

UK: Markit/YouGov Household Finance Index

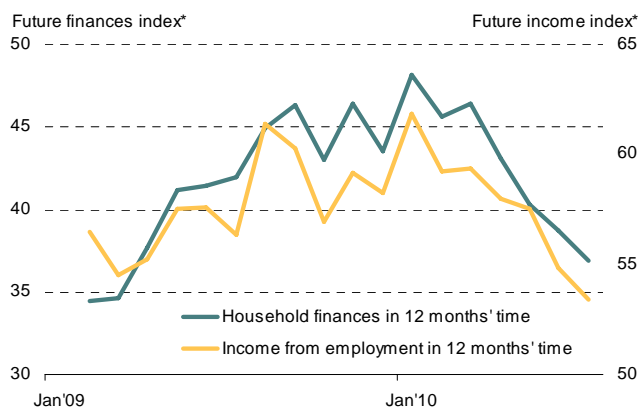
Austerity measures hit confidence, but long-term prospects improve

The majority of respondents to the HFI survey expect the measures announced in the Budget to hit their household finances over the coming year. However, they are less pessimistic about the impact on the UK economy as a whole, and the Budget is seen to have had a positive impact on the economy's long-term growth prospects.

Confidence falls in July

Having shown signs of improvement late last year and during the initial months of 2010, the Markit/YouGov HFI survey indicated that confidence about future household finances fell for the third successive month in July. The assessment was the most downbeat since March 2009 – a time when the manufacturing sector was collapsing at a rate not seen for 30 years and unemployment was rising sharply.

Markit/YouGov Household Finance Index



* Index readings above 50 signal an expected improvement in 12 months' time, readings below 50 signal an expected deterioration

The key to the downturn in confidence has been worries about jobs and incomes. This fall in sentiment could in turn be linked to the austerity measures announced in the emergency Budget of 22 June. Additional questions asked in the July HFI survey found that some two-thirds of all UK households thought that the measures outlined in the Budget would negatively affect their household finances over the next 12 months. Just 6% saw a positive effect.

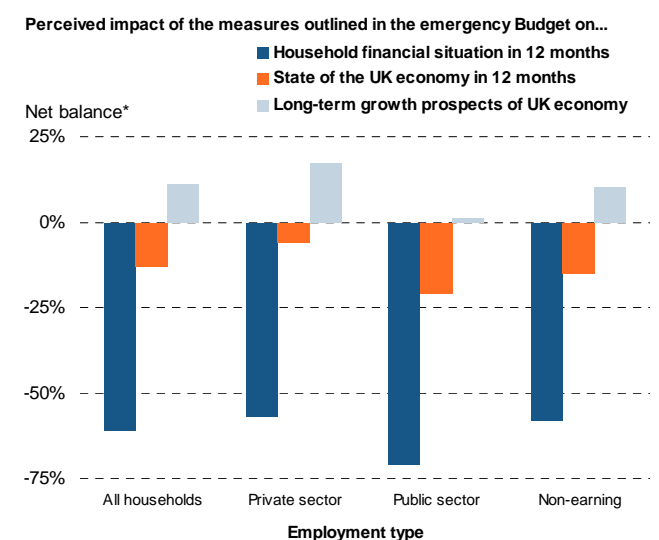
Short-term pain for long-term gain

While the majority of respondents were pessimistic about the impact of the Budget on their own finances, they were less downbeat about prospects for the economy as a whole. Moreover, pessimism was largely confined to the short-term: 48% of respondents thought the Budget would negatively affect the state of the UK economy over the next 12 months compared to just 35% that perceived a positive effect. Looking further ahead, however, only 35% thought the Budget had hurt the UK's long-term growth prospects, while 46% saw a positive impact.

Public sector woes

Government employees were noticeably more pessimistic about their household finances over the coming year as a result of the Budget than private sector employees and non-earners, most likely reflecting the high levels of job insecurity observed in the public sector in the HFI survey.

Impact of the Budget by employment type



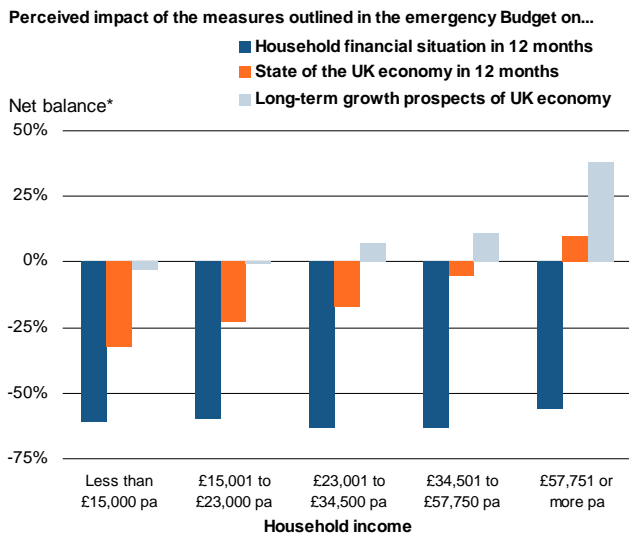
Public sector employees were also more downbeat than private sector employees about the impact of the Budget on the economy as a whole, over both the next year and the longer term. In fact the public sectors' view of the longer term impact of the budget was

broadly neutral (40% perceived a positive impact against 39% seeing a negative effect). By comparison, 48% of private sector employees saw a positive long-term impact of the Budget against just 31% expecting a deterioration in the UK's long-term growth prospects.

A 'fair budget'?

In terms of 'fairness', the Budget is expected to hit all earners to a similar extent: pessimism about the impact on household incomes over the next 12 months was much the same across all main income groups, although the wealthiest (earning in excess of £57,751 pa) were slightly less downbeat than lower income groups.

Impact of the Budget by income group



There was a clear relationship between the perceived impact of the Budget on the UK economy (both in the short- and long-term) amongst income groups, with confidence rising according to wealth. The lowest two income categories (earning less than £23,000 per annum) even considered the Budget to have had a detrimental effect on the UK's short- and long-run economic prospects.

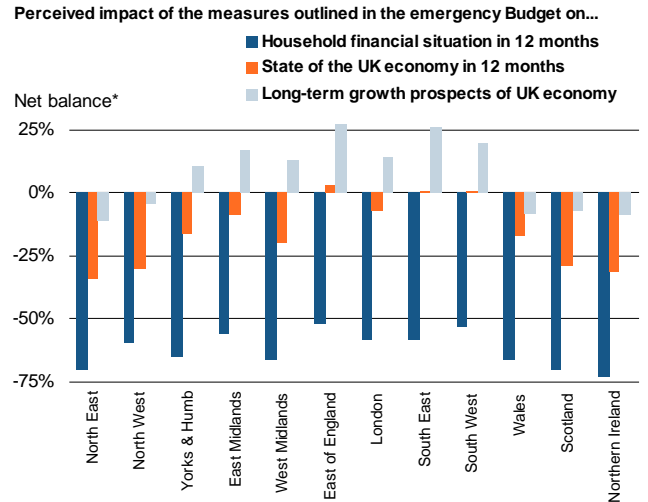
The North expects to suffer to the greatest extent

Households in Northern Ireland, Scotland and the North East expect their finances to be hit to the greatest extent by the Budget this year, while the East of England was the least pessimistic.

The UK's economic prospects for the longer-term were also varied by region, with confidence led by the East

of England, South East and South West. Northern regions were again the most pessimistic overall.

Impact of the Budget by region



* Net balances show the proportion of respondents reporting an increase less those reporting a decrease.

Comment

Commenting on the survey, Chris Williamson, Chief Economist at Markit, said:

"At a stage of the economic recovery when UK households and businesses need to be gaining confidence in the outlook, it appears that the reverse is occurring. This is clearly linked to widespread perceptions among households that the emergency Budget will hurt their finances over the coming year. Those in the public sector are particularly pessimistic, no doubt reflecting looming redundancies as spending cuts come into force.

"However, while the survey suggests that the risk of a double-dip recession may have increased if consumer spending falls in line with weakened household finances over the next 12 months, households appear to have bought into the view that short-term pain is needed to build a sustainable future. On balance, the Budget is expected to have improved the UK's long-term economic prospects. But it should also be noted that those working in the public sector, those with lower incomes and households in northern regions remain unconvinced."

Summary data

all data shown are % net balances (+/-)

How do you think the measures outlined in Chancellor George Osborne's Emergency Budget will affect your household's financial situation over the next 12 months?

	All	Private	Government	Non-Earning	Other
Negative	67%	64%	75%	65%	73%
No-Change	26%	28%	21%	28%	20%
Positive	6%	7%	4%	7%	7%
Net Balance	-61%	-57%	-71%	-58%	-66%

How do you think the measures outlined in Chancellor George Osborne's Emergency Budget will affect the state of the UK economy over the next 12 months?

	All	Private	Government	Non-Earning	Other
Negative	48%	44%	51%	49%	61%
No-Change	18%	18%	18%	17%	11%
Positive	35%	38%	30%	34%	28%
Net Balance	-13%	-6%	-21%	-15%	-33%

How do you think the measures outlined in Chancellor George Osborne's Emergency Budget will affect the long-term growth prospects of the UK economy?

	All	Private	Government	Non-Earning	Other
Negative	35%	31%	39%	37%	47%
No-Change	19%	21%	21%	17%	26%
Positive	46%	48%	40%	47%	28%
Net Balance	11%	17%	1%	10%	-19%