

Visa's UK Consumer Spending Index

Compiled by IHS Markit on behalf of Visa

Consumer spending falls for first time in nearly four years

Headline findings:

- **First fall in household expenditure since 2013 (-0.8% on the year)**
- **Face-to-face spending declines notably (-5.3%), while e-commerce rebounds (+6.9%) after weak April (-0.3%)**
- **Clothing & Footwear (-5.2%) and Household Goods (-4.1%) among the weakest performing sectors in May**

Visa UK CSI data signalled a renewed fall in consumer spending during May, with expenditure down -0.8% on the year. This followed a +0.3% increase in April, and was the first reduction recorded since September 2013.

The broad sector and channel splits, which unlike the headline figure are not adjusted for seasonality, were impacted by the late timing of Easter (April) compared to last year (March).

Half of the eight broad spending categories noted lower spending volumes compared to one year ago. Transport & Communication (-7.9%) and Clothing & Footwear (-5.2%) noted the strongest rates of reduction. Notably, it was the quickest fall in expenditure across Clothing & Footwear categories since April 2012. Household Goods (-4.1%)

meanwhile saw the quickest drop in spend since March 2013. Food & Drink retailers saw a marginal decline in expenditure during May (-0.6%).

In contrast, Misc. Goods & Services (which includes hairdressers and jewellery) saw the strongest increase in spend (+7.1%). Hotels, Restaurants & Bars (+3.3%) and Recreation & Culture (+2.2%) meanwhile registered relatively modest increases in expenditure.

Split by channel, household spending declined solidly through Face-to-Face channels (-5.3%), to mark the quickest drop since April 2012. On the other hand, e-commerce posted a +6.9% rise in spend after a marginal fall in April (-0.3%).

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

"Consumer spending fell for the first time in nearly four years in May, following some marked slowdowns in growth since the beginning of the year. Our Index clearly shows that with rising prices and stalling wage growth, more of us are starting to feel the squeeze."

"Retailers of non-essential goods were among the worst hit, with clothing and household goods seeing sharp declines in sales. The experience sectors continued to record some growth, though at much softer rates, suggesting consumers were reining in their discretionary spending."

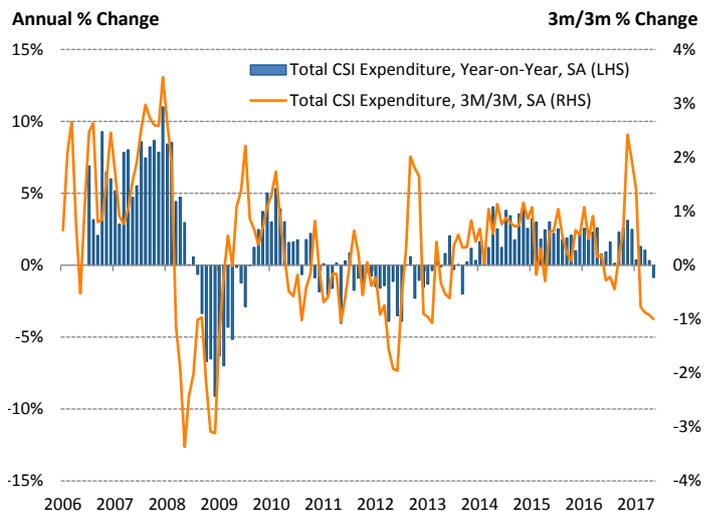
"Bricks-and-mortar retailers had a particularly challenging month, with sales dropping at the quickest level in over five years, at a time when warmer weather and the May bank holidays would usually drive shoppers on to the high street. Online retailers, on the other hand, fared well, with spend up 6.9%."

Annabel Fiddes, Economist at IHS Markit said:

"Latest data revealed a renewed fall in UK consumer spending, with the Visa UK CSI posting a -0.8% fall in total expenditure during May. This was down from a +0.3% increase in April, and the first decline in spending for nearly four years. The overall reduction was driven by a fall in spending on the High Street, which declined at the quickest pace since early-2012."

"The outlook for consumer spending continues to look relatively bleak, with households facing faster increases in living costs and muted wage growth. The squeeze on household finances is likely to get worse as the Bank of England forecasts faster increases in consumer prices in the coming months. Combined with relatively low levels of consumer confidence, uncertainty around the outcome of Brexit and a slowdown in UK economic growth, it's likely we will continue to see weaker expenditure trends at least in the near-term."

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Visa's UK Consumer Spending Index	Apr-17	May-17
Overall Spending Annual % Change (SA)	+0.3%	-0.8%
Overall Spending Monthly % Change (SA)	+0.3%	-1.9%
Face-to-Face Spending Annual % Change (NSA)	+0.1%	-5.3%
E-commerce Spending Annual % Change (NSA)	-0.3%	+6.9%

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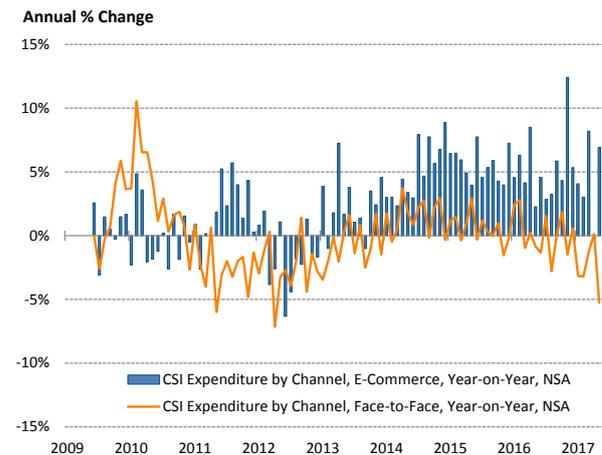
E-commerce and Face-to-Face Spend

Driving the decline in overall expenditure was a solid reduction in Face-to-Face spending during May. In contrast, expenditure growth rebounded across E-commerce categories.

On an annual basis, expenditure declined by -5.3% through Face-to-Face channels in May. This followed a slight increase in April (+0.1%), which was likely supported by the timing of Easter this year, and continued the trend of falling expenditure seen through the first quarter of the year. Furthermore, the rate of reduction was the quickest seen since April 2012.

In contrast, E-commerce spending rose at a robust pace in May (+6.9% year-on-year), after a marginal fall in April (-0.3%).

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 April & May 2017, which are not adjusted for seasonality and trading days, are provided in the table opposite.

Half of the eight broad spending categories noted lower expenditure in May. The steepest drop was seen in Transport & Communication (-7.9% on the year), followed by Clothing & Footwear (-5.2%). Household Goods meanwhile noted a solid reduction in spending volumes (-4.1%), while Food & Drink retailers noted a marginal decline (-0.6%).

At the other end of the table, the strongest increases in expenditure were noted in Misc. Goods & Services (which includes hairdressers and jewellery) (+7.1%) and Health & Education (+6.7%). Hotels, Restaurants & Bars (+3.3%) and Recreation and Culture (+2.2%) also saw increases in spend, albeit relatively modest.

Annual Growth Rates By Sector*

Broad Sector	Apr '17	May '17
Food, Beverages & Tobacco	+6.0%	-0.6%
Clothing & Footwear	+2.2%	-5.2%
Household Goods	-3.3%	-4.1%
Health & Education	-9.6%	+6.7%
Transport & Communication	-9.7%	-7.9%
Recreation & Culture	+2.8%	+2.2%
Hotels, Restaurants & Bars	+9.1%	+3.3%
Misc. Goods & Services	+0.7%	+7.1%

*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:

"Although our average bill remained the same, the number of visits was significantly lower in May. We feel this may have been due to people saving for holidays and increased competition in our area. Food price rises could have an impact on us too, as people may have less money to spend on pampering themselves."

Josh Beer, The Illustrious Pub Company, Cambridgeshire:

"More of our customers gravitated towards deals and offers in the past month, it feels as though they were biding their time, and cutting back until they became more confident in the economy. We also face other challenges - price rises and minimum wage increases in particular are forcing us to explore ways to make our business more cost-efficient. We've scaled back our services and no longer offer add-ons such as contract catering."

Gayle Haddock, Carry me home (Children's Clothes), London:

"We had more sales in the first half of the month, as parents bought holiday essentials for their kids. But overall revenues didn't improve much from the previous month. Since becoming an online-only retailer, we've had to look for ways to be savvy on social media to promote our stock."

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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 tracked an expansion of GDP in the opening quarter of 2017.

After rising only marginally through the first four months on the year, UK consumer spending fell by -0.8% in May. This was down from a +0.3% increase in April, and the first reduction for nearly four years. Lower spending on the monthly (-1.9%) and quarterly (-1.0%) measures also signal weak underlying momentum.

The renewed decline in expenditure coincides with a tighter squeeze on households' budgets, as living costs are now rising at a faster rate than wage packets. Consumer confidence is meanwhile at one of its lowest levels seen since mid-2013 as uncertainties linger around the outcome of Brexit and the future of the UK economy. Additionally, a more cautious attitude to spending may also have been adopted in the run up to the General Election.

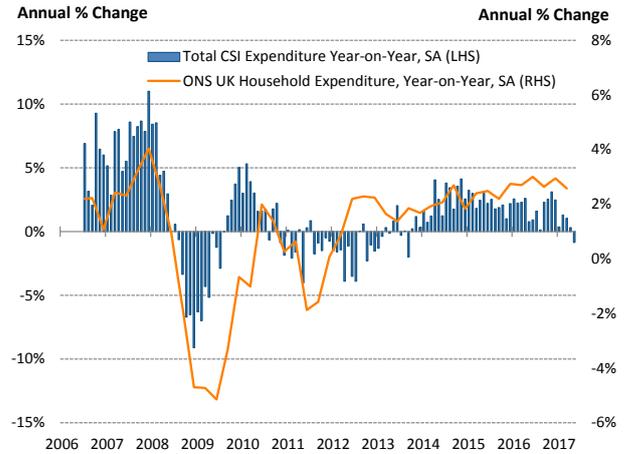
Visa's UK Consumer Spending Index uses card transaction data to provide a robust indicator of total consumer expenditure across all payment methods and is used by a range of stakeholders to gain insights into consumer spending, including HM Treasury. It is based on spending on all Visa debit, credit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

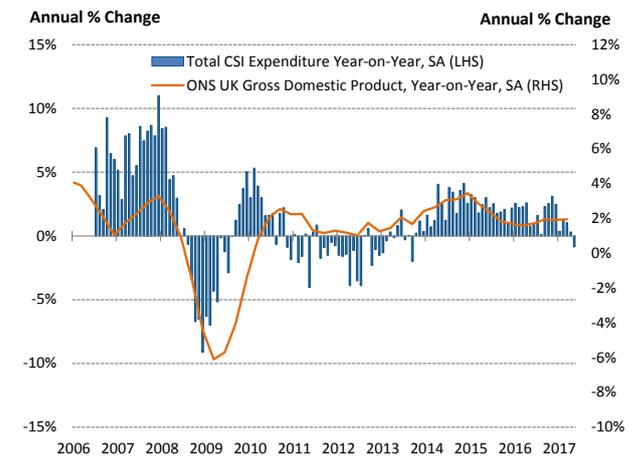
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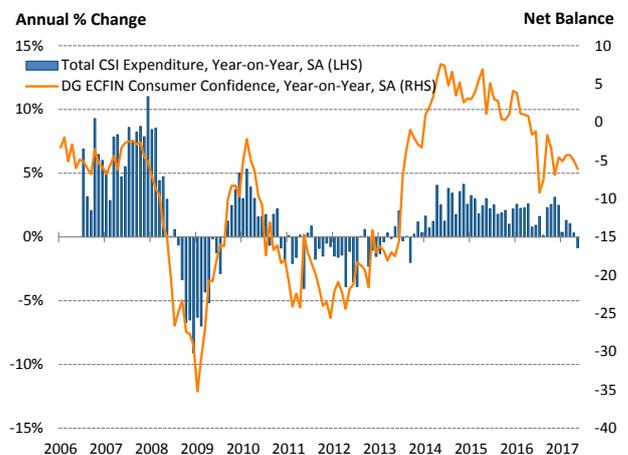
UK CSI & Household Expenditure



UK CSI & GDP



UK CSI & Consumer Confidence



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



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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 @VisaEuropeNews



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