

January 8 2018

Visa's UK Consumer Spending Index

Compiled by IHS Markit on behalf of Visa

No festive cheer for retailers as December rounds off the worst year for consumer spending since 2012

Headline findings:

- December household expenditure falls by -1%, following the -0.9% drop in November
- 2017 marks the first annual decline in consumer spending in five years, down -0.3% compared to 2016
- Spending at Food & Drink retailers edges up for first time in three months (+0.4%)

Visa's UK Consumer Spending Index signalled a further fall in household expenditure at the end of 2017. On an annual basis, spending declined by -1.0%, which was similar to the -0.9% reduction seen in November. Furthermore, the latest figure rounded off the weakest spend performance of any year since 2012.

Channel data continued to point to divergent trends with High Street spending declining again while E-commerce remained on an upward trajectory. Face-to-Face spending fell by -2.7% compared to the previous year, to mark the softest rate of reduction for four months. However, spending in this category has now fallen continuously since last May. Meanwhile, growth in E-commerce spending slowed from +2.4% in November to +2.0%, and continued to signal a weaker rate of expansion

than seen on average in recent years.

Spending by sector showed that five of the eight broad categories registered lower expenditure on an annual basis at the end of 2017. The quickest reduction was seen for Transport & Communication (-4.4%), while marked declines were also seen in Household Goods (-3.4%) and Clothing & Footwear (-2.4%). Recreation & Culture meanwhile saw expenditure decline for the fourth month in a row (-1.8%).

Hotels, Restaurants & Bars remained a bright spot, with spending up +4.7% on the year in December (a five-month high). Food & Drink retailers meanwhile registered the first increase in expenditure since last September, although the rate of growth was only marginal (+0.4%).

Mark Antipof, Chief Commercial Officer at Visa, commented:

"Christmas rounded off a lean year for retailers with consumer spending seeing its first consistent 12 month decline since 2012. December's consumer spending figures confirm our earlier prediction that the UK would see its first fall in overall Christmas spending in five years. This result has bucked the trend of the previous four years which saw annual consumer spending rise by an average of 1.7%.

"Despite some large retailers signalling a strong Christmas performance, it is clear that the high street has suffered recently, while online spending has held up. This is emphasised by the torrid year for face-to-face expenditure, which continued in December as face-to-face spending was again outstripped by e-commerce, a trend we have witnessed in 11 of the last 12 months."

"Hotels and Restaurants were again a bright spot in December's results. Consumers have been opting to spend on UK staycations as opposed to physical items and trips abroad. Interestingly, clothing and footwear, and household goods, two categories that might be expected to perform strongly in the lead up to Christmas, saw significant drops of -2.4% and -3.4% respectively."

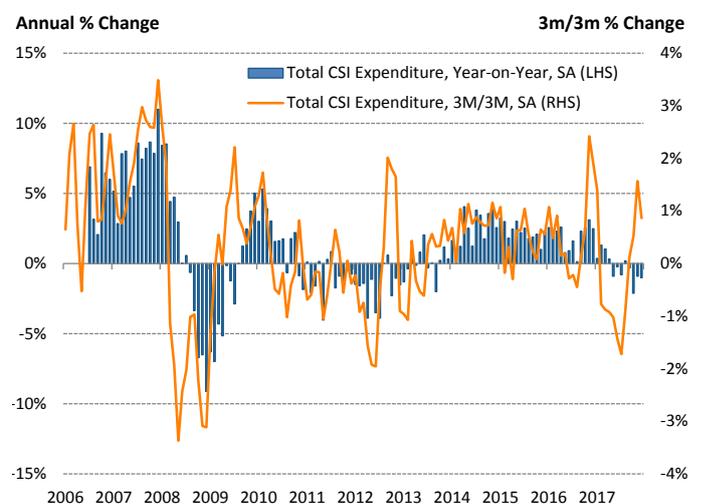
Annabel Fiddes, Principal Economist at IHS Markit, said:

"December's CSI data rounds off a relatively weak year for consumer spending, with total expenditure declining for the seventh time in the past eight months. As a result, spending over the course of 2017 fell slightly on an annual basis for the first time in five years.

"The sustained drop in expenditure comes at a time when household purchasing power is being continually eroded by rising living costs and relatively subdued growth in pay packets. Meanwhile, consumer confidence remains relatively muted amid uncertainties over the strength of the UK economy and the ongoing Brexit negotiations.

"Looking ahead, the impact of the fall in the value of the pound since the Brexit vote is expected to subside and weaken inflationary pressures, and subsequently the squeeze on households' budgets. This could help to lead to a relative improvement in the spend figures, but given the overall picture it seems unlikely that expenditure will bounce back to the levels of growth seen in 2016 anytime soon."

Visa's UK Consumer Spending Index



Visa's UK Consumer Spending Index	Nov-17	Dec-17
Overall Spending Annual % Change (SA)	-0.9%	-1.0%
Overall Spending Monthly % Change (SA)	+3.0%	-2.6%
Face-to-Face Spending Annual % Change (NSA)	-3.5%	-2.7%
E-commerce Spending Annual % Change (NSA)	+2.4%	+2.0%



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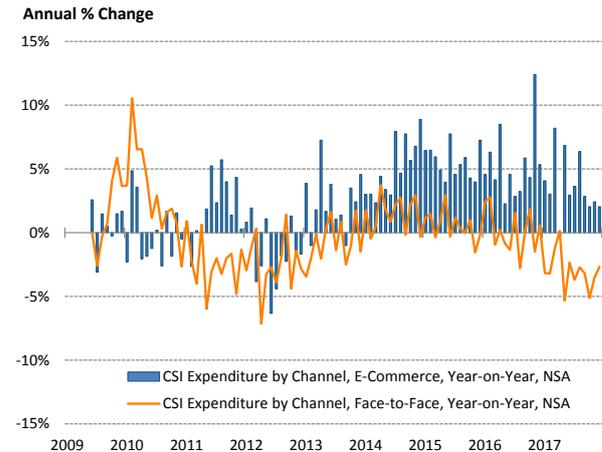
E-commerce and Face-to-Face Spend

The overall reduction in household expenditure was driven by lower spending in Face-to-Face categories, as E-commerce saw a further increase in spend at the end of 2017.

On an annual basis, expenditure through Face-to-Face channels fell by -2.7% in December. Although this marked an improvement from the -3.5% reduction in November, it nonetheless extended the current period of decline to eight months.

Spending volumes meanwhile continued to rise across E-commerce categories, rising by +2.0% on the year. However, the rate of expansion was softer than seen in November (+2.4%), and weaker than the average seen over the past few 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 November and December 2017, which are not adjusted for seasonality and trading days, are provided in the table opposite.

Five of the eight broad spending categories noted lower spending compared to a year ago at the end of 2017. The quickest drop was seen in Transport & Communication, although the rate of decline softened since the previous month. Household Goods also noted a solid reduction in spend, while Clothing & Footwear and Recreation & Culture categories both noted moderate rates of contraction.

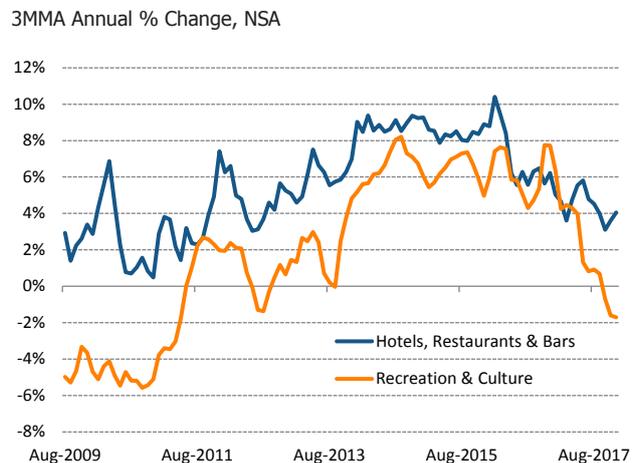
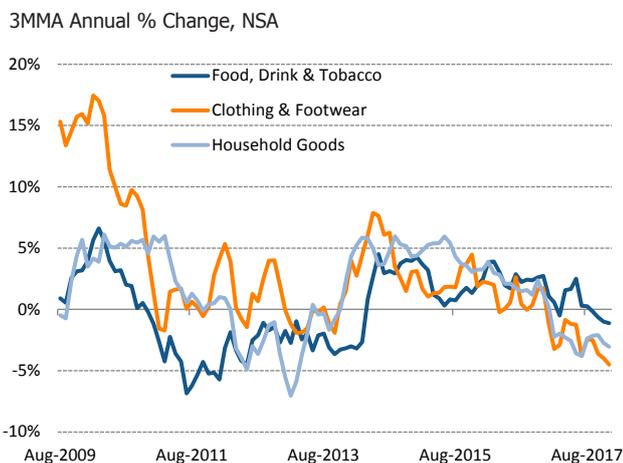
Hotels, Restaurants & Bars remained a bright spot, and saw the quickest upturn in spending volumes. Food & Drink retailers meanwhile noted the first increase in spend for three months (albeit marginal).

Annual Growth Rates By Sector*

Broad Sector	Nov '17	Dec '17
Food, Beverages & Tobacco	-1.8%	+0.4%
Clothing & Footwear	-2.2%	-2.4%
Household Goods	-2.0%	-3.4%
Health & Education	-0.3%	-2.8%
Transport & Communication	-6.1%	-4.4%
Recreation & Culture	-0.5%	-1.8%
Hotels, Restaurants & Bars	+4.1%	+4.7%
Misc. Goods & Services	+4.8%	+1.1%

*data not adjusted for seasonality and trading days

Sector trends over time



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).

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.

UK household spending continued on a downward trend in December, falling by -1.0% on an annual basis. This was similar to the -0.9% decline recorded in November, and meant that expenditure has now fallen in seven of the past eight months. Furthermore, the latest figure cemented the weakest expenditure performance since 2012.

Consumer spending trends have weakened through the course of 2017 due to a number of factors. Living costs continue to rise at a faster pace than wages, therefore reducing the purchasing power of households. At the same time, consumer confidence remains at a relatively subdued level as the economy has showed signs of a slowdown since 2016 and uncertainties over the outcome of ongoing Brexit negotiations continues to dampen sentiment.

Encouragingly, the labour market remains resilient, with the employment rate at a near-record high. Moreover, recent PMI business surveys suggest that the economy remained relatively stable at the end of the year.

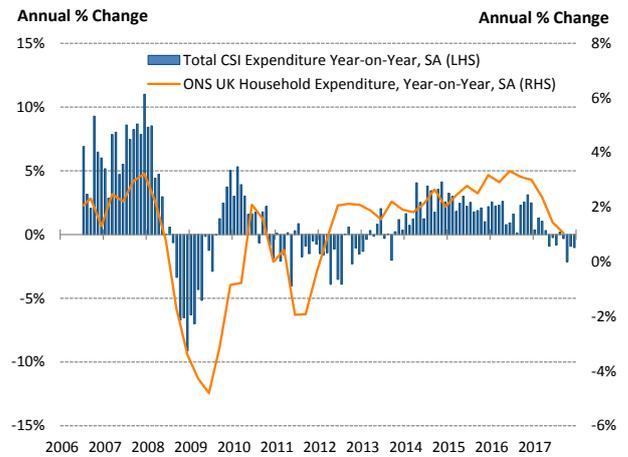
Visa's UK Consumer Spending Index uses card transaction data to provide a robust indicator of total consumer expenditure across all payment methods and is used by a range of stakeholders to gain insights into consumer spending, including HM Treasury. It is based on spending on all Visa debit, credit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

For further information, please contact:

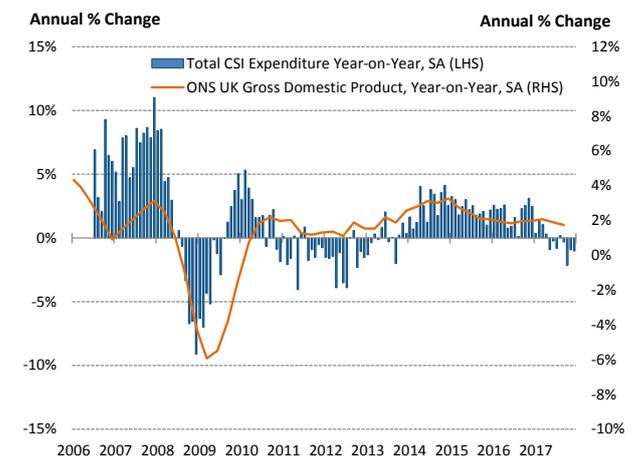
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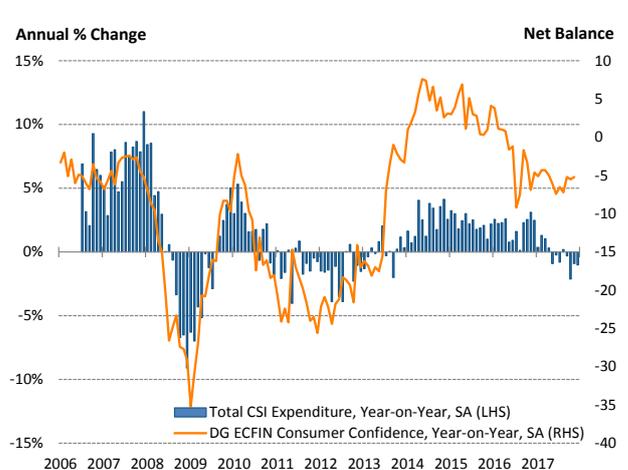
UK CSI & Household Expenditure



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



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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