

Visa's UK Consumer Spending Index - October 2019

Compiled by IHS Markit on behalf of Visa

13 November 2019

October sees marginal drop in household spend

Headline Findings:



Consumer spending declines **-1.1%** on an annual basis in October



Face-to-Face expenditure falls again **(-2.4%)**, but **eCommerce** sees rise **(+1.1%)**



Recreation & Culture is only sector to register an increase in spending at start of fourth quarter **(+0.3%)**

Visa's UK Consumer Spending Index, compiled by IHS Markit, indicated that expenditure fell on an annual basis for the thirteenth month in a row during October. That said, the rate of decline softened from -2.3% on the year in September to -1.1%, to indicate the weakest pace of contraction for six months.

Household spending also slipped on a month-on-month basis (-0.3%). However, the three-month-on-three-month measure showed an increase (+0.2%) for the first time since January.

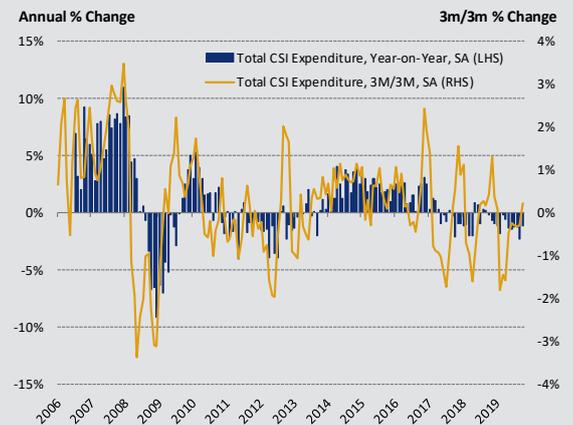
Expenditure split by channel showed a renewed increase in eCommerce spend (+1.1% year-on-year), which ended a two-month sequence of decline. At the same time, Face-to-Face expenditure fell at a softer pace compared to September (-2.4%).

(Continues overleaf)

Spending annual % change

	Aug'19	Sep'19	Oct'19
Overall spending	-1.2	-2.3	-1.1
Face-to-face	-1.2	-4.5	-2.4
eComm.	-0.5	-0.6	+1.1

Total CSI Expenditure, Year on Year



Adolfo Laurenti, European Principal Economist, Visa, commented:

"Consumer spending was once again muted in October as household spending declined -1.1% year-on-year, according to Visa's latest UK Consumer Spending Index. That said, there are a couple of silver linings in the report. First, the pace of decline abated from -2.3% year-on-year in September, offering some hope that spend will stabilise as we approach the crucial holidays shopping season. Second, eCommerce posted a renewed increase in spend (+1.1% year-on-year), ending a two-month sequence of decline. This trend highlights the 'tale of two retails', where bricks and mortar shops continue to face challenging headwinds, while eCommerce channels are faring relatively better. Finally, several categories appear to be close to a turning point – despite suffering declines in October, we are particularly hopeful that Food & Beverages, Health & Education, and Hotels, Restaurants & Bars could return to growth before the end of the year."

Annabel Fiddes, Principal Economist at IHS Markit, said:

"Household spending across the UK fell again in October, according to latest Visa CSI data, albeit only slightly. Despite the overall downward trend, there were some signs of improvement when looking at the more detailed datasets. eCommerce spending increased for the first time in three months, while the majority of sectors noted softer falls in expenditure compared to September.

"However, it seems unlikely we will see a meaningful recovery in expenditure trends until there is greater clarity around the outlook, as economic and political uncertainty continues to weigh heavily on both consumers as well as businesses."

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The vast majority of broad expenditure categories noted lower spending compared to a year ago in October. However, in all cases, rates of reduction were either slower than in the previous month or only marginal.

The quickest fall was seen in Household Goods (-2.7% on the year), followed by Misc. Goods & Services (-2.4%). Although Hotels, Restaurants & Bars saw only a marginal drop in spending volumes (-0.4%), it was the first decline seen in this category since early-2011.

The only sector to record increased spend was Recreation & Culture. Though only slight (+0.3%), the upturn contrasted with stagnant spend in this category in the prior two months.



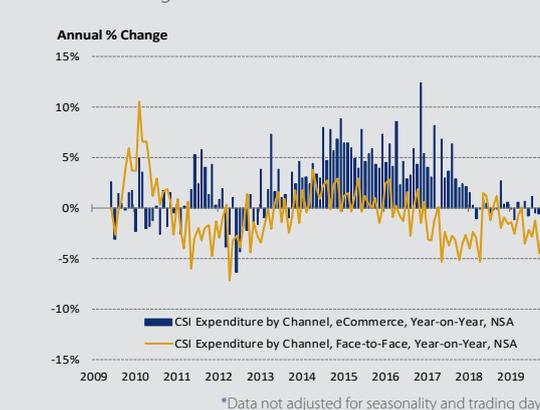
eCommerce and Face-to-Face Spend

The overall reduction in household expenditure was driven by lower spend via Face-to-Face channels, as eCommerce saw a renewed increase in expenditure.

October data signalled that Face-to-Face spend fell -2.4% on an annual basis, which was softer than the -4.5% reduction in the previous month. However, this extended the current period of falling expenditure through this channel to six months.

After marginal reductions in the prior two months, spending volumes via eCommerce increased during October. That said, the rate of expansion was only slight (+1.1% year-on-year) and weaker than the historical trend.

UK CSI: eCommerce 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, September and October, which are not adjusted for seasonality and trading days, are provided in the table opposite.

Household spending fell across all but one of the eight broad spending categories monitored in October. Household Goods registered the quickest reduction, followed by Misc. Goods & Services (which includes jewellery and hairdressers). A modest drop in spend was meanwhile seen in Transport & Communication, while expenditure fell only slightly in Food & Drink, Clothing & Footwear, Health & Education and Hotels, Restaurants & Bars categories. Nonetheless, it was the first decline in spend seen in the latter since March 2011.

The only sector to register an increase in expenditure was Recreation & Culture, though growth was only slight.

Annual Growth Rates By Sector

Data not adjusted for seasonality and trading days

Broad Sector	Aug'19	Sep'19	Oct'19
Food, Beverages & Tobacco	+1.0%	-2.3%	-0.7%
Clothing & Footwear	-6.2%	-7.2%	-1.0%
Household Goods	-2.8%	-5.5%	-2.7%
Health & Education	-2.2%	-2.1%	-0.4%
Transport & Communication	-3.3%	-5.7%	-1.4%
Recreation & Culture	0.0%	0.0%	+0.3%
Hotels, Restaurants & Bars	+4.3%	+2.4%	-0.4%
Misc. Goods & Services	-3.7%	-6.9%	-2.4%

Visa's UK Consumer Spending Index



Official Data Comparisons

Annual percentage changes in Visa's UK Consumer Spending Index have a good relationship with a number of official data series, such as Gross Domestic Product (GDP) from the Office for National Statistics (ONS).

More recently, Visa's UK Consumer Spending Index (CSI) data have successfully pointed to softer economic growth and expenditure trends.

The latest CSI data show a sustained drop in spend at the start of the fourth quarter. However, the rate of reduction eased to a six-month low, while the three-month-on-three-month average, which provides a gauge of underlying momentum, moved back into positive territory for the first time since the start of the year.

The overall reduction in household spending coincides with relatively subdued consumer confidence across the UK, with the European Commission's measure of consumer confidence remaining close to a six-year low in October.

The IHS Markit/CIPS UK Purchasing Managers' Index (PMI) surveys, which cover services, manufacturing and construction sectors, have also been disappointing in recent months due to lingering political and economic uncertainty. Notably, PMI data have pointed to a contraction of overall business activity for three successive months.



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.



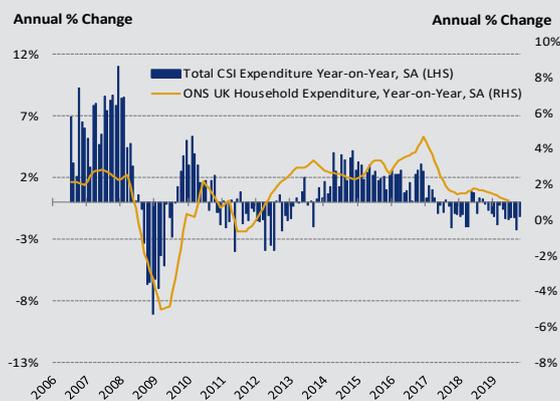
Further information:

Ian Burge, Visa

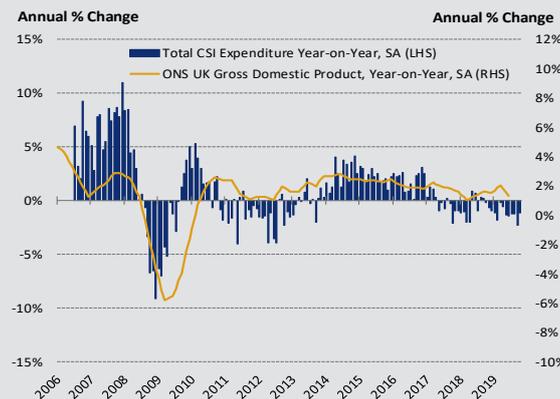
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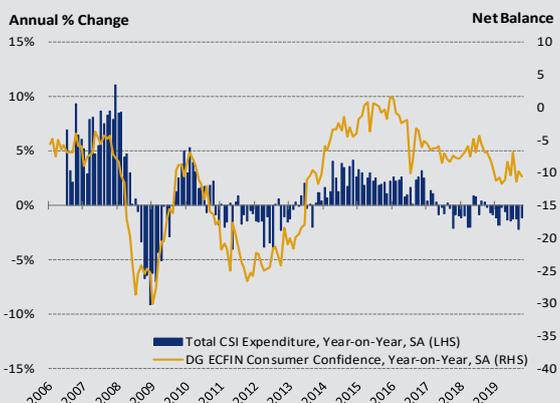
UK CSI & Household Expenditure - Annual % Change



UK CSI & GDP - Annual % Change



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

VISA

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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



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