January sales dip for the first time since 2013

Headline findings:

- Household spending falls by -1.2% on the year, the first January drop since 2013
- Sharp decline in High Street spend (-4.0%), and slower growth in E-commerce (+1.5%)
- Transport & Communication suffers from quickest drop (-6.5%), while Hotels, Restaurants & Bars reports further rise (+3.7%)

Household spending continued to decline in real terms at the start of 2018, according to the latest Visa UK Consumer Spending Index data. Overall expenditure fell by -1.2% year-on-year in January, following a -1.0% drop at the end of last year. The latest reduction was the quickest seen since last October, and indicates that spending has now fallen in eight of the past nine months.

On an annual basis, Face-to-Face expenditure fell for the ninth month running in January. Notably, the rate of reduction quickened from December (-2.6% year-on-year) to the fastest for three months (-4.0%). Meanwhile, growth in E-commerce channel spend slowed to +1.5% year-on-year, which was the slowest rate of expansion seen since the current upturn began in May 2017.

Mark Antipof, Chief Commercial Officer at Visa, commented:

“Consumer spending entered the New Year on a downbeat note, falling for the eighth time in the past nine months, as Britons continued to cut back on spending. Clothing, furniture and household goods bore the brunt of consumers’ caution yet again, while spending on the British high street in general fell sharply as the traditional January sales failed to bring shoppers out in numbers this year.

“The transport and communications sector was another victim of the spending squeeze, posting the sharpest decline of all spending categories. Given the widely reported slump in car sales in recent months, this was perhaps to be expected.

“It wasn’t all doom and gloom in January though. Britons tackled the January blues with evenings out and early holiday bookings, giving a boost to hotels, restaurants and bars. Spending on jewellery, beauty products and trips to hair salons recorded strong growth too, as consumers continued to prefer small treats over big tickets items.”

Annabel Fiddes, Principal Economist at IHS Markit, said:

“Latest Visa UK CSI data signalled a disappointing start to the year, with consumer spending falling for the fifth month in a row on an annual basis. This suggests the weak expenditure trends in 2017 have carried through into 2018, as households continue to face rising living costs and lacklustre wage growth.

“Subdued spending trends coincide with a slowing of the overall UK economy during 2017, while the PMI surveys for January point to a further softening of growth momentum at the start of the year. Lingering uncertainties around the outcome of the ongoing Brexit negotiations are also weighing on consumer confidence, which has stayed well below the levels seen prior to the 2016 Brexit vote.

“However, labour market conditions remain tight, with employment at a record-high, which is expected to place greater upward pressure on earnings growth going forward. Combined with forecasts of cooling inflationary pressures over the coming months, these factors could lead to a relative improvement in expenditure trends as the squeeze on pay-packets unwinds, although overall trends are likely to remain largely subdued in the current economic environment.”

Expenditure fell across the majority of broad spending categories, with Transport & Communication again seeing the steepest rate of reduction (-6.5% on the year). Recreation & Culture meanwhile registered the strongest decline in spending for nearly seven years (-4.3%). Clothing & Footwear (-2.0%) and Household Goods (-1.7%) categories saw moderate reductions in expenditure volumes. After a slight increase in December (+0.3%), Food & Drink retailers registered a renewed decline in spending (-1.8%). Expenditure increased further across Hotels, Restaurants & Bars (+3.7% compared to a year ago), albeit at a slower pace than seen in December (+4.9%). Misc. Goods & Services (which includes health & beauty and jewellery) also saw a strong rise in spend (+6.1%).

Visa's UK Consumer Spending Index

Annual % Change 3m/3m % Change

<table>
<thead>
<tr>
<th>Month</th>
<th>Overall Spending Annual % Change (SA)</th>
<th>Overall Spending Monthly % Change (SA)</th>
<th>Face-to-Face Spending Annual % Change (NSA)</th>
<th>E-commerce Spending Annual % Change (NSA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec-17</td>
<td>-1.0%</td>
<td>-2.5%</td>
<td>-2.6%</td>
<td>+2.1%</td>
</tr>
<tr>
<td>Jan-18</td>
<td>-1.2%</td>
<td>+0.2%</td>
<td>-4.0%</td>
<td>+1.5%</td>
</tr>
</tbody>
</table>

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Visa’s UK Consumer Spending Index

E-commerce and Face-to-Face Spend

The decline in overall consumer spending at the start of 2018 was centred around a further reduction in Face-to-Face expenditure, as spending rose across E-commerce categories.

Expenditure through Face-to-Face channels decreased by -4.0% year-on-year in January, following a decline of -2.6% in December. The latest reduction was the fastest seen since last October, and stretched the current sequence of contraction to nine months.

Although E-commerce spending rose further at the start of the year, up +1.5% on the year, the rate of expansion softened for the second month in a row and was the weakest seen since the current period of growth began in May 2017.

Spending by Sector

Visa’s UK Consumer Spending Index monitors eight broad sectors. Summary data for annual growth rates in December 2017 and January 2018, which are not adjusted for seasonality and trading days, are provided in the table opposite.

Transport & Communication continued to see the steepest drop in spending in January, with the rate of reduction quickening slightly since December. Expenditure also fell solidly in Recreation & Culture, where the pace of decline accelerated to a near-seven year record. Modest reductions in spend were meanwhile seen across Clothing & Footwear, Food & Drink and Household Goods categories.

In contrast, expenditure rose again across Hotels, Restaurants & Bars, albeit at a softer pace than in December. Strong growth was also seen in Misc. Goods & Services (which includes hairdressing and jewellery).

Annual Growth Rates By Sector*  

<table>
<thead>
<tr>
<th>Broad Sector</th>
<th>Dec ’17</th>
<th>Jan ’18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food, Beverages &amp; Tobacco</td>
<td>+0.3%</td>
<td>-1.8%</td>
</tr>
<tr>
<td>Clothing &amp; Footwear</td>
<td>-2.6%</td>
<td>-2.0%</td>
</tr>
<tr>
<td>Household Goods</td>
<td>-3.5%</td>
<td>-1.7%</td>
</tr>
<tr>
<td>Health &amp; Education</td>
<td>-2.8%</td>
<td>+1.4%</td>
</tr>
<tr>
<td>Transport &amp; Communication</td>
<td>-5.0%</td>
<td>-6.5%</td>
</tr>
<tr>
<td>Recreation &amp; Culture</td>
<td>-1.5%</td>
<td>-4.3%</td>
</tr>
<tr>
<td>Hotels, Restaurants &amp; Bars</td>
<td>+4.9%</td>
<td>+3.7%</td>
</tr>
<tr>
<td>Misc. Goods &amp; Services</td>
<td>+1.1%</td>
<td>+6.1%</td>
</tr>
</tbody>
</table>

*data not adjusted for seasonality and trading days

Sector trends over time

3MMA Annual % Change, NSA

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Visa’s UK Consumer Spending Index

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).

Visa’s UK Consumer Spending Index (CSI) data successfully pointed to an overall slowdown in GDP growth in 2017. At the same time, the data have also reflected weaker official household expenditure trends available to date.

Following on from a generally poor performance over 2017 as a whole, UK household expenditure continued to decline on an annual basis at the start of 2018. The pace of reduction quickened slightly since December, with spending falling by +1.2% year-on-year in January. The latest drop marks the eighth time in the past nine months that expenditure has fallen.

A key factor weighing on consumer spending is the sustained squeeze on real earnings, as increases in living costs continue to outpace growth in average earnings. At the same time, consumer confidence remains relatively weak, due to a combination of declining purchasing power, uncertainties tied to Brexit negotiations and signs of a slowing UK economy. Furthermore, recent PMI surveys indicate that business activity across the UK rose at the weakest rate for nearly a year-and-a-half in January.

On a positive note, the labour market remains in good shape, with the unemployment rate holding at a four-decade low of 4.3%. However, this has yet to translate into stronger earnings growth which could help ease the pressure on households’ budgets.

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.

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

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Visa’s UK Consumer Spending Index

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:

<table>
<thead>
<tr>
<th>Product Category</th>
<th>COICOP Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food, Beverage &amp; Tobacco</td>
<td>1, 2</td>
</tr>
<tr>
<td>Clothing &amp; Footwear</td>
<td>3</td>
</tr>
<tr>
<td>Housing &amp; Household Goods</td>
<td>4, 5</td>
</tr>
<tr>
<td>Health &amp; Education</td>
<td>6, 10</td>
</tr>
<tr>
<td>Transport &amp; Communication</td>
<td>7, 8</td>
</tr>
<tr>
<td>Recreation &amp; Culture</td>
<td>9</td>
</tr>
<tr>
<td>Hotels &amp; Restaurants</td>
<td>11</td>
</tr>
<tr>
<td>Miscellaneous Goods &amp; Services</td>
<td>12</td>
</tr>
</tbody>
</table>

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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