

News Release

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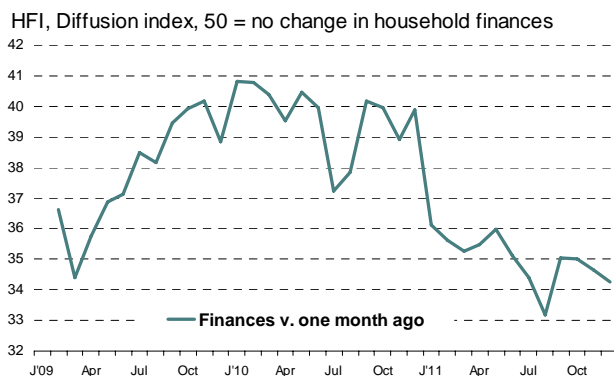
Household Finance Index™ (HFI™) – United Kingdom

Household finances deteriorate at sharper pace amid survey-record rise in debt and fastest fall in income since March 2009

- Household finances worsen at fastest pace for four months in December
- Steepest fall in job security since April
- Fastest drop in income for over 2½ years
- Survey-record increase in debt

Data collected between 7-12 December 2011

Household finances



This release contains the December findings from the **Markit Household Finance Index™ (HFI™)** survey, which is intended to anticipate changing consumer behaviour accurately. The HFI is compiled each month by Markit, a leading global financial information services company, using data collected by Ipsos MORI. Data were first collected in February 2009.

Current finances

December data pointed to a sharp and accelerated squeeze on household finances. The headline **Markit Household Finance Index (HFI)** dropped from 34.6 in November to 34.3, its lowest level for four months. This was also the second-weakest reading since the survey began in February 2009.

Approximately 38% of households reported that their finances worsened over the month, compared to 7% that saw an improvement.

The deterioration in household finances during December primarily reflected the sharpest drop in **income from employment** since March 2009, alongside the strongest rise in **debt levels** since the survey began and an accelerated fall in **savings**.

Squeezed household finances were reported in all **income categories** during December, with the lowest income group seeing by far the steepest deterioration. Moreover, this category (less than £15,000 per year) indicated that their finances worsened at the fastest pace since March 2009.

All **regions** monitored by the survey reported worsening household finances since November. The North West posted the steepest rate of deterioration, with the latest reading the weakest in almost three years of data collection.

Future finances

When asked about the outlook for their **finances in 12 months' time**, almost half of all survey respondents (49%) anticipate a deterioration. This was more than twice the proportion that expect their finances to improve (23%). At 37.1, down from 37.9 in November, the resulting index reading remained well below the neutral 50.0 mark, thereby signalling another downbeat assessment of future household finances.

The outlook for year-ahead finances is slightly lower than that seen at the same time in 2010 and much more downbeat than was reported at the end of 2009. This likely reflects a combination of falling incomes from employment, higher **living costs** and the fastest drop in **job security** for eight months in December.

London and **Scotland** saw the biggest month-on-month falls in sentiment during December. Households in the capital are the most pessimistic about the outlook for their finances since the survey began in February 2009, largely reflecting a particularly large fall in job security across the region.

Job security, income and cash available to spend

Households reported a drop in their **income from employment** in December, extending the current run of decline 15 months. Around 14% of respondents noted a fall, while only 8% noted an increase. As a result, the latest index pointed to the fastest reduction in incomes since March 2009. Both **private and public sector** workers reported lower incomes in December, with the rate of decline only slightly faster for the latter.

Close to three times as many respondents (25%) indicated a deterioration in their **job security** as those that reported an improvement in December (8%). The resulting index signalled the steepest drop in job security since April. This was driven by an especially sharp drop in the **public sector** (30% noted a fall and only 6% an improvement). By **region**, the most marked reductions in job security were in London and Yorkshire & Humber. The slowest falls were in the Midlands.

December data meanwhile pointed to a similarly sharp rate of decline in **cash available to spend** as that seen in the previous month. Around 41% of all households noted a decline, while only 8% indicated a rise. In line with the trend for current finances, households across the **North West** saw the fastest regional drop in cash available to spend. Approximately 49% saw a fall and only 5% a rise.

Spending, savings and debt

Households' **appetite for major purchases** remained subdued in December, with around 50% reporting a fall and just 7% indicating a rise. Latest data nevertheless pointed to relatively resilient **household spending** in December, with 38% of respondents noting an increase and 20% signalling a reduction. At 58.8, the resulting index reading was broadly in line with that seen last December (58.9) and only slightly lower than that seen at the same time in 2009 (59.6).

However, the increase in spending in December appeared to come at the expense of higher **debt levels** and lower savings. Around 22% of households reported higher debt, compared to 15% that saw a reduction. The resulting index reading signalled the sharpest rise in household debt since the survey began in February 2009.

While the lowest income group saw the sharpest underlying rate of debt accumulation, it was the middle group (£23 000 - £34 500) that recorded the steepest acceleration in debt growth since November. By region, debt levels rose at the fastest pace across the North of England and Wales.

Household savings meanwhile also fell at a near-survey record pace in December. Around four times as many households (33%) reported a drop in savings as those that saw an increase (8%).

Inflation perceptions

On a more positive note, **current inflation perceptions** eased in December for the third time in the past four months. The latest reading signalled the weakest inflation perceptions since December 2010. **Inflation expectations for the next 12 months** also moderated in December. The latest survey pointed to the weakest inflation expectations since October 2010.

Comment:

Tim Moore, Senior Economist at Markit said:

“December’s survey rounds off a year in which the aftershocks of the recession have hit UK household finances with unprecedented force. Weak labour market conditions, ongoing austerity measures and heightened inflationary pressures all contributed to a near-record deterioration of household finances in December.

“Things are expected to get worse before they get better, with more than twice as many households downbeat about their financial prospects for 2012 as those that foresee an improvement. Growing job insecurities and lower wage settlements highlight that unfavourable employment trends are the main factor clouding the outlook for finances in the year ahead.

“With real incomes down around 3% since last year, households are opting to dip into savings or take on more debt in the run-up to Christmas. December data pointed to relatively resilient spending trends, but at the cost of a survey-record rise in household debt and one of the steepest falls in savings since the survey began.

“One encouraging development in December was a drop in current inflation perceptions to the lowest for a year. Households also anticipate cost of living pressures to moderate in the coming 12 months. Although a fall-back in inflation will help alleviate pressure on household finances next year, consumer sentiment looks set to remain subdued by a lack of improvement on the income side of household balance sheets.”

-Ends-

For further information, please contact:

Markit

Tim Moore, Senior Economist
 Telephone +44-1491-461067
 Email: tim.moore@markit.com

Rachel Harling, Corporate Communications
 Telephone +44-20-7064-6283
 Email rachel.harling@markit.com

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. Due to the limited history of data, indices are not adjusted for seasonal influences.

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 (December survey)

Ipsos MORI interviewed 1500 adults aged 18-64 across Great Britain from its online panel of respondents. Interviews were conducted online between 7th-12th December 2011. 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 Markit

Markit is a leading, global financial information services company with over 2,300 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial market place. For more information please see www.markit.com

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