

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

Light at end of the tunnel for UK household finances in May

Key points for May 2018:

- Weakest pressure on household finances since December 2016
- Inflation expectations lowest for almost a year-and-a-half
- Concerns about job security are the lowest since the survey began in 2009
- More than half of UK households expect an interest rate rise by the end of 2018

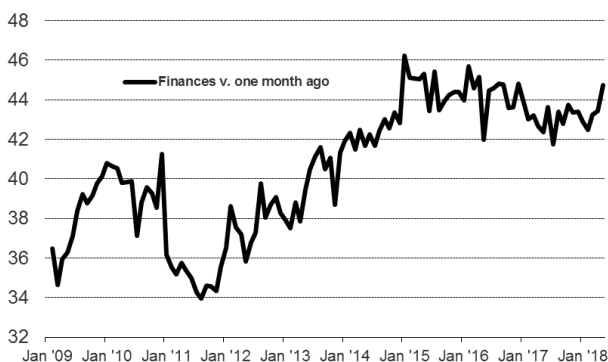
Data collected May 11th-14th 2018

This release contains the May 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

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



UK households reported a reduced squeeze on their financial wellbeing in May, helped by a combination of lower inflation and higher income from employment this spring. There were also signs

that improved household financial sentiment has started to boost consumer appetite to spend.

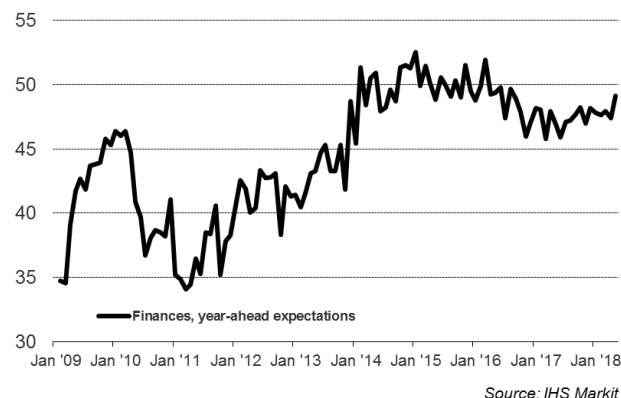
Improved labour market conditions continued in May. The proportion of households reporting concerns about job security was the lowest since the survey began in 2009.

The headline seasonally adjusted **IHS Markit Household Finance Index (HFI)** registered 44.7 in May, up from 43.4 in April. The figure signalled a softer budget squeeze, with the latest deterioration being the least marked since the end of 2016.

Expectations for finances in the next 12 months

At 49.1 in May, up from 47.4 in April, the index reflecting households' financial expectations over the next year reached a 21-month high in the latest survey. Although the index remained below the 50.0 no-change value, it did portray that the majority of households do not expect budgets to worsen considerably.

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

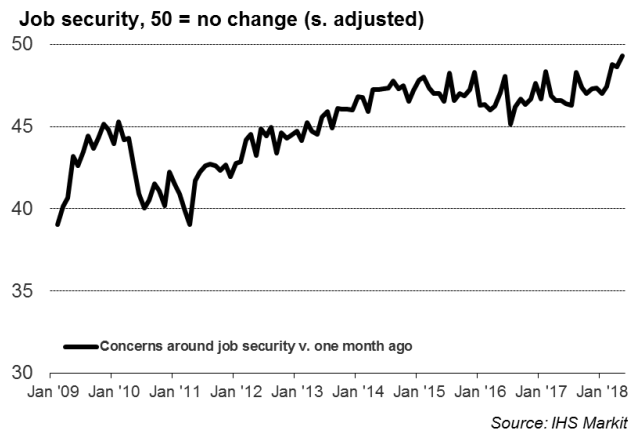


Households in the Midlands, North West and London were generally more positive towards their budgets. Meanwhile the highest earners are the most bullish regarding their future financial situation, whereas lower earners remain pessimistic overall.

Workplace activity, income and job security

May data continued to show signs of improving labour market conditions in the UK. Households reported the strongest growth in income from employment since July 2016, corroborating with marked workplace activity growth.

Notably, concerns around job security were the lowest since the survey began in 2009. Workers in the East of England noted the greatest degree of confidence towards job stability, whilst those in the North East were the most concerned.



Living costs and inflation expectations

At 78.2 in May, down from 78.6 in April, inflation perceptions were the weakest registered in 17 months. That said, the figure remained well above the neutral 50.0 threshold, and exceeded the long-run average.

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

Following the decision to hold the base rate at 0.5% in May, UK household expectations towards the Bank of England move remained broadly unchanged since the preceding survey. More than half of UK households anticipate a rate rise by the end of 2018, whilst just 26% of respondents forecast a hike by August.

Comment:

Sam Teague, Economist at IHS Markit, which compiles the survey, said:

“The latest survey data provided light at the end of the tunnel for UK household finances. A welcome combination of rising incomes, falling inflation perceptions and fading concerns around job security all contributed to the strongest HFI survey results in nearly a year-and-a-half.

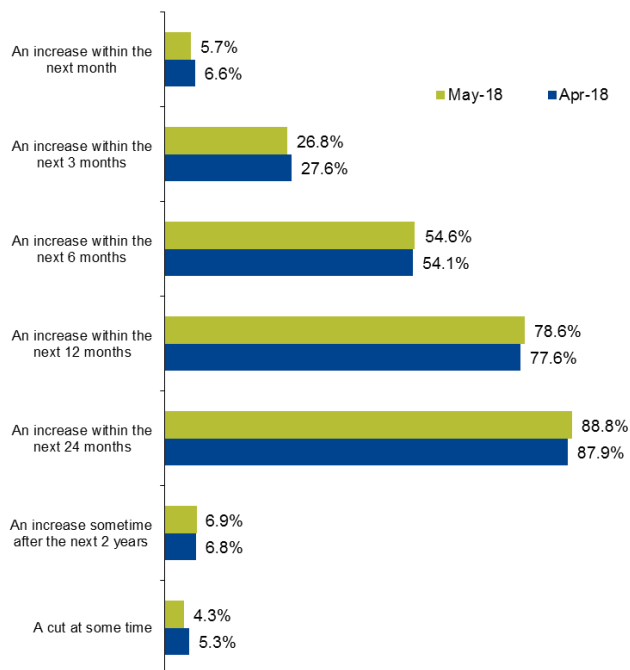
“Whilst inflationary perceptions remained above the long-run average, the May survey saw households reporting the weakest increase in price pressures since December 2016. Furthermore, households’ worries about job security have dropped to the lowest since the recession, which is in turn linked to the strongest reported improvement in workplace income since the EU referendum.

“Appetite to spend has consequently shifted up a gear, indicated by the fastest increase in spending for just over three years.

“Following the accurate prediction by the majority of households of no base rate change in May, the forecast has since remained broadly unchanged. Over half of all households are expecting a rate hike over the course of 2018, though only one-in-four expect to see rates rise by August.”

-Ends-

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

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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 (May survey)

Ipsos MORI interviewed 1500 adults aged 18-64 across Great Britain from its online panel of respondents. Interviews were conducted online between May 11th – 14th 2018. 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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