

News Release

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Household Finance Index (HFI) – United Kingdom

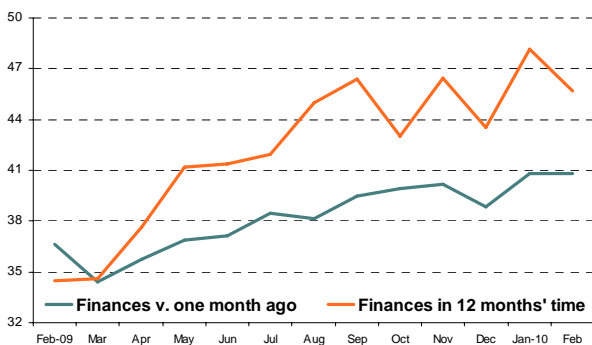
Household finances under strain in February as incomes stagnates and cost of living increases

Key points:

- Household finances continued to deteriorate.
- If elected, Conservatives seen as political party most able to improve UK household finances.
- Inflation perceptions highest since start of survey in February 2009.
- Incomes and spending broadly unchanged.
- Job insecurity continued, despite rising levels of activity at work.

Summary:

HFI, 50 = no change in household finances



Current and Future Finances

Survey data from Markit/YouGov signalled that UK consumer finances worsened again in February, partly because income levels failed to keep pace with increases in prices for goods and services. Just under 25% of survey respondents reported a deterioration of their household finances over the month, compared to just 6% that indicated an improvement. At 40.8, the resulting **Markit/YouGov Household Finance Index (HFI)**¹, which provides

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 first indication of consumer finances each month, was well below the 50.0 no-change threshold. The index signalled that the rate of deterioration in household finances was unchanged since January, but slower than one year earlier (the index stood at 36.6 in February 2009).

The **one-year outlook** dipped in February, with around 34% of respondents expressing negative sentiment, compared with 26% that are optimistic about their future household finances. However, the degree of pessimism was much less marked than in February 2009, when almost half expected their finances to worsen.

Special question on General Election

A **special question** was introduced in February, asking people which political party (if elected) would be most able to improve their household finances over the 12 months after the **General Election**².

The **Conservative party** came out on top, with 27% of UK respondents feeling they were most able (if elected) to improve their finances. This compared to 21% for the Labour party and 8% for the Liberal Democrats.

People most likely to see the **Conservatives** as best for their finances were those living in London, the highest income groups (£57,751 or more per year) and the self-employed. Respondents cited the Conservative party's focus on cutting the national debt and reining in public sector spending.

In contrast, **Labour** scored highest amongst those on the lowest incomes. Households seeing Labour as best for their finances mentioned the party's traditional support for their social group and greater propensity to protect public sector jobs. Some also mentioned the benefits of continuity in economic policy during the recovery.

The Liberal Democrats did best amongst students and those in the youngest age group (18-24). This

² Detailed breakdown of data available upon request.

partly reflected their income tax plans for people on low incomes. Respondents also frequently cited their confidence in Vince Cable as a reason they believe the Liberal Democrats would be most able to improve their household finances.

Across the UK as a whole, 36% of respondents said they did not know which or believed none of the parties would be best for their finances, with undecided respondents most commonly those aged 25-34.

Jobs, Spending and Debt

UK households indicated that concerns about **job security** persisted in February. Job security fell at the fastest rates in the construction sector, followed by Education/Health/Social services. Private sector job security dropped at the slowest rate since the survey began last February. This widened the gap between private and public sector workers, with the latter reporting a similarly marked fall in job security to that recorded in January.

The deterioration in job security contrasted with a further increase in **activity levels at respondents' workplaces**. Around 25% of households reported an increase in workplace activity, against 14% that saw a decline. At 55.3, the resulting index reading was the highest in the series history.

Income from employment was broadly unchanged in February, with both public and private sector workers seeing a stagnation of pay levels. Respondents remained confident about their **income in twelve months' time**, particularly those in the private sector.

Inflation Perceptions

Almost 60% of UK households reported a rise in the general **prices for goods and services** bought in February, against just 4% that signalled a decline. At 78.1, up from 77.2 in January, the resulting index reading was the highest since the start of the series. Current inflation perceptions were the highest among the lowest income groups and oldest age categories.

Inflation expectations for the year ahead dropped fractionally from January's survey high. However, at 87.6, the index was comfortably above that recorded on average over the past twelve months (82.2).

House Prices

Households on balance judged the value of their residence to have risen in value in February. Around twice as many respondents (20%) indicated an increase over the month as those that

suggested a decline (10%). Positive **housing market sentiment** has been recorded continuously since September 2009. Latest data indicated that perceptions of rising house prices were concentrated in London and the South East.

Survey respondents continue to forecast an increase in the **value of their residence over the next twelve months**. However, the degree of confidence dipped from January's series high.

Government's Management of the Economy

February data pointed to a drop in households' confidence in the **government's management of the economy**. Around 40% reported lower confidence over the month. However, this was much less marked than in February 2009, when almost 60% reported a decline. By region, the sharpest falls in sentiment were in Northern Ireland and the West Midlands. Respondents in the oldest age category (55+) and those working in the construction sector were also among those most likely to report a drop in confidence.

Comment:

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

"February's survey highlights that UK household finances are still deteriorating, despite the recession officially ending last year. This mostly reflected a combination of stalling incomes and rising inflation perceptions. With household spending falling again, the latest data suggest that weak final domestic demand could limit the recovery in the wider economy."

"Household finances are likely to be at the forefront of people's minds as the election approaches this year, and survey data from Markit/YouGov indicates an open battleground between the main political parties. The Conservative party have the edge when it comes to perceptions of which party would be best for household finances. However, more than one-in-three respondents were unable to decide on a particular party, suggesting that a sizeable minority are yet to make up their minds over which party offers them the brightest outlook for their finances."

Leon Gunning, Research Executive at YouGov added:

"It's the economy, stupid' continues to make sense almost 2 decades after the Clinton campaign coined the phrase. Regressive and longitudinal analysis of HFI data shows that household situation is correlated to confidence in the UK government's management of the economy."

“At the beginning of the HFI, 36% of respondents replied that their household situation has gotten ‘worse’. This corresponded with 60% of respondents having ‘less’ confidence in the UK government’s management of the economy. In the most recent wave, 25% replied that the household situation had gotten ‘worse’ with 39% reporting ‘less’ confidence in the government’s monetary policies. Government (re)electability is based to some degree on how long grocery lists are.”

-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 leading global financial information services company with over 1,400 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, see www.markit.com

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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