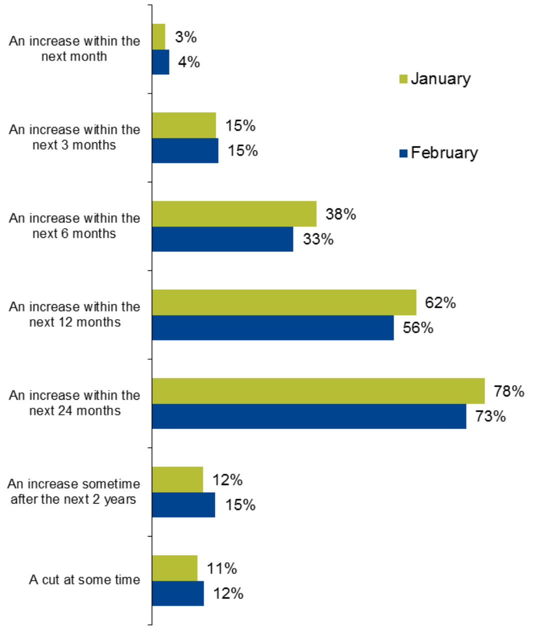
"However, there was positive news from the survey's measure of workplace activity, which signalled the strongest growth momentum since December 2015. Busier workplaces meant that worries about job security continued to recede from the lows seen after the EU referendum. Households are now among the least downbeat about their job security since the survey began in 2009, largely reflecting an improved trend among private sector employees.

"Looking ahead, the outlook for financial well-being and consumer spending will depend on households' ability to weather a sustained period of rising living costs. This can already be seen in the clear divergence between the financial expectations of private sector employees and other UK households.

"People working in the private sector are the least downbeat about their financial outlook since early-2016, suggesting that the improving economic backdrop and rising income levels have helped to offset inflation concerns. By contrast, public sector staff and households on fixed incomes are more concerned about their financial outlook than at almost any time since mid-2014."

-Ends-

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

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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 (February survey)
Ipsos MORI interviewed 1500 adults aged 18-64 across Great Britain from its online panel of respondents. Interviews were conducted online between February 8th – 13th 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.

About IHS Markit (www.ihsmarkit.com)
IHS Markit (Nasdaq: INFO) is a world leader in critical information, analytics and expertise to forge 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 key business and government customers, including 85 percent of the Fortune Global 500 and the world's leading financial institutions. Headquartered in London, IHS Markit is committed to sustainable, profitable growth.

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