

Markit/YouGov Household Finance Index (HFI)

Household finances weaken amid falling incomes and rising debt, but outlook continues to improve.

At 38.2 in August, down slightly from 38.5 in July, the Markit/YouGov Household Finance Index (HFI), which tracks month-on-month changes in finances, indicated a further marked deterioration of UK household finances. Although well below the critical 50.0 'no-change' value in August, the HFI again signalled a slower rate of deterioration than the series record seen in March. Around 30% of respondents saw their household financial situation worsen in August against just 6% that reported an improvement.

Outlook for finances improves further

The outlook for household finances in 12 months' time improved further in August, with the index rising by three points to 45.0, its highest level since the survey began in February. This signalled a much lower degree of pessimism than was recorded during the first half of 2009.

Concerns over job security eased

The improved outlook for household finances reflected lower concerns over job security and positive sentiment regarding income from employment in twelve months' time. The outlook for savings remained negative, but less so than was recorded throughout the previous six months. The index measuring job security remained inside negative territory in August, but signalled the least marked rate of deterioration in the seven-month survey history. Business activity at respondents' workplaces fell only slightly in August and at a much slower pace than in the first quarter of 2009.

Income fell at slowest rate since May

Households' income from employment dropped in August at the weakest rate for three months. Meanwhile, respondents' confidence regarding their income in 12 months' time increased to its highest level recorded by the survey to date.

Spending dropped slightly; debt rose

August data pointed to only a slight reduction of actual household spending, despite a sharp drop in cash available to spend. Consequently, savings continued to be eroded at a marked rate in August. Three times as many respondents (30%) reported a fall in household savings compared to those that indicated a rise (10%). Meanwhile, debt levels increased at a faster rate in August, with those aged 18 to 24 signalling the steepest rise.

Need for unsecured loans increased

With savings under pressure and incomes falling, households' need for unsecured credit increased robustly in August, continuing the trend recorded in each month since the survey began in February. Meanwhile, demand for secured loans was broadly unchanged since the previous month. Households indicated that credit availability worsened in August, while terms and conditions attached to loans continued to tighten.

Housing market sentiment improved

Property market views improved in August. House prices were considered to have fallen over the month, but to the smallest extent indicated since the survey began in February. Households were again optimistic about the 12-month outlook for house prices, with the degree of positive sentiment reaching a new survey high. Just over twice as many households (41%) anticipate an increase in house prices compared to those that forecast a fall (19%).

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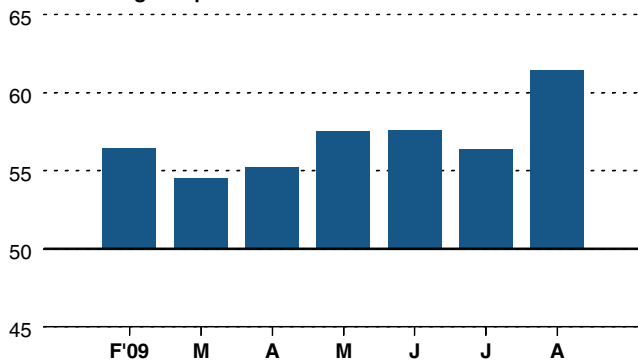
Households confident of recovery in income levels

- Income from employment expected to rise during next twelve months.
- Job fears eased slightly in August.
- Slight drop in activity levels at work.

August data from the Markit/YouGov Household Finance Index (HFI) signalled an improvement in optimism regarding households' future income from work. A rise in the index from 56.4 in July, to 61.4, signalled that confidence was highest in the short series history (see chart below).

Outlook for income from work

50 = no change on previous month



Over one-third of households anticipate an increase in their income from employment over the next twelve months, compared with just 13% that forecast a reduction.

Younger workers are the most optimistic that their incomes will rise in a year's time, with the 18-24 age group the most bullish and the 55+ category least confident.

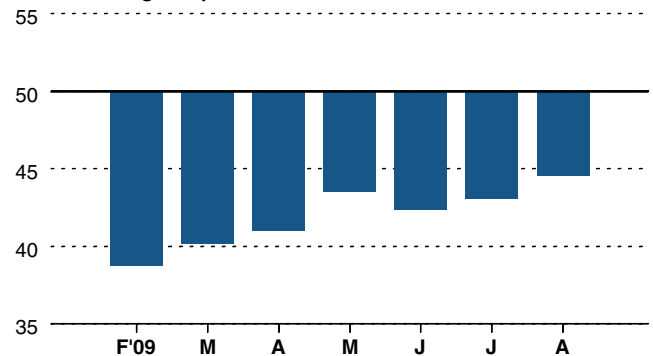
Compared with one month ago, households reported a further drop in their income from employment in August. However, the decline was only modest and the smallest for three months, as indicated by a rise in the index from 47.6 to 48.2. Household incomes continued to fall in the private sector, but grew marginally in the public sector.

Households continued to express concern over the security of their employment during August. This was highlighted by the index remaining below the 50.0 threshold, as has been the case since data were first collected in February 2009. However, a reading of 44.6,

up from 43.1 in July, was the highest recorded to date and indicative of an easing of job fears.

Job security

50 = no change on previous month

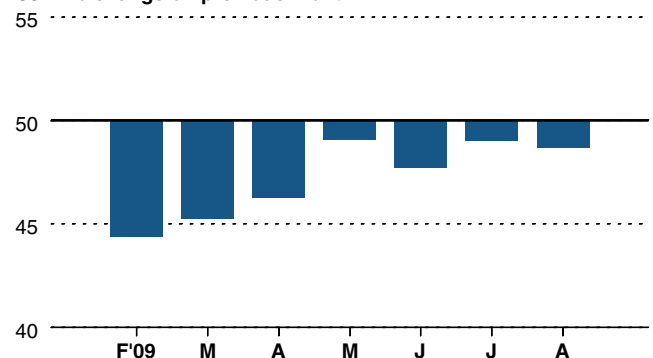


Panellists working in the private sector continued to express a greater degree of concern over their job security than their public sector counterparts. Manufacturing and construction jobs were perceived as the least secure.

August data pointed to a further modest drop in activity levels at work, with the index posting 48.7, from 49.0 in July.

Activity at work

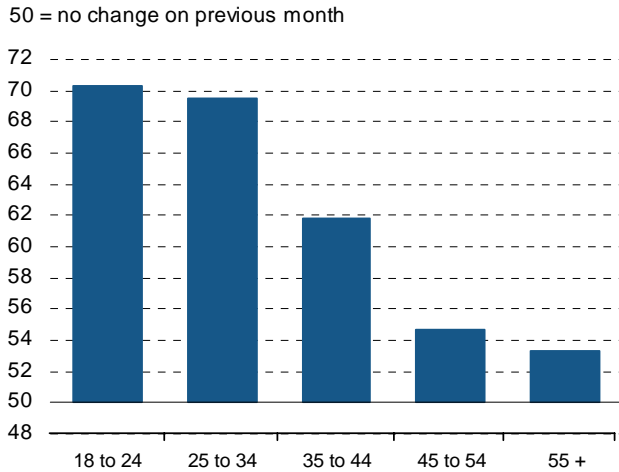
50 = no change on previous month



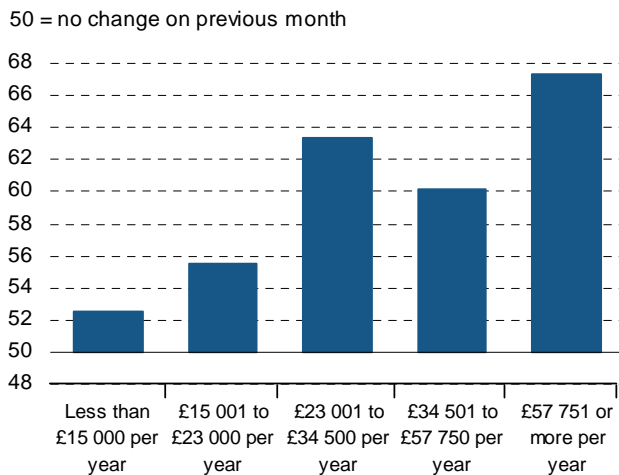
The steepest reductions in activity were reported in the manufacturing, construction, financial/business services and retail sectors. In contrast, IT/Telecoms posted a robust increase. There was a disparity between the private and public sectors, with the former registering another decline while the latter continued to record growth.

August data: How do you think the level of income from your employment will have changed 12 months from now?

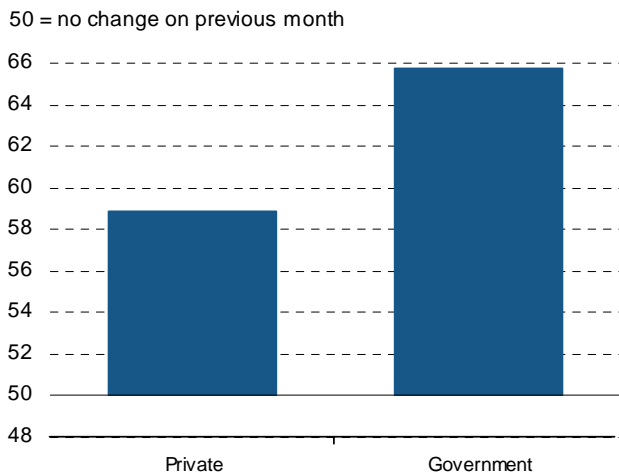
By age



By household income

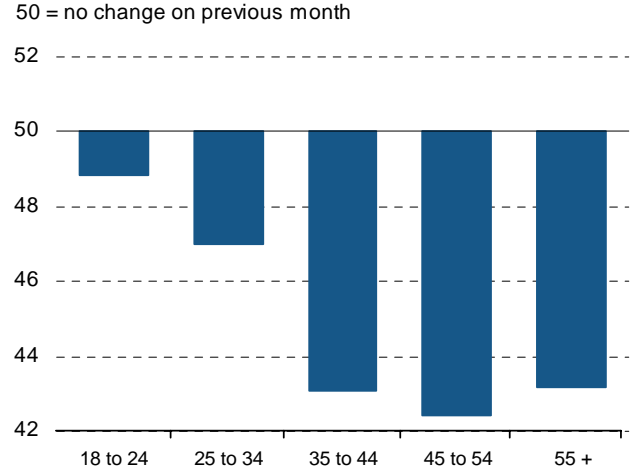


Public v Private

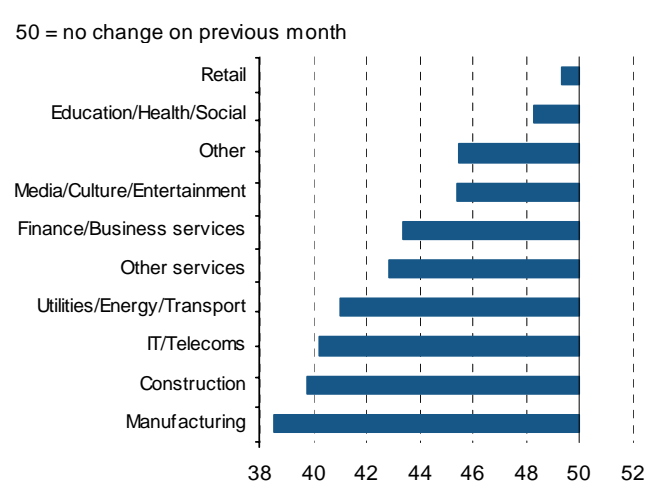


August data: Compared to one month ago, how secure do you think your job is?

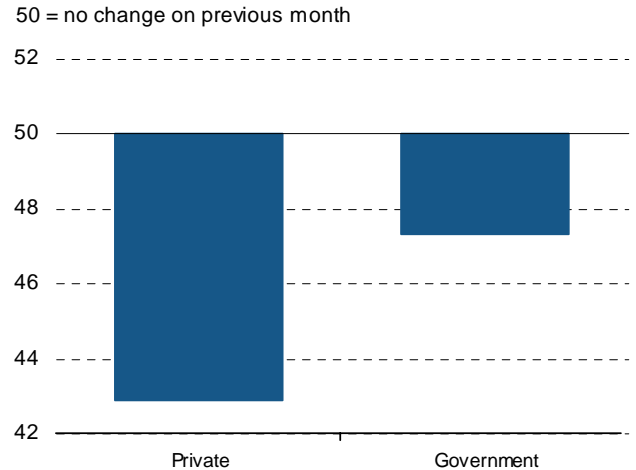
By age



By sector



Public v Private



House price expectations improve markedly in August

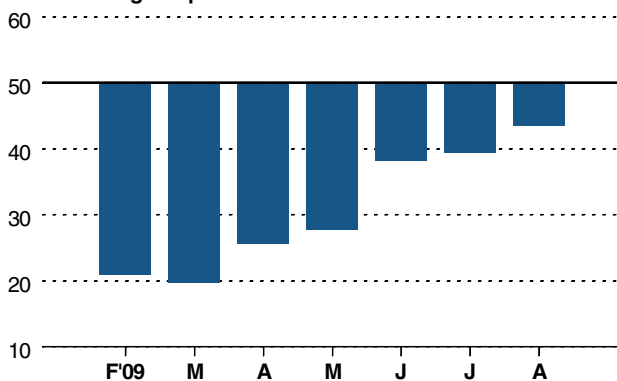
- **Perceptions of house prices deteriorate at a slower rate.**
- **Expectations strongest in short-series history.**
- **Mortgage availability and credit conditions continue to deteriorate.**

Latest data from the Markit/YouGov Household Finance Index (HFI) pointed to improving optimism about property values over the year ahead, with a higher proportion of households forecasting an increase in prices.

However, the latest survey indicates that any recovery is likely to be subdued, and current conditions in the market remain difficult. A significant proportion of respondents (24%) continue to perceive that the value of the property they reside fell during August.

Change in current value of property

50 = no change on previous month



However, with an increased proportion of households (11%) perceiving a rise in the value of their property, the respective 'diffusion' index reading of 43.6 was a high for the short series history. That indicates a further easing in the perceived rate of deterioration of property values amongst UK households in August, and a continuation of the relative improvement seen since the first quarter.

Latest data showed that perceptions of falling property values were common across the UK in August, but to varying degrees. Northern Ireland, which has been hit

hardest of all regions by the economic downturn and has seen the largest percentage falls in house prices according to data from mortgage lenders, registered by far the steepest deterioration in perceptions.

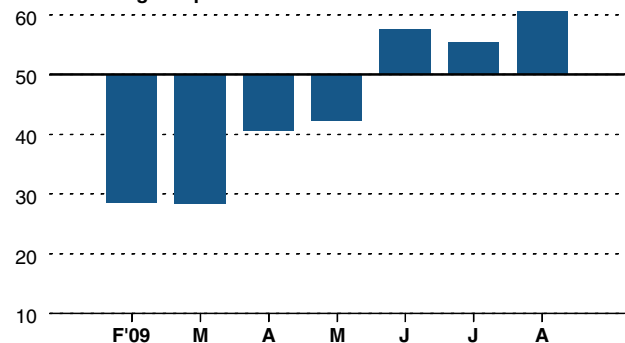
In contrast, London recorded the shallowest decline in house values, with the respective index signalling a near stabilisation of property prices August.

Not only were house prices perceived to be deteriorating at a slower rate during August, but 12-month expectations for the housing market continued to improve.

Over 40% of panellists expect to see a rise in property values in the next 12 months, an improvement on July's 35%. That helped to drive the index measuring the outlook for property values to a series high of 60.6, above the 50.0 no-change mark for a third successive month. Latest data are therefore consistent with a marked improvement in confidence regarding the future health of the housing market – in stark contrast to the sharp degree of negativity seen at the height of the recession earlier in the year. Top income earners are particularly bullish about property market values in twelve months' time.

Outlook for value of property

50 = no change on previous month



At the regional level, price expectations were positive across the whole of the UK for only the second time in seven months of data collection. Moreover, with the exception of the North East and the South West, forecasts for property prices improved since July, turning positive in the East Midlands (following negative expectations in July).

Confidence in the outlook for property values was highest in Wales and London, and lowest in Northern Ireland.

Separate data from the latest survey implied any improvement in the housing market is likely to be muted. Respondents most commonly forecast that house prices will rise by between 1% and 4% over the coming twelve months; much slower rates of growth than seen prior to the current property market downturn.

A key feature of housing market performance – and potential recovery – over the next twelve months will be the availability of mortgages and terms attached to house loans, the substantial tightening of which has been a significant driver of the current downturn in the property market.

Separate data from the latest HFI survey show that the availability of secured credit continued to worsen in August – and at a faster rate than the previous month. Moreover, households perceive that conditions attached to secured credit continued to tighten considerably; nearly 40% of those surveyed believe that credit conditions worsened during August, with the overall rate of deterioration sharper than in July.

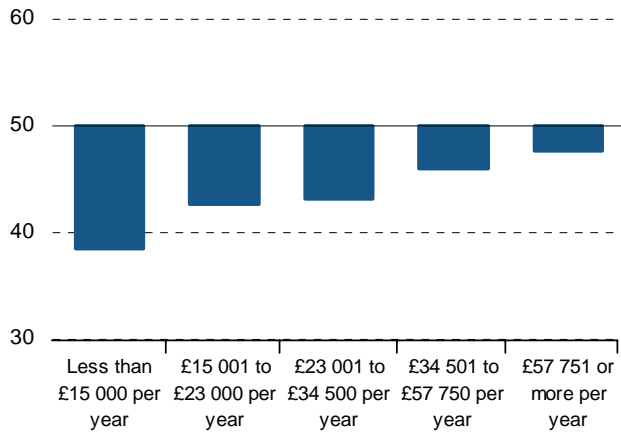
Overall, the latest HFI data indicate an improvement in the performance of the housing market over the coming year. However, constraints in mortgage availability and terms – alongside subdued economic activity and a weak labour market – imply that the recovery will be subdued.

Value of property

August data: Compared to one month ago, how do you think the value of the property/dwelling in which you live has changed?

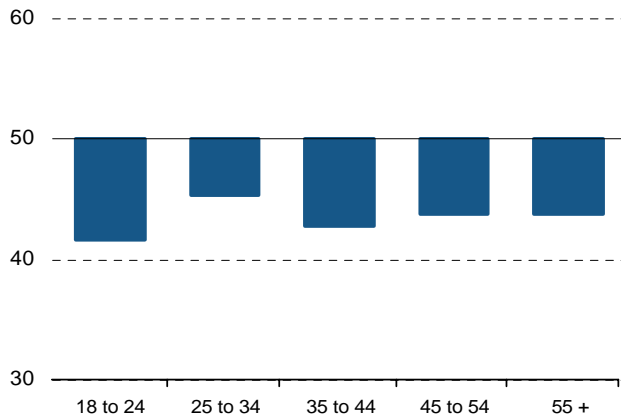
By Income

50 = no change on previous month



By Age

50 = no change on previous month



By Region

50 = no change on previous month

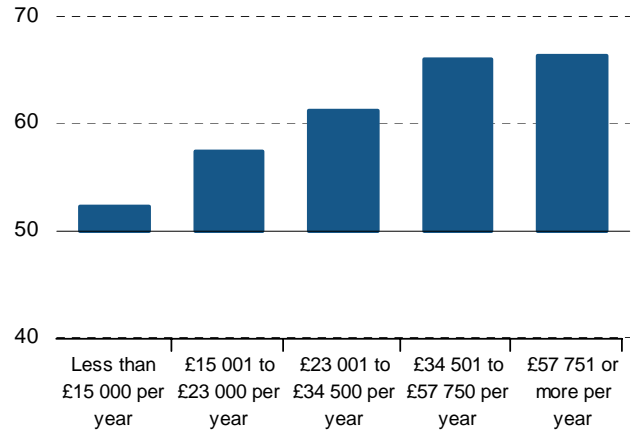


Outlook for value of property

August data: How do you think the value of the property/dwelling in which you live will have changed 12 months from now?

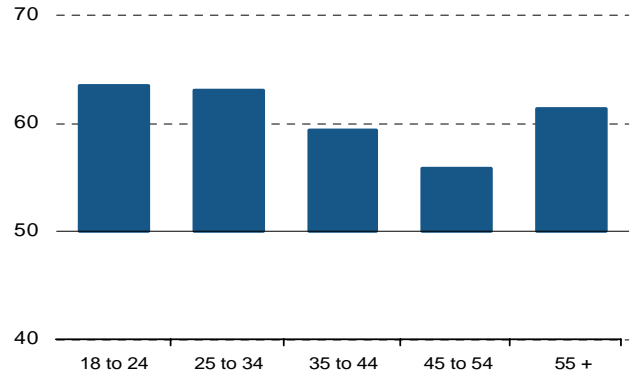
By Income

50 = no change on previous month



By Age

50 = no change on previous month



By Region

50 = no change on previous month



UK households' requirements for unsecured lending rose during August, but credit availability decreased further

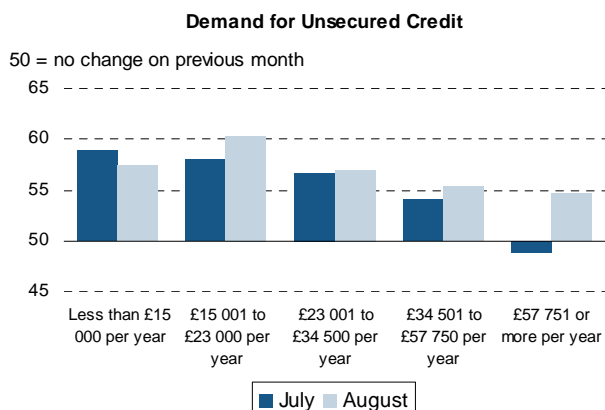
- **Decline in credit availability perceived by UK households in August...**
- **...while demand for unsecured credit rose further.**
- **Households continued to report deteriorating credit terms.**

The effects of the recession, and associated squeeze on incomes, contributed to another increase in households' need for unsecured lending in August. However, the availability and conditions of credit continued to tighten, according to latest survey data from the Markit/YouGov Household Finance Index (HFI).

Demand for credit

August survey results showed that demand for unsecured credit continued to rise, whereas requirements for secured loans reduced marginally.

Unsecured lending, for example credit cards and overdrafts, typically represent solutions to short-term funding requirements. As levels of available cash within UK households continued to decline, it was not surprising that panellists in lower income groups increased their requirements for unsecured lending more than in other income groups (see chart below). However, increased demand for unsecured credit was not limited to this category, with demand rising across all income groups in August. Moreover, the rate of increase accelerated in the majority of income groups. This is illustrated in the graph below.



Availability of Credit

Households perceived that the availability of both secured and unsecured credit continued to decline during August, and to a marginally greater extent than recorded in the July survey. The growing gap between availability and demand for credit was particularly evident for unsecured loans. The chart below plots the availability of unsecured credit index against the index measuring demand for unsecured loans.

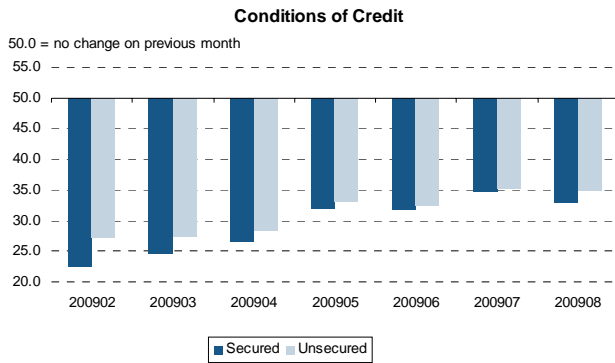


Bank of England analysis on consumer credit trends shows demand increasing, albeit only marginally over recent months, while approval rates have declined.

The Bank of England has also monitored the availability of secured lending, with data highlighting the extent to which mortgage lending has fallen during the economic downturn. Although it has started to rise of late, net mortgage lending remains extremely subdued, which chimes with the HFI data.

Lending conditions

UK households indicated that conditions attached to credit had tightened during August. Terms of both secured and unsecured credit were reported to have worsened (see chart on the following page), albeit to a lesser degree than earlier in the year.



Secured credit

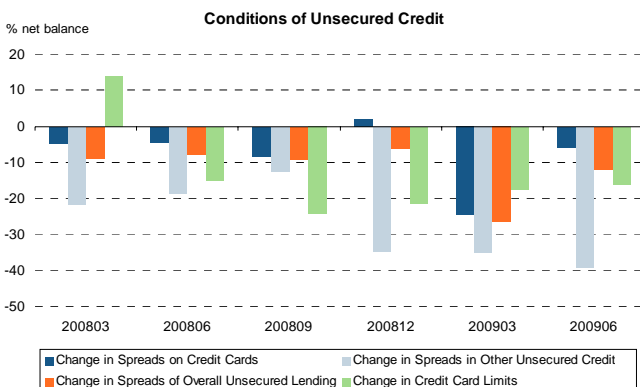
August survey data showed a continued decline in conditions attached to secured credit, and at a marginally faster rate than that posted in July. Those panellists currently living in rented accommodation perceived secured credit terms to have deteriorated particularly sharply.

Bank of England data show that spreads on secured household lending have widened over the past year due to higher expected future losses, making credit more expensive. Loan-to-value ratios were impacted heavily in 2008, although have seen smaller changes during 2009.

Unsecured credit

Survey respondents indicated that the terms of unsecured credit tightened further in August, particularly those in the lowest income groups.

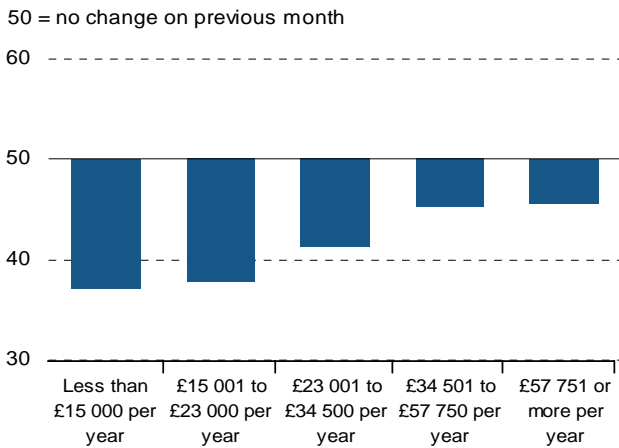
Survey data from lenders produced by the Bank of England, and illustrated in the following chart, show a notable worsening in the terms of unsecured credit in Q1 2009 (change in spreads of overall unsecured loans shown by orange bar). Although this eased in Q2, an overall decline in conditions was still signalled, mirroring the findings of the HFI survey.



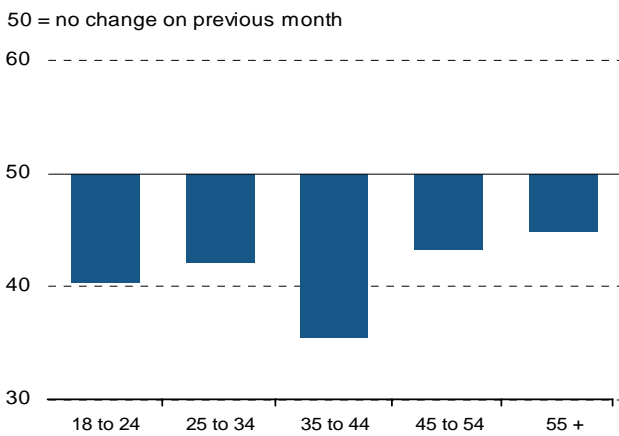
Availability of unsecured credit

August data: Compared to one month ago, how easy is it for you to get access to credit cards / overdrafts / other unsecured loans?

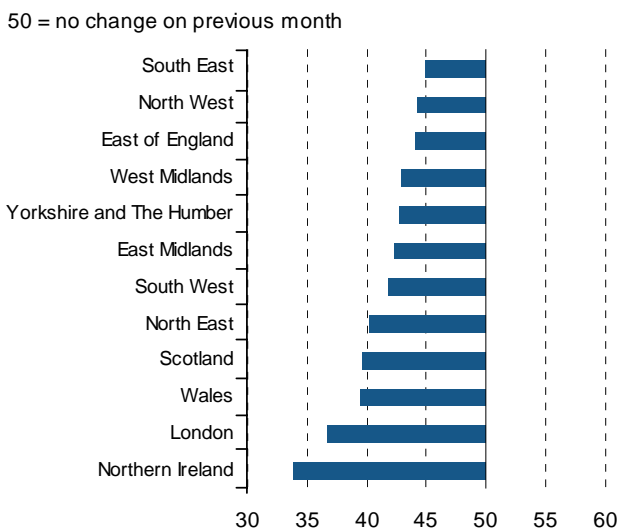
By income



By age



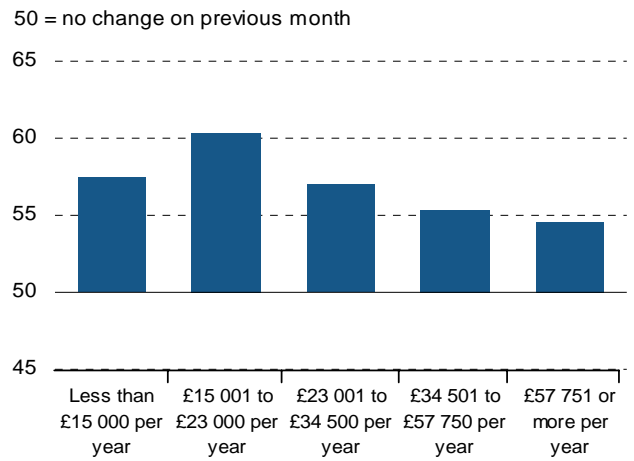
By region



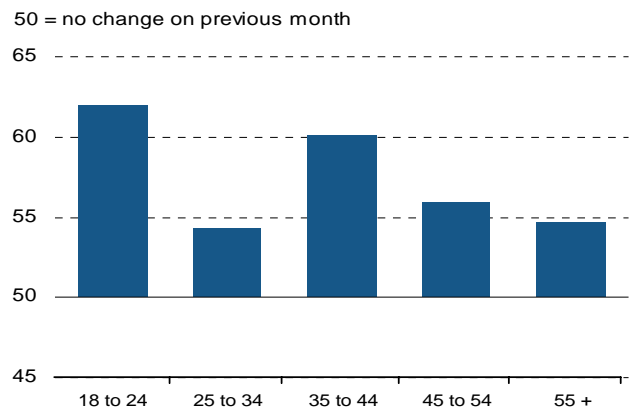
Need for unsecured loans

August data: Compared to one month ago, how has your need for additional borrowing changed in respect of credit cards / overdrafts / other unsecured loans?

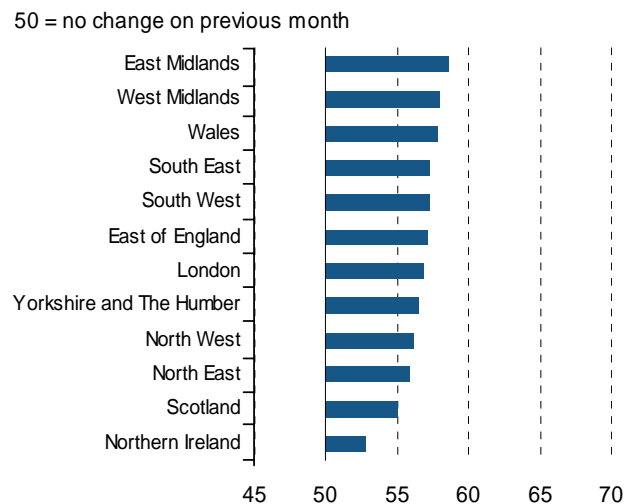
By income



By age



By region

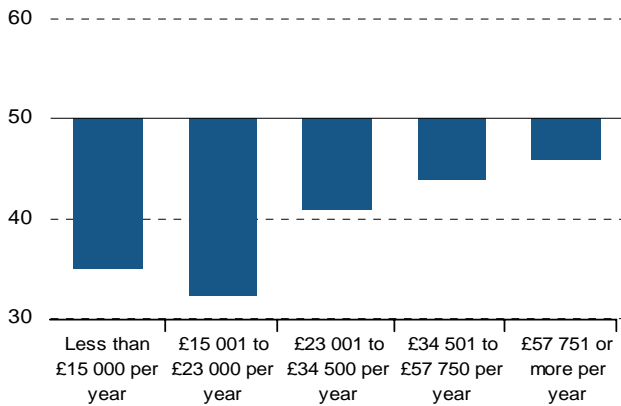


Availability of secured credit

August data: Compared to one month ago, how easy is it for you to get access to mortgages/other secured loans?

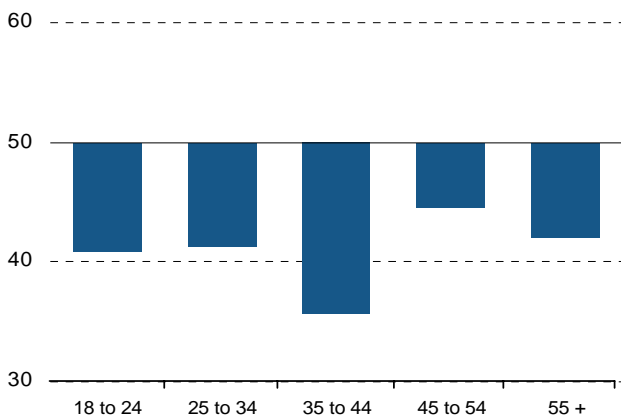
By income

50 = no change on previous month



By age

50 = no change on previous month



By region

50 = no change on previous month

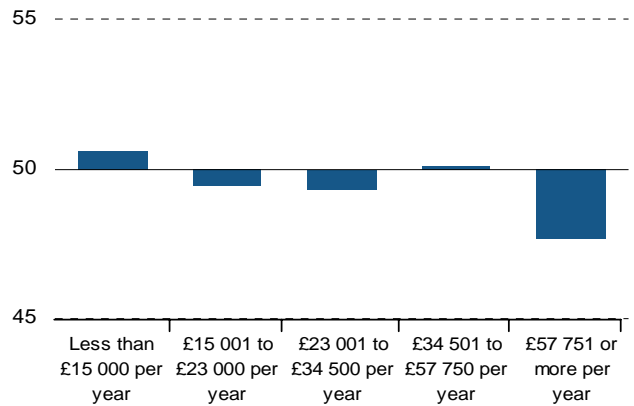


Need for secured loans

August data: Compared to one month ago, how has your need for additional borrowing changed in respect of mortgages/other secured loans?

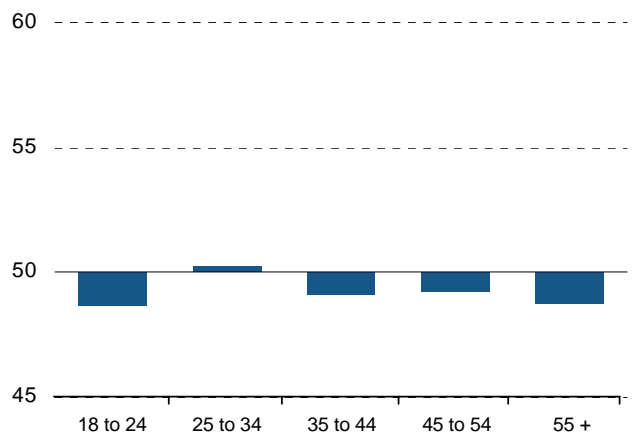
By income

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By age

50 = no change on previous month



By region

50 = no change on previous month



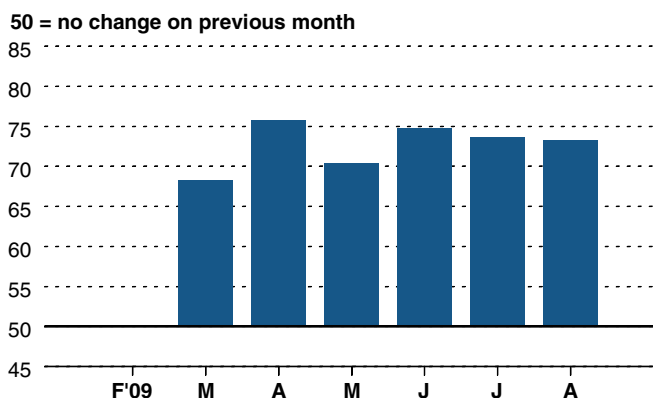
Consumer price inflation

Inflation expectations across UK households rose to highest in six months of data collection

- Perceived prices rose again, albeit at weaker rate.
- Inflation expectations rose to highest in survey history.
- Mid-to-low income households report biggest rises in average costs.

August data from the Markit/YouGov Household Finance Index (HFI) signalled a further rise in consumer prices. While the current rate of inflation was adjudged by households to have eased marginally on July, households' inflation expectations rose to the highest since data were first collected in March.

Prices



Approximately 53% of UK households registered a rise in the cost of goods and services purchased during the latest survey period. This compares to 57% of households that adjudged prices to have risen in July. Despite falling to a three-month-low, at 73.3, the index measuring current price perceptions was indicative of a solid rise in average prices paid for goods and services by UK households.

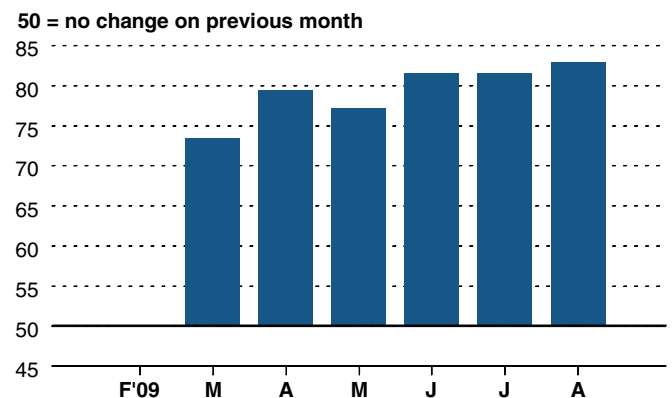
Survey participants in the North East recorded the highest perceived rate of price inflation during August, as current price perceptions rose to the strongest across the region in four months. At the other end of the scale, households in London adjudged that prices rose at the weakest pace of the twelve UK regions.

Those households earning between £15,001 and £23,000 recorded the highest perceptions of current

inflation during August, bringing to an end a period of five months in which the lowest earners have been hit hardest by rising prices.

This suggests that the poorest households, where utility bills take up a larger proportion of household income, are starting to benefit from lower gas and electricity prices.

Price Outlook



Inflation expectations rose to their highest in six months of data collection during August, with around 72% of UK households forecasting rising prices over the coming year.

Reflective of higher perceived rates of current inflation, those households with a combined income between £15,001 and £23,000 recorded the strongest inflation expectations during August. Households in the highest income bracket (£57,751+) registered the lowest expectations for future price rises. Nonetheless, almost two-thirds of this group expect prices (on average) to be higher in one year's time.

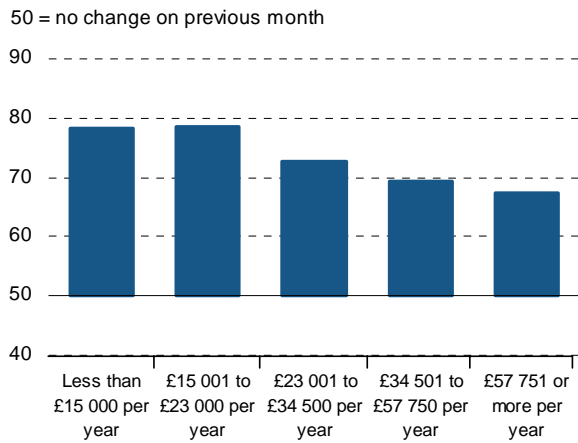
Broken down by age, those participants aged over 55 most commonly anticipate price rises, with 83% expecting the average costs of their purchases to increase over the forecast period. Survey participants aged 18-24 are least-certain that average prices paid for goods and services will rise over the next twelve months.

By region, households in Wales are most convinced that prices will rise over the outlook period. For the third month in a row, households in the capital have the weakest inflation expectations.

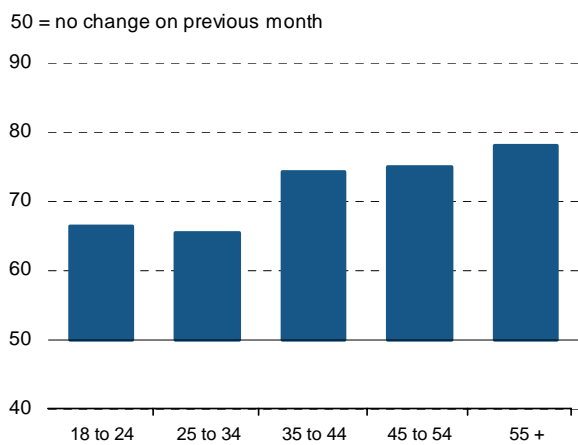
Current perceptions of inflation

August data: Compared to one month ago, how do you think prices generally for goods and services that you buy have changed?

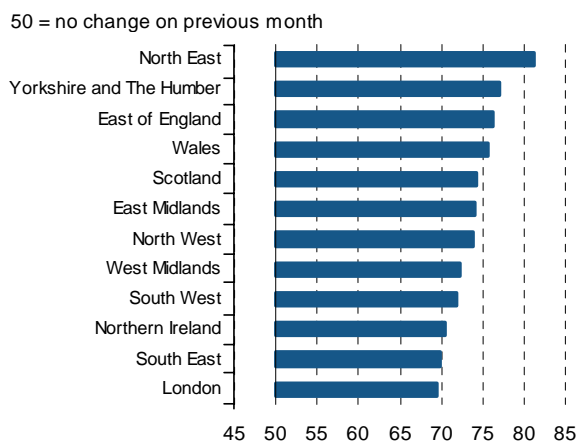
By income



By age



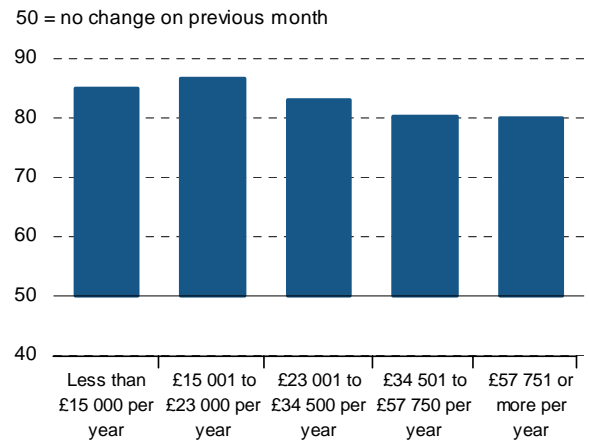
By region



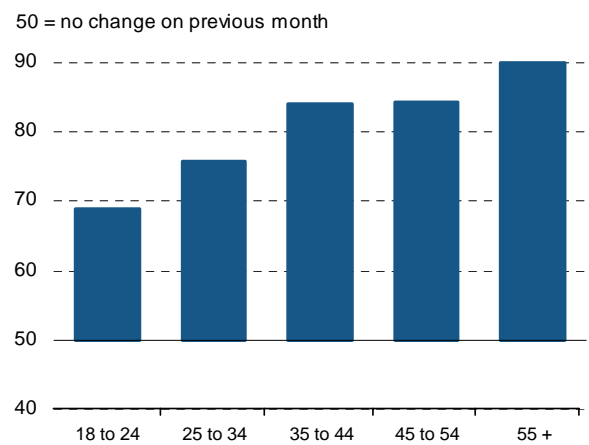
Inflation expectations

August data: How do you think prices generally for goods and services that you buy will have changed 12 months from now?

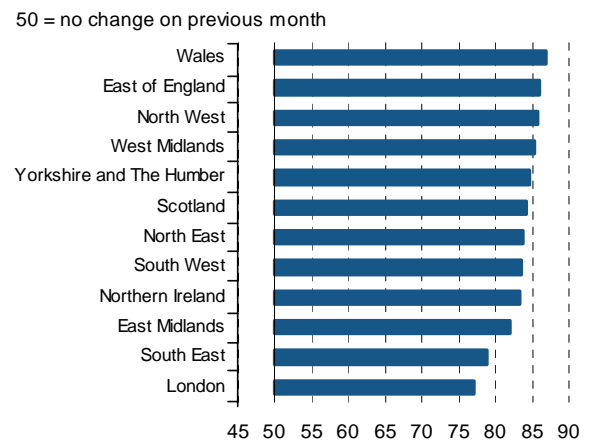
By income



By age



By region



Markit/YouGov HFI

For further information, please contact:

Markit

Chris Williamson, Chief Economist
Telephone +44-20-7260-2329
Email chris.williamson@markit.com

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

YouGov

Tony Diamond, Consulting Director
Telephone +44-20-7012-6000
Email tony.diamond@yougov.com

Email info@yougov.com

The full report and historical data for the HFI are available via subscription from Markit. The subscription service includes survey data analysed by employment status, job type, sector, region, age group and other breakdowns. For further information please contact economics@markit.com

Note to Editors:

About the HFI

The UK edition of the Household Finance Index (HFI) survey was first conducted in February 2009 and is jointly compiled each month by Markit Economics and YouGov.

The survey methodology has been designed by Markit and YouGov 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.

The survey is based on monthly responses from over 2,000 households, with data collected online by YouGov plc from its representative panel of respondents. The panel is structured according to income, region and age to ensure the survey results accurately reflect the true composition of the UK population. Results are also weighted to further improve representativeness.

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.

About YouGov

YouGov is a global full service market research company, primarily using online panels to provide quantitative and qualitative research across a range of specialisms. These include consumer markets, financial services, technology and telecoms, media, politics and the public sector. YouGov's full service offering spans added value consultancy, syndicated product offers, omnibus, qualitative research and field and tab services. YouGov is considered the pioneer of online market research and was the only research company named in the 2008 Deloitte Technology Fast 50. Its well-documented and published track record in predicting election outcomes demonstrates the accuracy of its survey methods and in turn the quality of its client service work.

About Markit

Markit is a financial information services company with more than 1,100 employees in Europe, North America and Asia-Pacific. Over 1,500 financial institutions use our independent services to manage risk, improve operational efficiency and meet regulatory requirements.

About Markit Economics

Markit Economics is a specialist compiler of business surveys and economic indices, including the Purchasing Managers' Index (PMI) series, which is now available for 26 countries and key regions including the Eurozone and BRIC. The PMIs have become the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.