

Visa's UK Consumer Spending Index

Compiled by IHS Markit on behalf of Visa

Consumer spending on track for weakest year since 2013 despite modest August uptick

Headline findings:

- Consumer spending rises for first time since April (+0.3% year-on-year)
- Growth driven by higher E-commerce expenditure (+6.5% on the year), as Face-to-Face continues to decline (-2.6%)
- Recreation & Culture and Hotels, Restaurants & Bars register higher spending, while Transport & Communication remains weakest performer
- With average growth of 0.2% each month this year, consumer spending is on track for its weakest calendar year of growth since 2013

UK household spending increased for the first time in four months during August, with latest Visa UK CSI data posting a +0.3% year-on-year increase in expenditure. Although growth was only marginal, this contrasted with reduced spending in the prior three months. Despite the uptick in August, the data suggest that household expenditure is on track for its weakest calendar year of growth since 2013.

Spending by channel indicated that growth in E-commerce spending led the overall expansion, rising by +6.5% year-on-year. This was up from +3.6% in July and the quickest rate of increase since May. In contrast, Face-to-Face spending fell for the fourth successive month in August (-2.6% on the year), albeit at a softer pace than that seen in July (-3.7%).

August data indicated that spending rose through five of the eight broad spending categories during August. The strongest rate of growth was seen in Misc. Goods & Services (which includes jewellery, hair and beauty), followed by Hotels, Restaurants & Bars and Recreation & Culture. Household Goods meanwhile registered the first upturn in spending for nine months, though the pace of expansion was only slight.

Transport & Communication had been the worst performer for the eighth month in a row. Clothing & Footwear spending suffered another month of decline, though the rate of reduction softened since July, while Food & Drink retailers saw a marginal decline in expenditure, similar to the prior month.

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

"Consumer spending in August has bucked the trend of the previous three months, registering a marginal increase against the same period last year. Nevertheless we are wary about taking this as a sign that the household squeeze is easing given the clear slowdown in spending during the preceding three months.

"Worth noting though is that the story is very different when you look at e-commerce in isolation, which registered a 6.5% increase in August against a 2.6% drop for Face-to-Face expenditure. This continues the trend of e-commerce spending growing at a much faster rate than Face-to-Face spending which has been evident in virtually every month since the beginning of 2013.

"If we look at different sectors, spending on clothing was down in August, albeit at a slower rate than in July, despite a much hoped for back-to-school boost. Spend on transport and communications fell for the eighth consecutive month as consumers continued to shy away from big ticket items such as car purchases and air travel. On the other hand, the experience economy saw some success last month, possibly as a result of a rise in staycations due to the weakness of sterling. This translated into a four-month high in recreation spending and sustained growth in the hospitality sector.

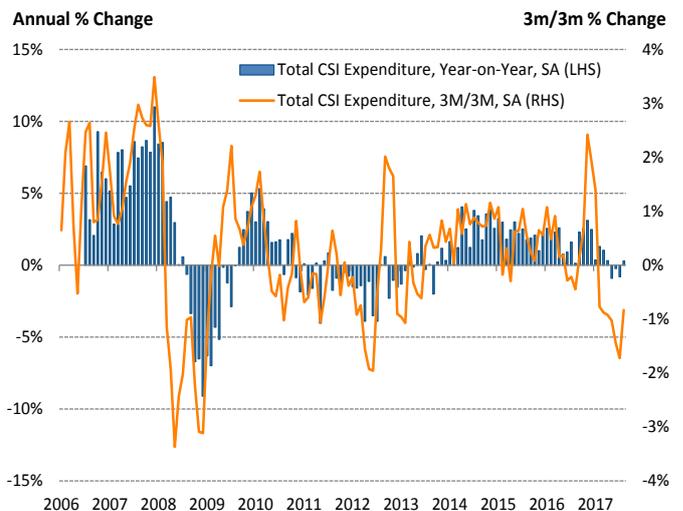
"There was also evidence of the 'lipstick effect', which consumers spending more on small treats such as jewellery, beauty products and trips to hair salons, reflected in a 10.1% increase in the miscellaneous category."

Annabel Fiddes, Principal Economist at IHS Markit, said:

"August signalled a renewed increase in UK consumer spending, with the Visa UK CSI posting a +0.3% expansion in overall expenditure following declines in the previous three months. However, the latest figure may have been supported by a particularly weak performance this time last year, when expenditure was dampened in the aftermath of the Brexit vote. Furthermore, the quarterly measure of spend, which provides a guide to underlying conditions, remained in negative territory in August to highlight the ongoing fragility of household spending. Notably, the data suggest that expenditure is on course for its weakest calendar year of growth since 2013.

"Weaker consumer spending trends highlight the difficulties facing the UK economy, with rising prices, lacklustre wage growth and a prolonged period of uncertainty over Brexit talks all likely to weigh on household consumption and economic growth for the rest of 2017. As a result, it seems unlikely that the Bank of England will look to raise interest rates for the foreseeable future."

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Visa's UK Consumer Spending Index	Jul-17	Aug-17
Overall Spending Annual % Change (SA)	-0.8%	+0.3%
Overall Spending Monthly % Change (SA)	+0.5%	-0.4%
Face-to-Face Spending Annual % Change (NSA)	-3.7%	-2.6%
E-commerce Spending Annual % Change (NSA)	+3.6%	+6.5%



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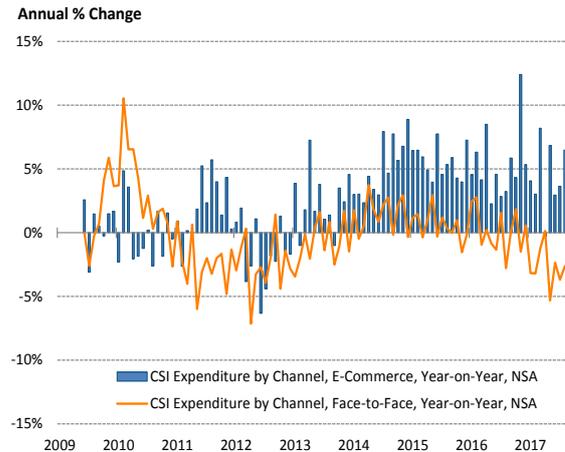
E-commerce and Face-to-Face Spend

August data continued to show higher spending through E-commerce channels, while Face-to-Face expenditure declined further.

E-commerce categories saw a +6.5% year-on-year increase in spending during August. This was up from +3.6% in July, and the quickest rate of expansion for three months. Notably, the rate of growth was stronger than the average seen in 2017 so far (+4.4%).

As has been the case through the vast majority of 2017, expenditure declined through Face-to-Face channels, falling by -2.6% on an annual basis in August. Although this was an improvement on July's -3.7%, it stretched the current sequence of contraction to four months.

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

Five of the eight broad expenditure categories registered higher spending volumes on an annual basis in August. The top three performing sectors were Misc. Goods & Services (which includes jewellery, hair and beauty), Hotels, Restaurants & Bars and Recreation & Culture. Meanwhile, Household Goods posted the first increase in expenditure since November 2016 (albeit marginal).

Transport & Communication meanwhile saw the quickest drop in spend during August, though the rate of reduction was the slowest seen since March. Marginal reductions in expenditure were meanwhile seen in Food & Drink and Clothing & Footwear categories.

Annual Growth Rates By Sector*

Broad Sector	Jul '17	Aug '17
Food, Beverages & Tobacco	-0.6%	-0.7%
Clothing & Footwear	-5.5%	-1.1%
Household Goods	-3.9%	+0.2%
Health & Education	-2.5%	+2.0%
Transport & Communication	-6.3%	-3.4%
Recreation & Culture	+1.3%	+2.3%
Hotels, Restaurants & Bars	+6.0%	+2.5%
Misc. Goods & Services	+4.9%	+10.1%

*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.

Tony Bailey, Top Notch Hair & Beauty, Manchester:

"We couldn't be happier with our performance in August! Turnover was up 9% on the previous year and total visits increased by nearly 6%. August is usually quiet for us because of people going on holiday, but that trend has certainly been bucked. I'd put the outstanding performance down to our strong social media outreach and the 'unicorn effect', as many of our customers have requested hairstyles that they see in the media."

Imogen Hawthorne, Paisley Immy Cakes, Birmingham:

"We had a rather quiet August. This is often the case for us as everyone who has a summer wedding usually orders and pays for their cake well in advance, and the holidays mean people are away and don't buy as many one-offs. Whereas I get my business through social media and word of mouth, other people in the industry that go to food markets to sell their products see sales rise in July and August due to the higher footfall due to more staycations."

Josh Beer, The Illustrious Pub Company, Cambridgeshire

"We had a small dip in revenue in August. The summer holidays wouldn't be the busiest time for us. And as we are changing our business model to focus on higher quality and slightly more niche dining, we expected an initial dip in the number of customers anyway. One upside to the change is that those who have come through the door are willing to treat themselves to quality meals rather than looking for a bargain."

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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.

The latest Visa CSI data signalled a renewed upturn in UK consumer spending during August, with expenditure rising +0.3% on an annual basis after three months of decline. However, underlying momentum remained weak, with the quarterly measure posting in negative territory again in August (-0.8%).

There have been a number of factors weighing on household spending in the UK in recent months, with living costs rising at a faster pace than wages and concerns over a relatively sluggish economic performance. Consumer confidence has also been dampened by the lingering uncertainties over the outcome of the ongoing Brexit negotiations. Subsequently, consumer confidence is at one of its lowest levels in the past four years.

Employment remains a bright spot for the UK, with the unemployment rate at a 42-year low of 4.4%. However, a tighter labour market has not translated into stronger wage growth, adding to worries that consumer spending will remain relatively muted in the months ahead.

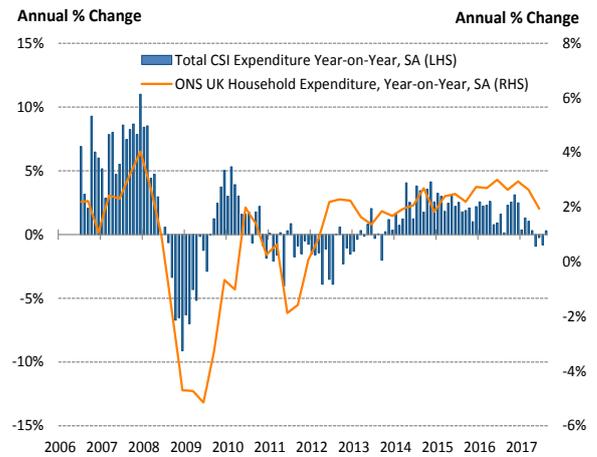
Visa's UK Consumer Spending Index uses card transaction data to provide a robust indicator of total consumer expenditure across all payment methods and is used by a range of stakeholders to gain insights into consumer spending, including HM Treasury. It is based on spending on all Visa debit, credit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

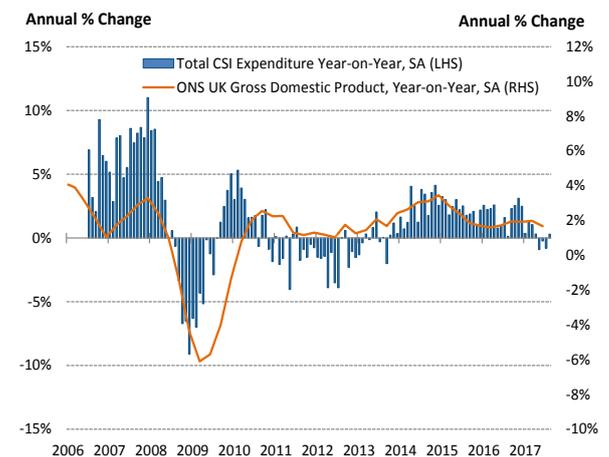
Ian Burge, Visa
 Tel: 020 3144 2196
 Email: burgei@visa.com

Giang Nguyen, H+K Strategies
 Tel: 020 7413 3153
 Email: giang.nguyen@hkstrategies.com

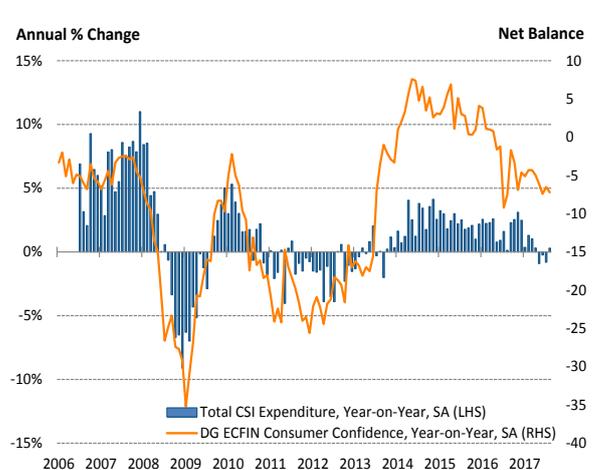
UK CSI & Household Expenditure



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



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.

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e-mail: economics@ihsmarkit.com