

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

Squeeze on UK household finances eases slightly in December, but inflation expectations rise to highest since February 2014

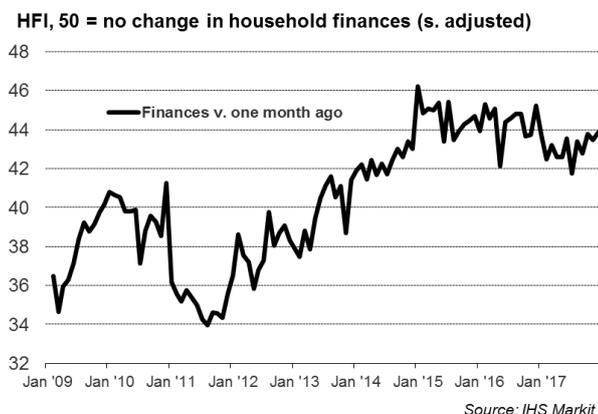
Key points for December 2017:

- Household finances deteriorate at slowest pace since December 2016...
- ...helped by marginal increase in income from employment and rising workplace activity
- Inflation expectations highest since early-2014
- Survey respondents indicate weakest house price expectations since August 2016
- Almost half of UK households (48%) anticipate another Bank of England rate rise in H1 2018

Data collected December 6-9th 2017

This release contains the December 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



December data revealed a sustained squeeze on UK household finances, driven by another sharp rise in living costs and corresponding decline in cash available to spend. Fragile consumer finances

resulted in increased demand for unsecured credit and a steep reduction in households' appetite for major purchases at the end of the year.

However, there were further signs that pressures on budgets have eased since the summer, with the seasonally adjusted **Household Finance Index (HFI)** edging up to 43.9 in December, from 43.5 in November. The latest reading was comfortably above the three-year low seen in July (41.8) and signalled the least marked deterioration in financial wellbeing since December 2016.

There were signs that resilient labour market conditions had helped to moderate the squeeze on household budgets. Latest data showed a marginal upturn in income from employment and the fastest rise in workplace activity since August.

Sharply rising living costs nonetheless continued to weigh on financial wellbeing at the end of 2017. Moreover, inflation expectations have increased since this summer, with forecasts of rising living costs now the most widespread since February 2014.

Expectations for finances in the next 12 months

Households continue to anticipate worsening finances over the next 12 months. However, the seasonally adjusted index picked up to 48.2 in December, from 46.9 in November, to signal that the degree of pessimism was only modest and well above the low point seen in June (45.9).

The main demographic to diverge from the overall trend were people in the oldest age bracket (55-64 years), with this category reporting the most downbeat financial outlook for four-and-a-half years.

Workplace activity and job security

The latest survey data painted a relatively upbeat picture of labour market trends, with workplace activity rising at the fastest pace since August and concerns about job insecurity the least widespread

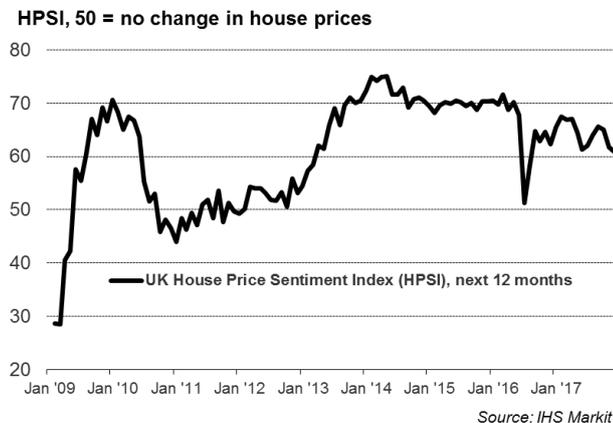
for three months. Income from employment also picked up in December, albeit only marginally.

Living costs, income and demand for credit

Despite a gradual uptick in earnings, households reported another sharp fall in cash available to spend at the end of 2017. Demand for unsecured credit increased again, reflecting efforts to bridge the gap between higher living costs and subdued income growth.

Survey respondents indicated the sharpest rise in their living costs since February's recent peak. Moreover, inflation expectations for the next 12 months rose sharply in December and were the strongest recorded for almost four years.

House price sentiment and outlook for 2018



UK house price sentiment remained inside positive territory during December, but the index eased to a six month low and was among the weakest seen since the summer of 2016.

At 60.8 in December, the Future House Price Sentiment Index was down from 61.7 in November and the lowest since August 2016.

Around 35% of households anticipate a rise in their property value over the course of 2018, while only 13% foresee a reduction.

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

December data indicated that households' interest rate expectations remain elevated in comparison to those seen since this index began in 2013.

Around 48% of UK households anticipate a Bank of England rate rise in the next six months, although this was down from 56% in November.

Almost three-quarters (71%) of survey respondents forecast at least one Bank of England rate rise over the course of 2018.

Comment:

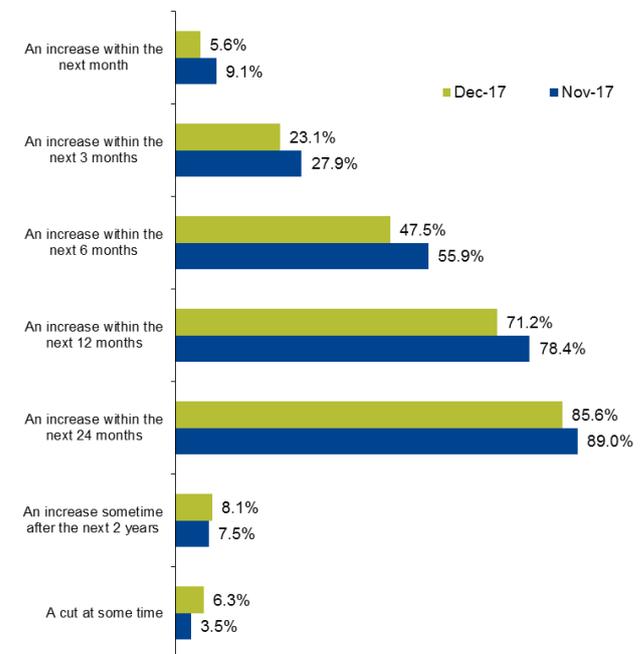
Tim Moore, Associate Director at IHS Markit, which compiles the survey, said:

"There is little doubt that 2017 has been a year to forget for UK financial wellbeing, with sharply rising living costs leading to stretched budgets, lower household saving and greater demand for unsecured credit. UK households also appear braced for a sustained increase in living costs through 2018, with inflation expectations close to a four-year peak in December."

"However, the latest survey reveals a ray of light at the end of the tunnel for UK household finances, with slightly increased earnings starting to help alleviate some of the squeeze on budgets at the end of 2017. The prospect of increased income from employment seems to have lifted households' financial expectations for next year, with this index among the least pessimistic since the summer of 2016."

"The main area of subdued sentiment was in terms of house price expectations, with optimism the lowest since August 2016. At the same time, almost three quarters of UK households expect another Bank rate rise by the end of next year."

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 (December survey)

Ipsos MORI interviewed 1500 adults aged 18-64 across Great Britain from its online panel of respondents. Interviews were conducted online between December 6th – 9th 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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