

April 10 2017

Visa's UK Consumer Spending Index

Compiled by Markit on behalf of Visa

March rounds off weakest quarter for spending growth since Q4 2013

Headline findings:

- Household expenditure increases by +1.0% on the year, down from +1.3% in February
- Average annual growth rate falls to +0.9% in Q1, down from +2.7% in Q4 2016
- Spending through e-commerce continues to drive growth (+8.2%); face-to-face expenditure however declines for third month running (-1.3%)
- Best performers are Recreation & Culture (+7.2%) and Hotels and Restaurants & Bars (+4.0%); while Clothing & Footwear and Food & Drink reports slight declines

Visa's UK Consumer Spending Index signalled a further modest rise in household expenditure at the end of the first quarter of 2017. That said, the rate of growth slipped to +1.0% on the year from +1.3% in the previous month, and rounded off the weakest quarterly performance since Q4 2013. This was shown by the average annual growth rate falling to +0.9% in Q1, down from +2.7% in Q4 2016.

Spending through e-commerce channels increased at the sharpest pace since last November in March, rising by +8.2% on the year up from +3.0% in February. This more than offset a modest fall in spending on the high street, which declined for the third month in a row. That said, the rate of

decline softened from -3.2% to -1.3% in March.

Only half of the eight broad spending sectors registered increased expenditure in March. Marked increases in spend were seen in areas such as Recreation & Culture (+7.2%) and Misc. Goods & Services (6.9%) (which includes health, beauty and jewellery), with both seeing faster rates of growth than in the opening two months of the year. Hotels, Bars & Restaurants also saw solid spending growth (+4.0%).

Traditional areas of retail such as Food & Drink (-0.4%) and Clothing & Footwear (-0.2%) continued to register lower expenditure compared to a year ago, though rates of reduction were only slight.

Kevin Jenkins, UK & Ireland Managing Director at Visa commented:

"Our data suggests that consumer spending is beginning to slow from the strong levels seen in late 2016, as rising prices increasingly squeeze household purchasing power. While overall spend continued to expand in March, the average growth rate for Q1 slowed down sharply to 0.9% from 2.7% in Q4 2016. Q1 was in fact the weakest quarter in terms of growth in the past three years.

"There were, however, still pockets of resilient growth in March with the leisure and hospitality sectors seeing growth of 7.2% and 4.0%, respectively. The Index confirms an ongoing trend of consumers prioritising experiences, as spend on food, clothing and household goods continued to trail behind.

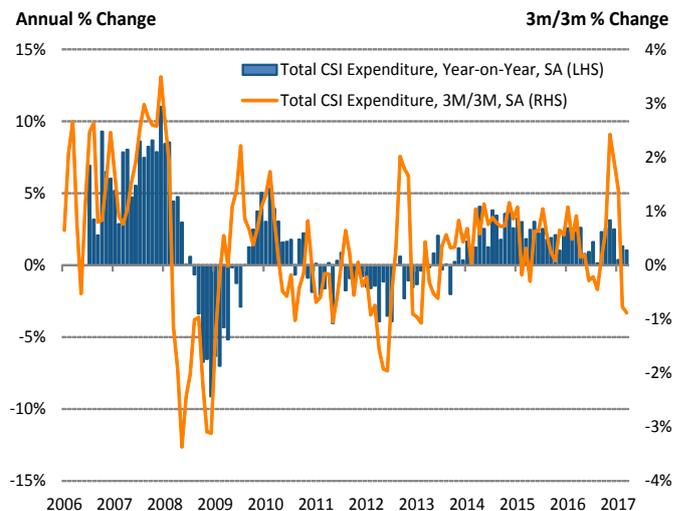
"Another trend is consumers increasingly favouring "clicks" over bricks and mortar shops. Benefiting from this trend, online retailers saw spend up 8.2% in March, marking the strongest monthly growth rate since Black Friday boosted November's figures. In contrast, milder weather and longer days did little to lift high street spend, which was down 1.3%."

Annabel Fiddes, Economist at IHS Markit said:

"The Visa UK CSI data for March signalled only a modest increase in overall consumer spending (+1.0% year-on-year) that was slower than that seen in February (+1.3%). As a result, the data rounded off the weakest quarter for household spending since the end of 2013.

"Relatively modest increases in expenditure through the opening quarter adds to the picture of a slowing UK economy, as highlighted by recent business surveys, while rising inflationary pressures have eaten away at consumers' spending power. Therefore, the strong increases in expenditure we saw through most of 2016 are unlikely to be replicated this year. Furthermore, inflation is forecast to rise further from current levels, while consumer confidence remains lacklustre as households and businesses alike face a prolonged period of uncertainty around the ongoing Brexit negotiations."

Visa's UK Consumer Spending Index



Visa's UK Consumer Spending Index	Feb-17	Mar-17
Overall Spending Annual % Change (SA)	+1.3%	+1.0%
Overall Spending Monthly % Change (SA)	0.0%	-0.7%
Face-to-Face Spending Annual % Change (NSA)	-3.2%	-1.3%
E-commerce Spending Annual % Change (NSA)	+3.0%	+8.2%



Visa's UK Consumer Spending Index

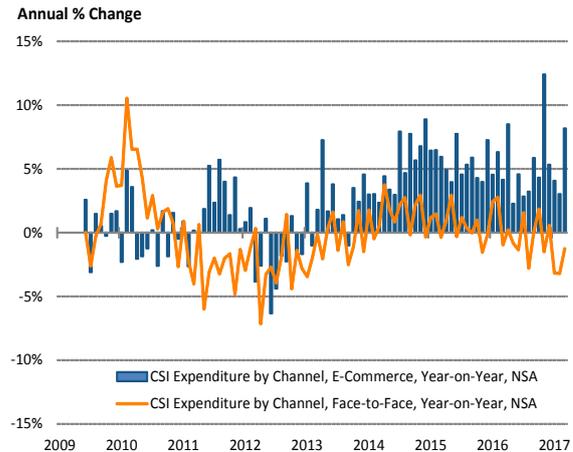
E-commerce and Face-to-Face Spend

March spending data continued to point to divergent trends, with expenditure rising markedly through e-commerce channels, but declining again in face-to-face categories. However, it should be noted that the extra trading day in February 2016 will have impacted annual growth rates for the previous month.

Expenditure continued to increase across e-commerce categories at the end of Q1, with the annual rate of growth improving to +8.2% from +3.0% in February. Notably, it was the fastest rate of expansion since last November.

Face-to-face spending meanwhile declined in March, as has been the case throughout 2017 so far. That said, the rate of reduction slowed to the weakest in the current three-month sequence and was modest overall (-1.3% on the year, from -3.2% in February).

UK CSI: E-commerce vs Face-to-Face*



Spending by Sector

Visa's UK Consumer Spending Index monitors eight broad sectors. Summary data for annual growth rates in February & March 2017, which are not adjusted for seasonality and trading days, are provided in the table opposite.

Household spending increased in half of the broad expenditure categories during March. Health & Education registered the fastest annual growth rate, closely followed by Recreation & Culture. Misc. Goods & Services (which includes health, beauty and jewellery) also saw a marked rise in spending compared to a year ago, while spending increased solidly across Hotels, Restaurants & Bars.

Spending continued to decline across Food & Drink, Clothing & Footwear and Household Goods categories, albeit at a fractional pace in each case. Transport & Communication categories also noted lower expenditure, though the rate of decline was modest overall.

Annual Growth Rates By Sector*

Broad Sector	Feb '17	Mar '17
Food, Beverages & Tobacco	-0.9%	-0.4%
Clothing & Footwear	-4.3%	-0.2%
Household Goods	-3.5%	-0.2%
Health & Education	+1.0%	+7.4%
Transport & Communication	-4.6%	-2.2%
Recreation & Culture	+2.9%	+7.2%
Hotels, Restaurants & Bars	+0.9%	+4.0%
Misc. Goods & Services	+1.9%	+6.9%

*data not adjusted for seasonality and trading days

What UK businesses are saying

Visa is tracking the sentiment of several small businesses across the UK on a monthly basis, asking about their views on the economy, business conditions and forecasts for the month ahead.

Gayle Haddock, Carry me home (Children's Clothes), London:

"March was a good month for us as our new spring/summer stock brought in more online sales. We're now hoping that customers on the hunt for new clothes for the Easter holidays and half term breaks will drive growth further for us in April.

"We feel lucky to have made the decision to move our business online. With rising rent and the new business rates kicking in, it is a particularly challenging time for independent bricks-and-mortar clothing stores."

Josh Beer, The Illustrious Pub Company, Cambridgeshire:

"Our revenue was up 17% compared to last month and we're very happy with that. Mother's Day is usually an important event for us and this year was no exception, with customers treating themselves and their mothers to hearty meals over the weekend.

"Although the weather only started to warm up towards the end of March, milder temperatures coupled with longer days have already made a significant difference to our dinner service, as more people feel encouraged to leave the house."

Quan Nguyen, Chi Cafe, London

"March wasn't a very good month for us. Despite the weather getting better, we had fewer customers through the door. There have been some changes in the local area, with two large companies close to us moving to another part of London. This might have been the main reason behind the decline in sales. It also seems that people are becoming a little more hesitant about spending, as the average bill for March was slightly lower than in previous months."

Visa's UK Consumer Spending Index

Official Data Comparisons

Annual percentage changes in Visa's UK Consumer Spending Index have an excellent relationship with a number of official data series, in particular Gross Domestic Product (GDP) from the Office for National Statistics (ONS).

Most recently, Visa's UK Consumer Spending Index (CSI) successfully tracked an expansion of GDP in the final quarter of 2016.

Consumer spending rose at a modest pace at the end of Q1, with March data signalling a +1.0% year-on-year increase in expenditure. That said, this was down from +1.3% in February and rounded off a relatively weak quarter, with spending rising by an average of +0.9% on an annual basis over Q1, down from +2.7% in Q4 2016. Notably, this was the lowest average annual growth rate over a quarter since Q4 2013.

Slower growth in consumer spending coincides with a number of other economic data releases that highlight a slowing UK economy in the first quarter of the year. The PMI surveys have noted weaker increases in business activity through the first quarter compared to Q4, while consumer confidence has settled at a level well below the peaks seen through 2014 and 2015. Rising inflationary pressures meanwhile have led to the quickest increase in living costs since September 2014, to further squeeze households' spending power.

With consumer prices forecast to rise further in the coming months, its likely that this will be a key factor weighing on expenditure growth going forward.

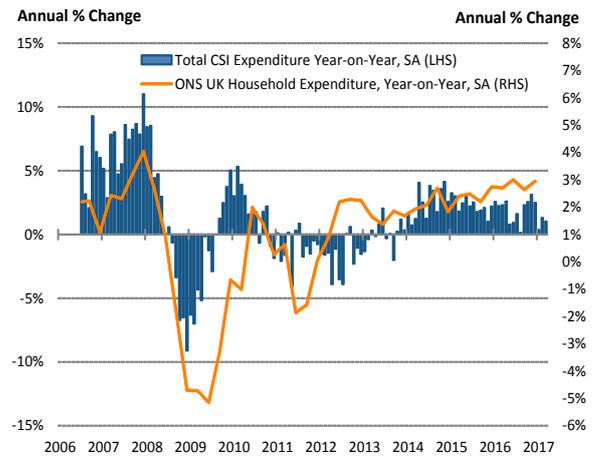
Visa's UK Consumer Spending Index uses card transaction data to provide a robust indicator of total consumer expenditure across all payment methods and is used by a range of stakeholders to gain insights into consumer spending, including HM Treasury. It is based on spending on all Visa debit, credit and prepaid cards which are used to make an average of over 2.3 billion transactions every quarter and account for £1 in £3 of all UK spending. Working with Markit, these card spending data figures are adjusted for a variety of factors such as card issuance, changing consumer preferences to pay by card rather than cash and inflation. These adjustments mean that these data are distinct from Visa's business performance and the Index reflects overall consumer spending, not just that on cards.

For further information, please contact:

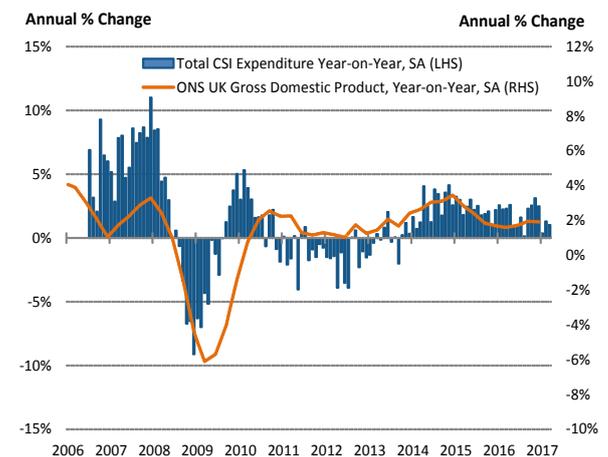
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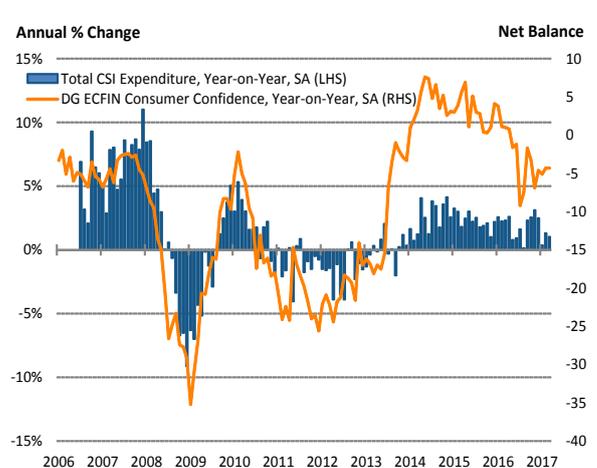
UK CSI & Household Expenditure



UK CSI & GDP



UK CSI & Consumer Confidence



Sources for Charts: Visa, ONS, European Commission
 NSA: Non-Seasonally Adjusted, SA: Seasonally Adjusted



Notes and Further Information

Utilising Visa's unique position at the heart of the payments ecosystem – with £1 in every £3 spent in the UK on a Visa card – Visa's UK Consumer Spending Index is designed to provide a monthly assessment of underlying consumer spend patterns in the UK economy. The Index is based on data for all Visa debit, credit and prepaid cards held by UK cardholders, with a number of adjustments made to ensure an accurate indication of consumer spending trends is provided.

First, the data are cleaned to remove any spending on items that are not ordinarily classified as consumer expenditure (such as spending on savings products or taxes). Moreover, refunds and cashback are also accounted for at this stage. Second, the data are deflated by changes in the number of active Visa cards in order to account for the expansion of Visa's card operations, particularly on the debit side. Thirdly, an adjustment is made to offset changing consumer preferences for card usage. This is based on an assessment of the trends in cash withdrawals and point-of-sale (POS) transactions on Visa cards. Fourthly, to account for inflation, the data are deflated by changes in the consumer price index to provide an indicator of real changes in household spending. Finally, the headline data are seasonally and trading day adjusted.

From September 2015, in addition to spending at domestic-based merchants in the UK, we also include spending at selected online companies operating outside of the UK that sell items such as clothing, holidays, books, etc. The addition is designed to ensure that we successfully capture changing trends in spending and confidence amongst UK consumers – primary aims of our research.

'Visa's UK Consumer Spending Index' spending by product categories consist of the following standard Classification of Individual Consumption According to Purpose (COICOP) groups:

Product Category	COICOP Group
Food, Beverage & Tobacco	1, 2
Clothing & Footwear	3
Housing & Household Goods	4,5
Health & Education	6,10
Transport & Communication	7,8
Recreation & Culture	9
Hotels & Restaurants	11
Miscellaneous Goods & Services	12



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We operate one of the world's most advanced processing networks—VisaNet— that is capable of handling more than 65,000 transaction messages a second, with fraud protection for consumers and assured payment for merchants. Visa is not a bank and does not issue cards, extend credit or set rates and fees for consumers. Visa's innovations, however, enable its financial institution customers to offer consumers more choices: pay now with debit, pay ahead with prepaid or pay later with credit products. For more information, visit our website (www.visaeurope.com), the Visa Vision blog (www.vision.visaeurope.com), and @VisaEuropeNews



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