Further decline in household spending at start of 2019

Headline Findings:

- **Consumer spending**: falls -1.3%, fastest reduction in nine months
- **Face-to-Face expenditure**: down -1.5%, eCommerce also declines -0.2%
- **Transport & Communication**: again posts the sharpest reduction (-4.7%), while Food & Drink spending turns positive (+1.7%)

Visa’s UK Consumer Spending Index, compiled by IHS Markit, pointed to a weak start to 2019, with expenditure falling for the fourth month running. Moreover, household spending was down -1.3% year-on-year in January (-0.9% in December) to signal the most marked fall since April 2018.

A further decline in spending on the high street drove the latest fall in overall household expenditure. Face-to-Face spending was down -1.5% year-on-year, following a -1.6% reduction in December.

eCommerce spending also dipped into contractionary territory, however, ending a three-month sequence of growth. Expenditure was down -0.2% on an annual basis.

(Continues overleaf)

Adolfo Laurenti, European Principal Economist, Visa, commented:

“A further decline in UK consumer spending in January (-1.3% year-on-year) is no surprise and is consistent with the trend we’ve noted in recent months. The trend in Face-to-Face sales (which dropped -1.5 percent year-on-year in January) is also reflected in eCommerce spending, which suffered its first negative reading since September. Over the medium term, we are confident that a robust job market, improvement in wages and salaries, and modest inflation will be the ingredients of a rebound.”

Annabel Fiddes, Principal Economist at IHS Markit, said:

“The latest set of Visa CSI data show that UK households continued to trim back spending at the start of 2019, with expenditure down -1.3% on the year to mark the quickest fall since April 2018.

“The reduction in overall spend occurred alongside a marked deterioration in consumer confidence, which is currently the weakest since 2013. As uncertainty continues to mount over the future relationship of the UK and the EU, Uncertainty has also hit the wider economy, with the PMI surveys showing business activity broadly stagnating at the start of the year. Compounded by signs of a wider global economic slowdown, it’s likely that the UK economy will struggle to grow through the opening months of 2019.”

Visa’s UK Consumer Spending Index - Jan 2019

Compiled by IHS Markit on behalf of Visa

13 February 2019
(Continued from page 1)

Half of the eight broad sectors covered saw spending decrease in January. The sharpest reduction was again in the Transport & Communication category, where expenditure fell -4.7% year-on-year. Solid reductions were also seen in Clothing & Footwear and Recreation & Culture.

Food & Drink recorded a return to growth in January, with spending rising +1.7% year-on-year. Hotels, Restaurants & Bars and Household Goods meanwhile eked out marginal expansions.

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

For the first time in six months, spending fell across both the Face-to-Face and eCommerce channels at the start of 2019.

The stronger pace of contraction was recorded on the high street. Face-to-Face spending was down -1.5% year-on-year, following a -1.6% reduction in December. High street expenditure has now fallen in each of the past four months.

A marginal decline in eCommerce expenditure was registered in January, thereby ending a three-month period of growth. Spending was down -0.2% compared to January 2018.

**Spending by Sector**

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

Half of the eight broad spending categories saw reductions in expenditure during January. The sharpest decline was in Transport & Communication, with the rate of contraction unchanged at -4.7% year-on-year. Solid falls in spending were also recorded in Clothing & Footwear (-3.7%) and Recreation & Culture (-3.4%).

The strongest rise in expenditure was in Health & Education (+4.0% year-on-year), while a welcome return to growth was seen in Food & Drink (+1.7%). Marginal expansions were registered in the Household Goods (+0.3%) and Hotels, Restaurants & Bars (+0.8%) categories.

**UK CSI: eCommerce vs Face-to-Face**

Annual % Change

<table>
<thead>
<tr>
<th>Broad Sector</th>
<th>Nov’18</th>
<th>Dec’18</th>
<th>Jan’19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food, Beverages &amp; Tobacco</td>
<td>+1.4%</td>
<td>-0.1%</td>
<td>+1.7%</td>
</tr>
<tr>
<td>Clothing &amp; Footwear</td>
<td>-2.5%</td>
<td>-2.4%</td>
<td>-3.7%</td>
</tr>
<tr>
<td>Household Goods</td>
<td>-0.5%</td>
<td>-1.3%</td>
<td>+0.3%</td>
</tr>
<tr>
<td>Health &amp; Education</td>
<td>+0.8%</td>
<td>-0.7%</td>
<td>+4.0%</td>
</tr>
<tr>
<td>Transport &amp; Communication</td>
<td>-3.2%</td>
<td>-4.7%</td>
<td>-4.7%</td>
</tr>
<tr>
<td>Recreation &amp; Culture</td>
<td>-2.1%</td>
<td>-1.5%</td>
<td>-3.4%</td>
</tr>
<tr>
<td>Hotels, Restaurants &amp; Bars</td>
<td>+4.9%</td>
<td>+7.7%</td>
<td>+0.8%</td>
</tr>
<tr>
<td>Misc. Goods &amp; Services</td>
<td>+0.2%</td>
<td>-1.3%</td>
<td>-0.4%</td>
</tr>
</tbody>
</table>

*Data not adjusted for seasonality and trading days
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 have successfully pointed to relatively subdued increases in UK GDP last year.

Latest CSI data indicate that weakness extended into 2019, with expenditure falling for the fourth month in a row in January.

The decline in spend coincides with a marked drop in consumer confidence in recent months against a backdrop of heightened political and economic uncertainty across the UK. Notably, the European Commission’s consumer confidence index hit its lowest level for over five years at the start of 2019.

At the same time, business activity across the UK broadly stagnated in January, according to the latest IHS Markit PMI surveys, which was generally linked to Brexit uncertainty and a wider slowdown in the global economy.

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 IHS 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:

Ian Burge, Visa
Tel: +44 (0) 203 144 2196
Email: burgei@visa.com

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.

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.

IHS Markit (Nasdaq: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world’s leading financial institutions.

IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates. All other company and product names may be trademarks of their respective owners © 2019 IHS Markit Ltd. All rights reserved.