

Visa's UK Consumer Spending Index

Compiled by IHS Markit on behalf of Visa

Decline in consumer spending during September points to continued weakness in UK economy

Headline findings:

- Household expenditure declines -0.3% on the year, the fourth month in the last five to see a decline
- Recreation & Culture (-1.3%) suffers biggest decline since July 2013
- High street continues to suffer as face-to-face spending declines -3.2%
- Rise in UK tourism sees increased spending at Hotels, Bars & Restaurants (+3.5%)
- Lower spending across Transport & Communication (-6.4%) and Household Goods (-2.6%)

Latest Visa UK CSI data pointed to a renewed fall in household spending during September after a marginal rise in August. Overall, expenditure declined by -0.3% on an annual basis, following a +0.2% increase in the previous month. Consumer spending has now fallen in four of the past five months.

Channel data continued to point to divergent trends, with spending falling in Face-to-Face categories but rising through E-commerce. Face-to-Face expenditure has now declined on an annual basis throughout the past five months, with the rate of decline picking up slightly in September to -3.2%. At the same time, growth in E-commerce spending slowed to +2.8%, which marked the slowest rate of expansion in the current five-month sequence of increase.

Five of the eight broad categories recorded lower spending compared to a year ago. The quickest reduction was noted in Transport & Communication, followed by Household Goods. Recreation & Culture categories meanwhile saw the first fall in expenditure for three months, albeit only modest.

As has been the case since May, Clothing & Footwear retailers also noted lower spending volumes in September, though the rate of decline was little-changed from August's marginal pace.

Hotels, Restaurants & Bars saw a further, albeit relatively subdued, increase in spend. Expenditure also rose in Misc. Goods & Services (which includes jewellery, hair and beauty) and Food & Drink categories at the end of the third quarter.

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

"Despite a slight uptick in UK consumer spending in August, the story of the past few months has been one of wariness in household spending. September saw another decline in overall expenditure, continuing the recent trend of belt tightening, as the landscape of financial uncertainty takes its toll.

"The recreation and culture sector declined at its fastest rate since July 2013, bucking a trend in which the "experience economy" has remained buoyant in the face of stagnant wage growth and increased inflation. Despite this, there is a bright spot in this month's data as hotels and restaurants saw an increase in spending of 3.5%.

"The trend of spending shifting to online retailers shows no sign of abating with e-commerce continuing to show resilience. In contrast, the suffering of the British high street shows no signs of slowing, as evidenced by another fall in Face-to-Face spending."

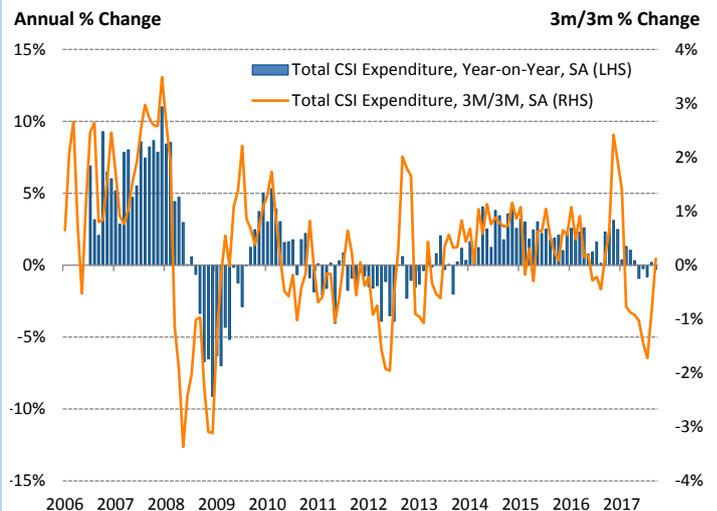
Annabel Fiddes, Principal Economist at IHS Markit, said:

"The Visa UK CSI data signalled a reduction in household spending for the fourth time in the past five months in September. Though only slight, the -0.3% decline in spend contrasted with a fractional increase in August, and meant that expenditure kept on course for its weakest performance for four years.

"Rising living costs, muted wage growth, and ongoing uncertainties surrounding Brexit negotiations and the strength of the UK economy continue to act as drags on household spending.

"Heightened expectations that the Bank of England may start to hike rates may in turn help to rein inflation back towards its 2.0% target, but there are questions surrounding the underlying strength of the economy. Notably, the latest PMI survey data suggest that UK private sector growth remained sluggish over Q3 and, combined with the CSI figures, suggest that the economy is currently on course for a relatively subdued year of growth."

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Visa's UK Consumer Spending Index	Aug-17	Sep-17
Overall Spending Annual % Change (SA)	+0.2%	-0.3%
Overall Spending Monthly % Change (SA)	-0.4%	+1.4%
Face-to-Face Spending Annual % Change (NSA)	-2.7%	-3.2%
E-commerce Spending Annual % Change (NSA)	+6.4%	+2.8%

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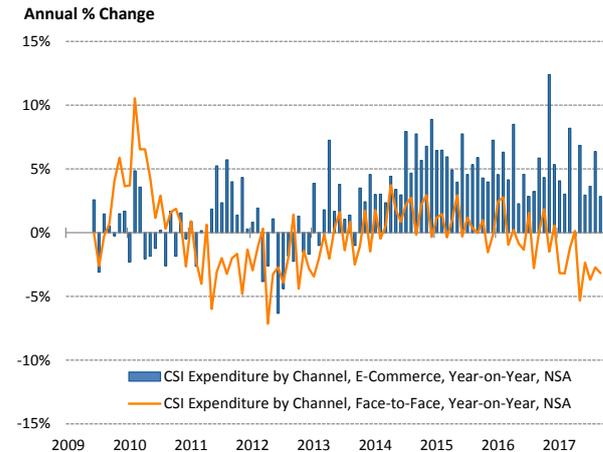
E-commerce and Face-to-Face Spend

Data split by channel indicated that the overall reduction in household spending was largely driven by lower expenditure through Face-to-Face categories, as E-commerce spending continued to increase.

Face-to-Face expenditure declined by -3.2% on an annual basis in September, following a -2.7% fall in August. Spending in this category has now contracted in each of the past five months.

At the same time, growth in E-commerce spending softened from +6.4% year-on-year in August to +2.8% in September. Notably, this was the weakest increase seen in the current five-month sequence of growth.

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 August and September 2017, which are not adjusted for seasonality and trading days, are provided in the table opposite.

Compared to a year ago, expenditure declined in five of the eight broad spending categories at the end of the third quarter. The quickest drop was noted in Transport & Communication, followed by Household Goods. Spending in Recreation & Culture categories fell for the first time in three months, while Health & Education also noted a modest decline in expenditure. Clothing & Footwear retailers meanwhile saw a marginal reduction in spend.

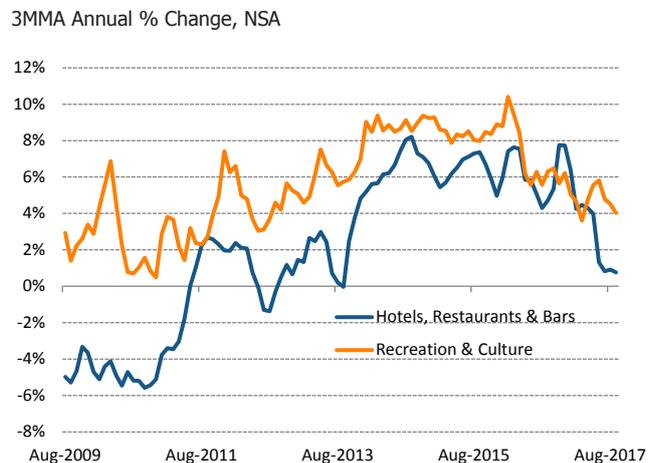
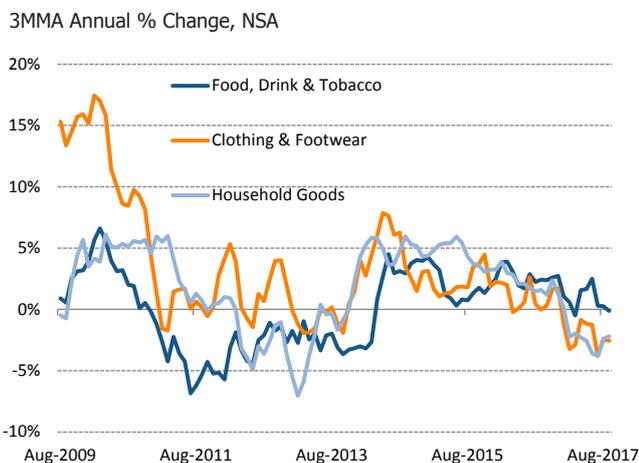
Higher expenditure was seen in Misc. Goods & Services (which includes jewellery, hair and beauty), Hotels, Restaurants & Bars and Food & Drink categories.

Annual Growth Rates By Sector*

Broad Sector	Aug '17	Sep '17
Food, Beverages & Tobacco	-0.7%	+1.0%
Clothing & Footwear	-1.2%	-1.0%
Household Goods	-0.1%	-2.6%
Health & Education	+2.1%	-1.1%
Transport & Communication	-3.5%	-6.4%
Recreation & Culture	+2.2%	-1.3%
Hotels, Restaurants & Bars	+2.6%	+3.5%
Misc. Goods & Services	+10.0%	+6.6%

*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).

Most recently, Visa's UK Consumer Spending Index (CSI) successfully signalled a slowdown in GDP growth over the first half of the year. The latest three months of Visa CSI data suggest that economic growth remained subdued over the third quarter.

After rising fractionally on the year in August (+0.2%), UK consumer spending fell back into contractionary territory in September, declining by -0.3%. Furthermore, household expenditure has now declined in four of the past five months.

Growth in consumer spending remains largely elusive in 2017 so far partly due to squeezed household budgets, as increases in living costs have outpaced those for wages. Weak earnings growth comes despite an otherwise robust set of labour market statistics for the UK, with latest data showing the unemployment rate at a 42-year low of 4.3%.

At the same time, consumer confidence remains stuck near a four-year low. Lingering uncertainties over the outcome of ongoing Brexit negotiations and the strength of the UK economy remain key factors weighing on confidence of both consumers and businesses in the UK. All these factors suggest that consumer spending trends will remain relatively muted for the rest of the year.

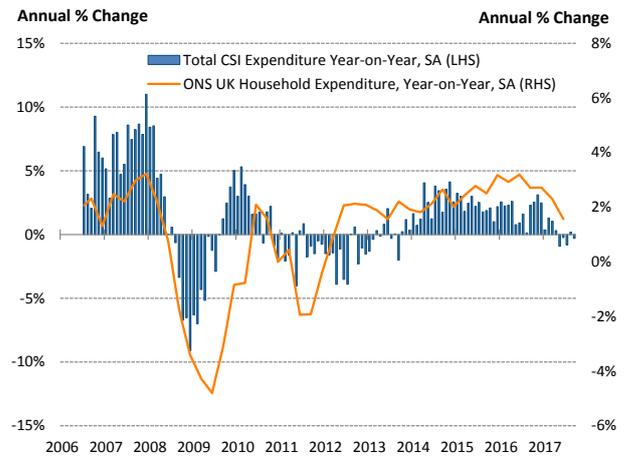
Visa's UK Consumer Spending Index uses card transaction data to provide a robust indicator of total consumer expenditure across all payment methods and is used by a range of stakeholders to gain insights into consumer spending, including HM Treasury. It is based on spending on all Visa debit, credit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

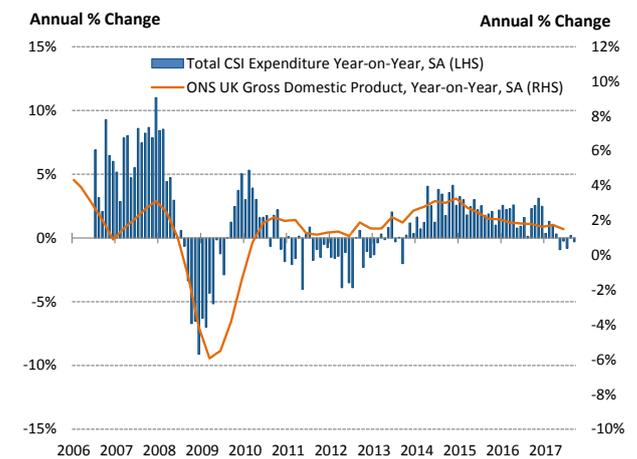
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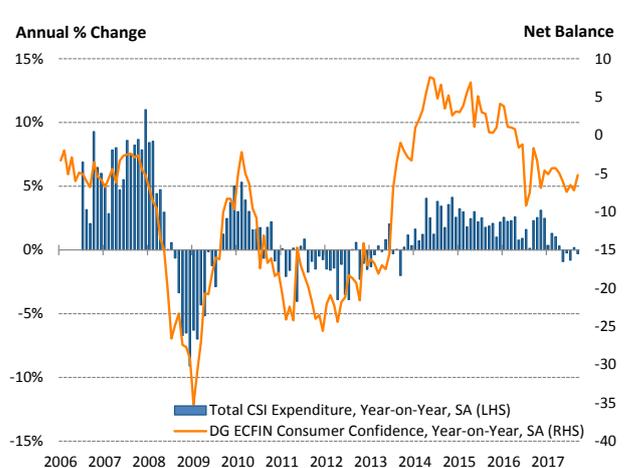
UK CSI & Household Expenditure



UK CSI & GDP



UK CSI & Consumer Confidence



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



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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 [@VisainEurope](https://twitter.com/VisainEurope)



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