IHS Markit

News Release

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

Greatest squeeze on UK household finances for three years in July

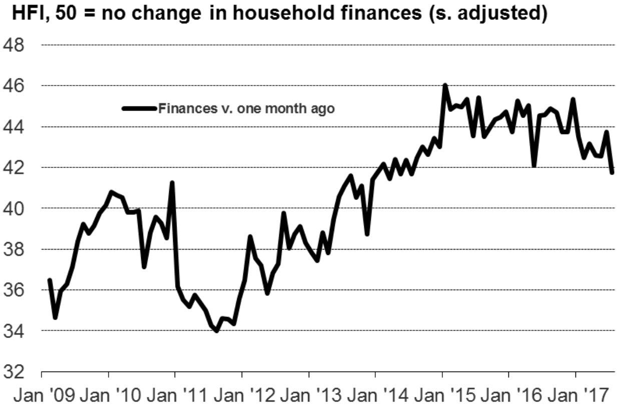
Key points for July 2017:

- UK household record sharpest downturn in household finances since July 2014
- Appetite for spending on major purchases drops at steepest pace since December 2013
- Job security declines again in July, while pay growth remains only marginal
- Number of households expecting a Bank of England rate rise in the next six months (27%) falls to lowest since October 2016

Data collected July 12-14th 2017

This release contains the July 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 data collected by Ipsos MORI.

Current finances



Source: IHS Markit

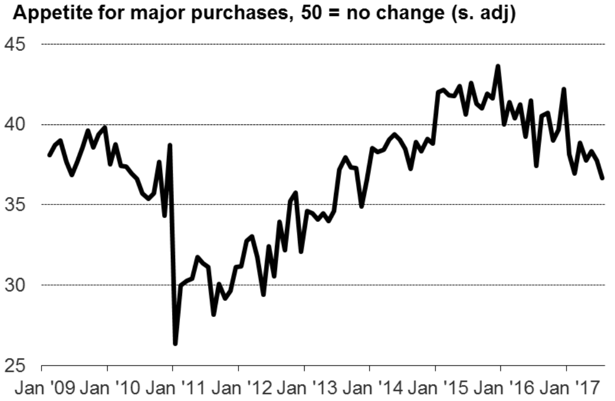
The squeeze on UK household finances intensified in July, according to the IHS Markit **Household Finance Index (HFI)**. At 41.8, down from 43.7 in June, the seasonally adjusted index was well below the 50.0 no-change mark and revealed the fastest deterioration in financial wellbeing for exactly three years.

Sharply rising living costs remained a key headwind for household finances in July. The survey's measure of inflation perceptions peaked in February, but the latest reading remained among the highest recorded since the start of 2014.

Subdued pay growth and greater living costs contributed to upward pressures on household debt and a further rise in demand for unsecured borrowing in July.

Meanwhile, survey respondents reported a sharp and accelerated reduction in their appetite for spending on big-ticket consumer items (such as cars, holidays and large household appliances). The latest decline was the steepest recorded by the survey since December 2013, which likely reflected reduced cash available to spend and greater levels of job insecurity.

Households' appetite for major purchases



Source: IHS Markit

Expectations for finances in the next 12 months

The index measuring expectations for household finances picked up since June, but remained among the lowest seen over the past three-and-a-half years. At 47.0 in July, up from 45.8 in June, the seasonally adjusted index measuring expectations for finances in 12 months' time was also much weaker than the post-crisis peak seen in January 2015 (52.7).

Workplace activity, job security and incomes

July data pointed to renewed fragility in terms of job security and workplace activity. At 51.0, down from 52.6 in June, the seasonally adjusted index measuring workplace activity eased to its lowest reading for 12 months.

Meanwhile, job security fell again, with the rate of decline also the sharpest since July 2016. Income from employment picked up for the sixth month running, but the rate of growth eased to its least marked since March.

Living costs and inflation expectations

UK households continued to report a sharp increase in their living costs during July. At 80.7 in July, up from 79.2 in June, the seasonally adjusted index showed that inflation perceptions were the highest for three months. Although remaining elevated, the index was still below the peak seen in February (84.7).

The latest survey indicated that households expect strong pressures on living costs to persist over the coming 12 months. At 89.0 in July, the seasonally adjusted index picked up from 88.1 in June and was the highest since April.

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

The proportion of UK households anticipating an increase in the Bank of England base rate during the next six months fell to 27% in July, from 34% in June. The figure was the lowest recorded since October 2016.

At the same time, less than half (48%) expect a rate rise in the next 12 months, down from 58% in June and the lowest reading since October 2016.

Close to three-quarters (73%) forecast higher interest rates over a two-year horizon, which was broadly unchanged since June (74%).

Comment:

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

"July's survey highlights that the recent moderation in inflationary pressures has yet to provide much relief to UK household finances. The latest downturn in financial wellbeing was the greatest recorded for three years, reflecting reduced cash available to spend and lacklustre pay growth.

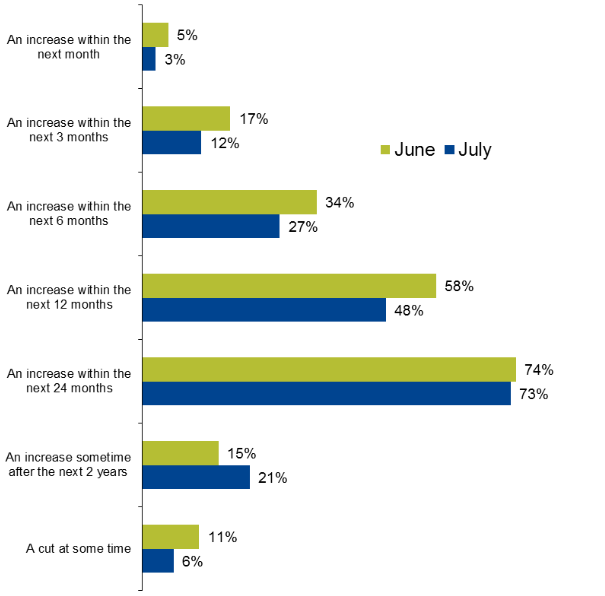
"There are signs that squeezed household budgets and worries about earnings have started to spill over to consumer spending patterns. Survey respondents reported the largest drop in their appetite for major purchases since the end of 2013.

"Consumer aversion to spending on big-ticket items (such as cars, holidays and large appliances), appears to have been magnified by upward pressures on household debt, as well as stretched cash available to spend. The latest survey pointed to a renewed rise in household debt, alongside another increase in demand for unsecured borrowing.

"Less than one-third of UK households (27%) anticipate a Bank of England rate rise by January 2018. The proportion of respondents expecting higher interest rates over the next six months was down sharply from 34% in June and the lowest recorded since October 2016."

-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."*

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 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 (July survey)
Ipsos MORI interviewed 1500 adults aged 18-64 across Great Britain from its online panel of respondents. Interviews were conducted online between July 12th – 14th 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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