

News Release

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Household Finance Index (HFI) – United Kingdom

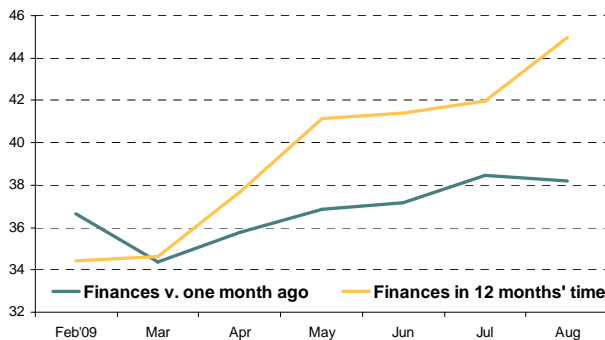
Household finances weaken in August amid falling incomes and rising debt, but outlook continues to improve

Key points:

- UK household finances weaken in August as income and savings continue to fall.
- Improved 12-month outlook for household finances signalled in August...
- ...with income and house prices expected to rise in the year ahead.
- Debt levels increase in August, particularly among 18 to 24 year olds.
- Demand for unsecured loans rises at fastest pace since survey began in February.

Summary:

HFI, 50 = no change in household finances



At 38.2 in August¹, 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. Household finances deteriorated in

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.

all twelve UK regions, with the rate of decline fastest in Northern Ireland and slowest in London.

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.

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.

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. Positive sentiment was recorded in nine of the ten job categories, with construction the only exception.

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%). Savings declined in all UK regions, with the fastest reduction registered in the North East. Meanwhile, **debt levels** increased at a faster rate in August, with those aged 18 to 24 signalling the steepest rise. By region, the North East saw the most marked increase.

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.

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%).

Perceptions of current inflation fell fractionally in August, but remained higher than March's low. Meanwhile, **expectations of inflation in 12 months' time** were the highest in the six-month series history.

Households reported a further marked fall in their confidence in the **government's management of the economy**. Less than 6% indicated that they had become more confident since July, compared with around 49% that signalled lower confidence. Reduced confidence in the government's handling of the economy was recorded across all age ranges, income groups and UK regions.

Commenting on the HFI survey, **Tim Moore, Economist at Markit** said:

"UK household finances remained under pressure in August as the recession lowered household incomes, savings and job security. Consequently, debt levels crept up in August and demand for unsecured loans increased further. Respondents aged 18 to 24 were mostly likely to see an increase in both debt levels and need for unsecured loans, highlighting the financial difficulties faced by a group counting the costs of near record high joblessness.

"However, actual spending was relatively resilient in August, perhaps because households see better times ahead. The outlook for finances was the least pessimistic since the survey began in February, while forecasts for income levels and house prices strengthened further in August. This suggests households anticipate an improvement in economic conditions over the next 12 months and feel that the squeeze on their finances has passed its worst point."

Tony Diamond, Consulting Director at YouGov added:

"Whilst the headline HFI was little changed from last month, and only marginally better than back in February, there are some modestly positive indicators. There is a near stabilisation in business activity in the workplace, and faith in the housing market continues to increase, with over 40% of respondents now believing that their property will rise in value over the next 12 months."

-Ends-

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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 1,200 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.

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