IHS Markit

News Release

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

Higher living costs continue to squeeze household finances in June

Key points for June 2017:

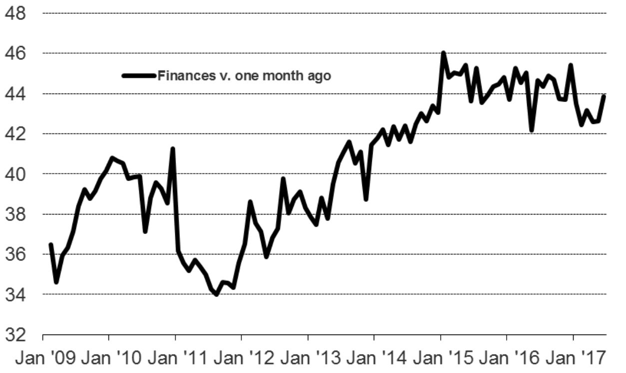
- Sharp deterioration in household finances in June, continuing the trend seen so far in 2017
- Households indicate a further steep rise in their living costs
- Growth of workplace activity moderates to 11-month low in June
- Around 34% of UK households expect a Bank of England rate rise by the end of 2017

Data collected June 7-12th 2017.

This release contains the June 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

HFI, 50 = no change in household finances (s. adjusted)



Source: IHS Markit

At 43.8 in June, up from 42.6 in May, the seasonally adjusted **Household Finance Index (HFI)** remained well below the 50.0 no-change threshold. The latest reading signalled a sharp squeeze on household finances. Survey data for 2017 so far have pointed to an intensified squeeze on financial wellbeing in comparison to the trends seen during 2015 and 2016. That said, the latest deterioration was the least marked in 2017 so far.

June data indicated that higher **living costs** remain a key factor placing pressure on household finances. The balance of respondents reporting increased prices for goods and services was less marked than the peak seen in February, but still among the highest recorded since early-2014.

Income from employment increased for the fifth month running in June, although this did not prevent a further sharp reduction in cash available to spend. Survey respondents also reported greater aversion to major purchases, as well as a sustained decline in household savings.

Expectations for finances in the next 12 months

UK households are downbeat about their financial prospects over the next 12 months, which continues the trend seen since April 2016.

Adjusted for seasonal influences, the index measuring **expectations for finances in 12 months' time** dropped from 47.1 in May to 45.8 in June, to signal the greatest degree of pessimism for three months. The latest reading was also one of the lowest seen since the end of 2013.

Worries about the financial outlook were driven by people working in the public sector, with sentiment falling to its weakest since July 2014.

Workplace activity, job security and incomes

June data suggested the UK economic backdrop continued to soften. This was highlighted by the seasonally adjusted index measuring **workplace activity** easing to 52.9, down from 53.5 in May and the lowest since July 2016.

People employed in the retail sector reported an outright decline in workplace activity (index at 49.5). Finance/Business services staff reported only a subdued rise (index at 50.7), while construction workers signalled the sharpest upturn (64.1).

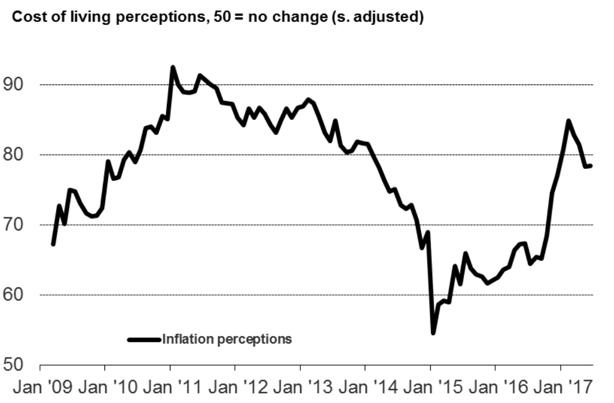
Job security meanwhile fell in June, with the rate of decline the most marked since October 2016. The only employment sectors to buck the downward trend were construction (index at 58.4 in June) and Utilities/Energy/Transport (50.5).

Living costs and inflation expectations

At 78.4 in June, the seasonally adjusted index showed that inflation perceptions remained elevated, albeit below the four-year peak seen in February.

Households also anticipate a sharp increase in living costs during the next 12 months. The seasonally adjusted index rose to 87.9 in June, up slightly from 87.6 in May and one of the highest readings seen since mid-2014.

Households' inflation perceptions



Source: IHS Markit

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

Around one-third of UK households (34%) anticipate an increase in the Bank of England base rate during the next six months. The figure was up from 31% in May and the highest since the start of 2017.

Meanwhile, just over half (58%) expect a rate rise in the next 12 months and close to three-quarters (74%) anticipate higher interest rates over a two-year horizon.

Comment:

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

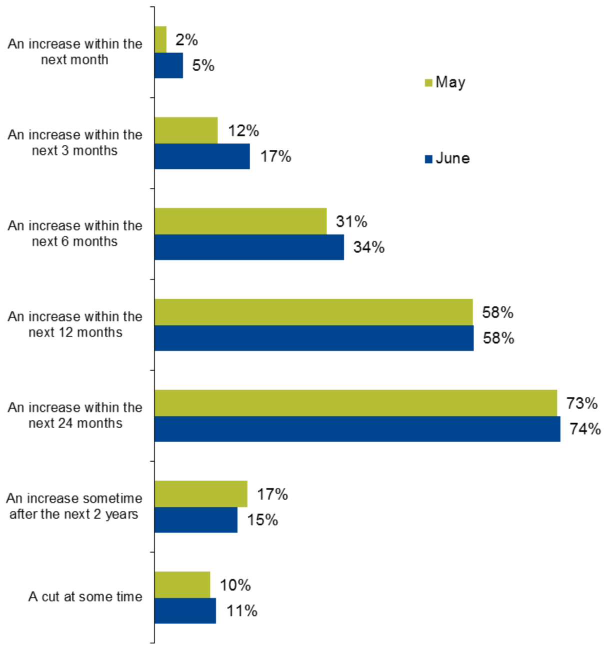
"June's survey reveals that UK household finances remain under intense pressure from rising living costs. While the squeeze moderated slightly since last month, worries about the outlook have deepened. The degree of concern about prospects for financial wellbeing was among the greatest seen since the end of 2013, driven by elevated inflation expectations and subdued pay growth.

"Households also reported the largest drop in job security since October 2016, suggesting more fragile confidence in terms of the wider economic outlook. This contributed to sluggish growth in spending and a further drop in households' appetite for major purchases.

"The latest survey indicates that only around one-third of households anticipate a Bank of England rate rise by the end of 2017. However, more than half (58%) expect higher interest rates on a 12-month horizon, which is more than double the figure seen after the Bank rate cut in August 2016 (28%)."

-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 (June survey)

Ipsos MORI interviewed 1500 adults aged 18-64 across Great Britain from its online panel of respondents. Interviews were conducted online between June 7th – 12th 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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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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