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Visa's UK Consumer Spending Index

Compiled by IHS Markit on behalf of Visa

Consumer spend falls for the third month in a row

Headline findings:

- Consumer spending falls by **-0.8%** on an annual basis, following declines in May and June
- Transport & Communication (-6.1%) and Clothing & Footwear (-5.2%) see most marked reductions in spend
- Face-to-Face expenditure falls at quicker pace (-3.7% on the year), while E-commerce spend increases by +3.6%

Visa's UK CSI data signalled a further decline in household expenditure at the start of the third quarter. Compared to the same month a year ago, spending fell -0.8% in July, which was slightly faster than seen in June (-0.2%). Moreover, spending has now declined in each of the past three months, to mark the longest period of deterioration since the five-month sequence ending in February 2013.

Broken down by sector, five of the eight broad spending categories noted lower expenditure in July. The steepest reduction was seen in Transport & Communication (-6.1% year-on-year), followed by Clothing & Footwear categories (-5.2%). Moreover, the latter saw the second-fastest drop in spending since April 2012 (after May this year).

Lower expenditure was also registered in Household Goods (-4.0%) and Health & Education (-2.4%) sectors. Notably, spending across Household Goods categories has either fallen or stagnated in each month since last December. The only other sector to see lower expenditure was Food & Drink, albeit at a marginal rate (-0.5%).

Greater spending was seen in Hotels, Restaurants & Bars categories (+6.0%) at the start of the third quarter, while Recreation & Culture saw a return to growth (+1.3%) after a slight fall in June.

The decline in overall spending was largely driven by a further fall in Face-to-Face expenditure (-3.7%), as spending through E-commerce channels continued to rise (+3.6%).

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

"Consumer spend fell for the third month in a row in July, the first time overall spending had fallen for three consecutive months since February 2013. The figure provides further evidence that rising prices and stagnant wage growth are squeezing consumers' pockets.

"The drop in spending was felt across a broader range of retail sectors last month, with clothing, household goods, food and transport among the worst hit.

"There were still some bright spots in July, with hotels, restaurants and bars reporting a 6% increase. The sector is likely to have benefited from an early surge in summer staycations, as the weak pound made holidaying at home more attractive."

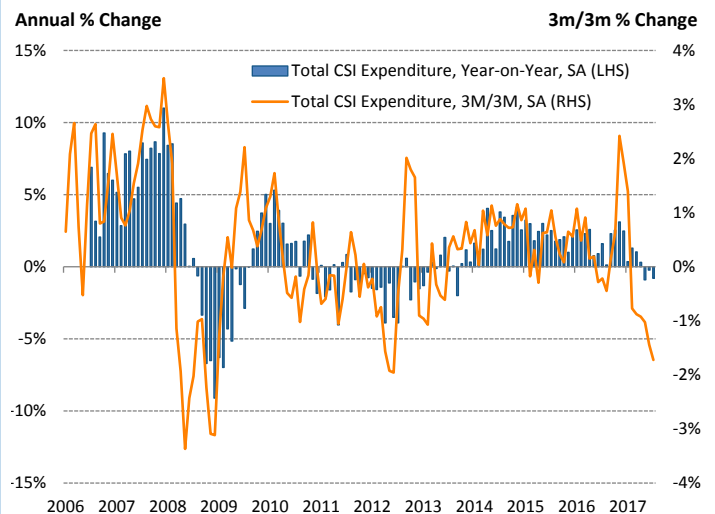
Annabel Fiddes, Principal Economist at IHS Markit, said:

"The Visa UK CSI figures show that consumer spending trends continued to deteriorate in July. Total expenditure fell -0.8% on the year, after similarly marginal reductions in May (-0.9%) and June (-0.2%), to mark the longest period of decline since early-2013.

"Reduced spending comes at a time when the UK economy has been expanding at a relatively modest pace, while households have been facing strong increases in living costs, and a slowdown in earnings growth. Notably, the latest ONS figures show total real pay falling at the quickest pace for nearly three years.

"Alongside the renewed squeeze on household budgets, uncertainties linger over the direction of the economy and the outcome of the ongoing Brexit negotiations, which is weighing down consumer confidence. All this makes it seem unlikely that consumer spending will recover in the current challenging conditions, and adds to expectations that the Bank of England will not hike rates anytime soon."

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Visa's UK Consumer Spending Index	Jun-17	Jul-17
Overall Spending Annual % Change (SA)	-0.2%	-0.8%
Overall Spending Monthly % Change (SA)	+0.2%	+0.5%
Face-to-Face Spending Annual % Change (NSA)	-2.4%	-3.7%
E-commerce Spending Annual % Change (NSA)	+2.9%	+3.6%



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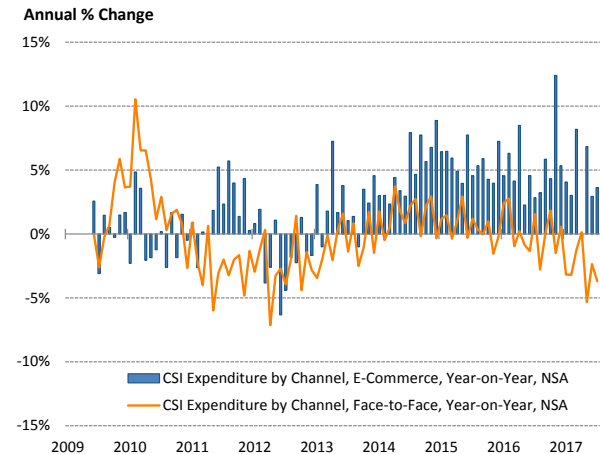
E-commerce and Face-to-Face Spend

Spending by channel continued to point to divergent trends in July, with a further decline in Face-to-Face expenditure contrasting with a sustained rise across E-commerce categories.

On an annual basis, Face-to-Face expenditure declined by -3.7% in July, following a -2.4% reduction in June. Notably, spending across this channel has now fallen in seven of the past nine months, though the latest reduction remained softer than May's five-year record (-5.3%).

At the same time, expenditure through E-commerce increased again in July, rising by +3.6% year-on-year. This was an improvement upon June's +2.9% increase, but nonetheless weaker than seen on average over the past three years.

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 June and July 2017, which are not adjusted for seasonality and trading days, are provided in the table opposite.

July data signalled lower expenditure in five of the eight broad spending sectors. The steepest reductions were seen in Transport & Communication (-6.1% on the year) and Clothing & Footwear (-5.2%), with the latter seeing the second-quickest drop in spend since April 2012 (after May this year). Solid reductions were also seen in Household Goods (-4.0%) and Health & Education (-2.4%). Food & Drink categories noted a marginal reduction in spending volumes (-0.5%), after a modest rise in June.

Meanwhile, Hotels, Restaurants & Bars registered the quickest increase in expenditure (+6.0%), followed by Misc. Goods & Services. Recreation & Culture saw a modest rise in spending (+1.3%) after a fall in June.

Annual Growth Rates By Sector*

Broad Sector	Jun '17	Jul '17
Food, Beverages & Tobacco	+2.1%	-0.5%
Clothing & Footwear	-0.6%	-5.2%
Household Goods	-3.1%	-4.0%
Health & Education	+2.2%	-2.4%
Transport & Communication	-6.1%	-6.1%
Recreation & Culture	-0.8%	+1.3%
Hotels, Restaurants & Bars	+5.0%	+6.0%
Misc. Goods & Services	+5.7%	+4.8%

*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.

Josh Beer, The Illustrious Pub Company, Cambridgeshire:

"As expected, it's been a quieter month for us, with sales down 3% on last year. We're changing our business to accommodate the shift in consumer spending habits and anticipated a slight dip. We've noticed that people are either willing to treat themselves to quality meals or looking for a bargain, so our marketing now emphasizes our premium offering."

Tony Bailey, Top Notch Hair & Beauty, Manchester:

"July was a brilliant month for us. Revenues were up significantly over last year, which really bucks the trend for what we've seen so far in 2017. We've benefitted from a healthy mix of both new and returning customers this month. This unexpected boost has been driven in part by the 'unicorn effect' as many of our customers have requested the pastel hair colours popular on social media."

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

"July isn't usually a hectic month for us, and this year was no exception. During the summer holidays many parents have to reduce their working hours and increase their childcare costs, so there's less time and money to make non-essential purchases. We've worked to counter this by releasing discount codes on social media."

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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 signalled a slowdown in growth of GDP over the first half of the year.

Overall, UK household spending declined by -0.8% compared to a year earlier in July. Expenditure has now fallen on an annual basis in each of the past three months, marking the longest period of reduction since that which ended in February 2013. On the quarterly measure, spending fell by -1.7%, which was the fastest decline seen for just over five years, indicating a further deterioration in underlying growth momentum.

The sustained fall in overall consumer spending coincides with a lacklustre economic backdrop. The rate of GDP growth was relatively modest across the UK through the first two quarters of the year, while uncertainties over the future of the economy and the outcome of Brexit negotiations have also hampered business and consumer confidence. At the same time, households have faced strong increases in living costs, with inflation remaining well above the Bank of England's 2.0% target, while earnings growth has softened. Notably, the latest figures published by the Office for National Statistics (ONS) reported a -0.7% decline in real pay in the three months to May, the quickest reduction since mid-2014.

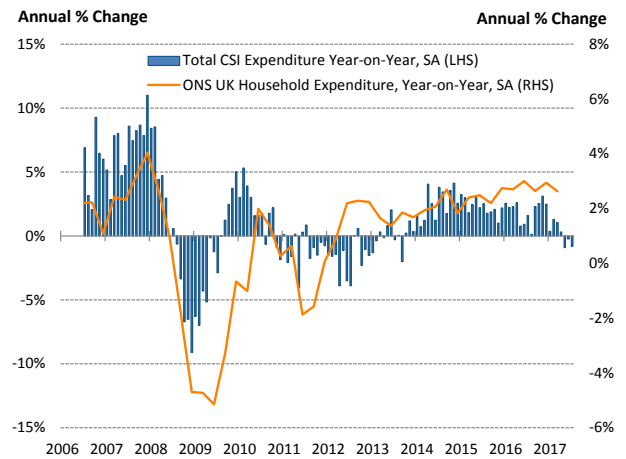
Visa's UK Consumer Spending Index uses card transaction data to provide a robust indicator of total consumer expenditure across all payment methods and is used by a range of stakeholders to gain insights into consumer spending, including HM Treasury. It is based on spending on all Visa debit, credit 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:

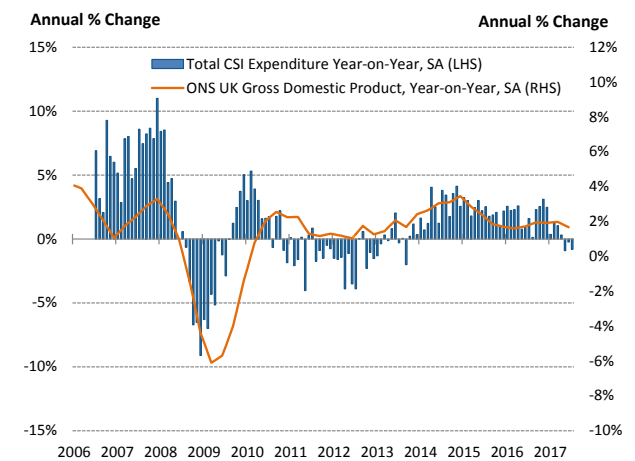
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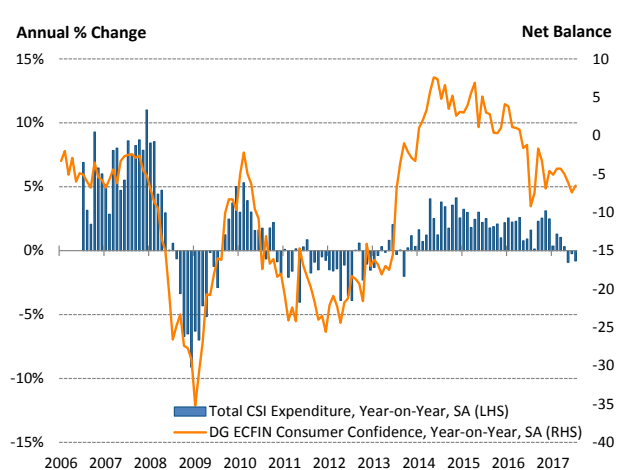
UK CSI & Household Expenditure



UK CSI & GDP



UK CSI & Consumer Confidence



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



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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.

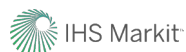
'Visa's UK Consumer Spending Index' spending by product categories consist of the following standard Classification of Individual Consumption According to Purpose (COICOP) groups:

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



Visa Inc. (NYSE:V) is a global payments technology company that connects consumers, businesses, financial institutions, and governments in more than 200 countries and territories to fast, secure and reliable electronic payments.

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 @VisainEurope



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