Visa's UK Consumer Spending Index

Headline Findings:

Consumer spending: declines -2.1% year-on-year, following -1.0% drop in February

Face-to-Face spend: -3.0% on the year, while eCommerce falls by -1.2%

Transport & Communication weakest performing sector

Visa's UK Consumer Spending Index pointed to a further decline in total household spending in March as bad weather caused disruption to both businesses and consumers. On an annual basis, the rate of reduction quickened from -1.0% in February to -2.1%, to signal the steepest reduction since last October. On average, spending fell by -1.4% year-on-year over the first quarter, to mark the worst quarterly performance since Q4 2012.

Spending through both Face-to-Face and eCommerce channels declined compared to a year ago during March; the first time a broad-based reduction has been recorded since September 2013. Face-to-Face noted the quicker rate of reduction (-3.0% year-on-year), with the pace of decline slightly stronger than that seen in February (-2.4%). Meanwhile, expenditure through eCommerce fell by -1.2% on an annual basis, after registering only a slight increase in February (+0.3%).

(Continues overleaf)

Mark Antipof, Chief Commercial Officer at Visa, commented:

“The negative impact that the ‘Beast from the East’ had on UK economic activity last month has been widely reported, but this doesn’t entirely explain March’s lacklustre consumer spending. We are in the midst of a dip in consumer confidence and this – coupled with other economic factors – is causing shoppers to continue to restrain themselves.

“High street sales suffered once again, however it is also noteworthy that eCommerce spend fell for the first time in 10 months, and by its fastest rate since 2012. That said, it is too early to read a great deal into this year-on-year decline, which should be viewed in the context of high growth rates in early 2017.”

Annabel Fiddes, Principal Economist at IHS Markit, said:

“The Visa UK CSI data for March show that consumer spending continued to decline at the end of the first quarter, though the latest reduction in spend was likely exacerbated by the recent spate of extreme weather. Notably, the -2.1% year-on-year drop in expenditure in March rounded off the worst quarterly performance since Q4 2012.

“While we could expect to see a relative improvement in the numbers next month as weather conditions normalise, the underlying trend remains relatively weak as recent data, including PMI surveys, show signs of a slowdown in UK economic growth over the opening quarter of 2018.”

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Compiled by IHS Markit on behalf of Visa

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(Continued from page 1)

Six of the eight broad spending categories recorded lower spending volumes compared to a year ago in March, with the quickest reduction noted in Transport & Communication (-8.6%). Solid declines were also seen in Household Goods (-5.8%) and Recreation & Culture (-5.6%) categories. Spending also continued to fall in Clothing & Footwear, and at the quickest pace for five months (-2.7%).

Food & Drink retailers were meanwhile the best performing category in March, likely due to a relatively early Easter, and saw spending rise by +5.7% year-on-year. Hotels, Restaurants & Bars were also a bright spot, seeing expenditure increase by +4.2% on the year.

**eCommerce and Face-to-Face Spend**

March data indicated a broad-based reduction in spend across both Face-to-Face and eCommerce categories, with the former noting the steeper rate of decline.

Face-to-Face expenditure fell -3.0% on an annual basis in March, which was slightly worse than the -2.4% drop seen in February. Spending in this category has now fallen in each of the past 11 months.

Expenditure through eCommerce channels meanwhile fell by -1.2% year-on-year, after rising only slightly in February (+0.3%). Notably, it was the first time that spending in this category had declined since April last year and, while modest, the pace of reduction was the quickest since December 2012.

**Spending by Sector**

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

The vast majority of broad spending categories registered reduced expenditure on an annual basis in March. The steepest decline was in the Transport & Communication sector, while strong falls were also registered in Household Goods and Recreation & Culture categories. Clothing & Footwear meanwhile recorded the quickest decline in spend for five months.

The best performing sector was Food & Drink, with expenditure rising at the quickest pace for 11 months after increasing only slightly in February. The only other sector to register higher spending volumes was Hotels, Restaurants & Bars, which recorded a strong pace of growth that was similar to that seen in the previous month.

**Annual Growth Rates By Sector**

Data not adjusted for seasonality and trading days

<table>
<thead>
<tr>
<th>Broad Sector</th>
<th>Jan ’18</th>
<th>Feb ’18</th>
<th>Mar ’18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food, Beverages &amp; Tobacco</td>
<td>-1.8%</td>
<td>+0.2%</td>
<td>+5.7%</td>
</tr>
<tr>
<td>Clothing &amp; Footwear</td>
<td>-2.3%</td>
<td>-1.5%</td>
<td>-2.7%</td>
</tr>
<tr>
<td>Household Goods</td>
<td>-1.3%</td>
<td>-1.6%</td>
<td>-5.8%</td>
</tr>
<tr>
<td>Health &amp; Education</td>
<td>+1.3%</td>
<td>+3.9%</td>
<td>-3.2%</td>
</tr>
<tr>
<td>Transport &amp; Communication</td>
<td>-5.6%</td>
<td>-3.9%</td>
<td>-8.6%</td>
</tr>
<tr>
<td>Recreation &amp; Culture</td>
<td>-4.3%</td>
<td>-6.2%</td>
<td>-5.6%</td>
</tr>
<tr>
<td>Hotels, Restaurants &amp; Bars</td>
<td>+3.7%</td>
<td>+4.3%</td>
<td>+4.2%</td>
</tr>
<tr>
<td>Misc. Goods &amp; Services</td>
<td>+6.1%</td>
<td>+3.9%</td>
<td>-0.1%</td>
</tr>
</tbody>
</table>
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).

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.

The March Visa UK CSI rounded off the worst quarterly performance for spend when looking at the annual measure since Q4 2012, with the index now registering lower expenditure in 10 of the past 11 months.

Although the latest reduction in overall spend was partly driven by disruptions linked to extreme weather, underlying economic conditions remain relatively fragile. Uncertainty around the outcome of Brexit, subdued consumer confidence and signs of a slowing economy all point to relatively subdued spending trends going forward.

However, tight labour market conditions are placing upward pressure on pay, with data published by the Office for National Statistics showing total pay (including bonuses) rising to the greatest extent for over two years in the three months to January (+2.8%). If this trend is matched by softer increases in living costs, households could be on track for the first rise in real wages for a year.

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.

Further information:

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Sources for Charts: Visa, ONS, European Commission
NSA: Non-Seasonally Adjusted, SA: Seasonally Adjusted
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 data on payments at terminals and cash withdrawals sourced from a report published by the ECB. 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:

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

Visa Inc. (NYSE: V) is the world’s leader in digital payments. Our mission is to connect the world through the most innovative, reliable and secure payment network – enabling individuals, businesses and economies to thrive.

Our advanced global processing network, VisaNet, provides secure and reliable payments around the world, and is capable of handling more than 65,000 transaction messages a second.

The company’s relentless focus on innovation is a catalyst for the rapid growth of connected commerce on any device, and a driving force behind the dream of a cashless future for everyone, everywhere.

As the world moves from analogue to digital, Visa is applying our brand, products, people, network and scale to reshape the future of commerce.

For more information, visit (www.visaeurope.com), the Visa Vision blog (vision.visaeurope.com), and @VisaInEurope

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