

Visa Europe: UK Expenditure Index

Compiled by Markit on behalf of Visa Europe

Economic recovery still on track as household expenditure continues to rise in Q2 2010.

Key findings

- After adjustment for card issuance, payment preference and inflation, the preliminary estimate of expenditure in Q2 on all Visa cards issued in the UK was for a 10.1% increase year-on-year, up from 8.4% in Q1.
- Q2's growth carried on the positive trend in real expenditure seen over the past year, with an annual increase registered for a fourth successive quarter and at a rate that was comparable to those seen prior to the recession.
- However, the latest rise in card expenditure in part reflects positive base effects following the severe declines seen around a year ago. Moreover, while the adjusted card data are extremely positive, Q2 may mark the peak of the recovery cycle and analysis of monthly trends suggest that spending on cards in June rose at a slower pace than in May.
- There are 91 million Visa cards in the UK and £1 in every £4 spent in the UK is on a Visa card, with more than 70% of this spending on debit cards. The Visa data provide an indication of consumer expenditure trends to a much quicker timescale than official publications and, by covering a much wider range of sectors than just retail, offers a unique insight into the health of private sector consumption in the UK.
- The Visa data have enjoyed a strong positive relationship with equivalent official numbers in recent years, providing an advance indication of turning points particularly during the recent recession. Latest card expenditure figures thereby suggest that household spending, which accounts for around 60% of UK economic output, made an increasingly positive contribution to GDP growth in the second quarter of 2010.

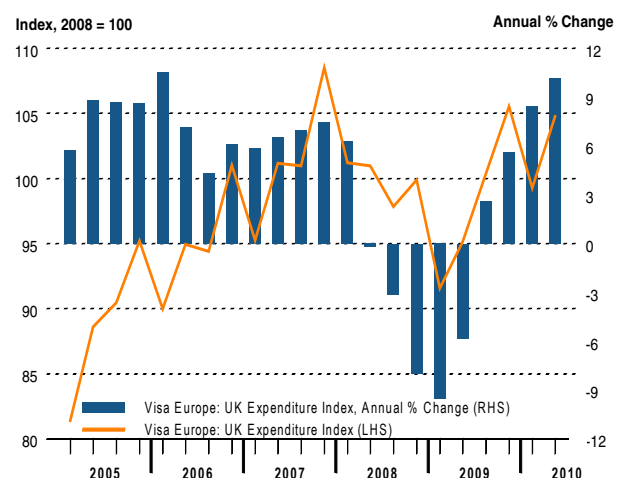
Commenting on the latest results, Dr Steve Perry, Commercial Director at Visa Europe said:

"That total consumer expenditure has returned to pre-recession levels so quickly is very positive news for the economy. However, a slowing of the growth rate in June is a reminder that the consumer recovery is still fragile. Consumer sentiment has been hit by the political, financial and economic uncertainties that have arisen in recent months following the general election and the coalition government's austere emergency budget. The uncertain outlook therefore means a slowdown in consumer expenditure growth cannot be ruled out."

"The past decade has seen a tremendous growth in the use of cards for all types of expenditure in the UK. Debit cards in particular are becoming the preferred payment method for many consumers and replacing the use of cash and cheques. This means that card spending provides an increasingly strong indicator of total consumer spending."

"As Visa technology processes millions of payments every day in the UK, we saw an opportunity to use this data to help provide an understanding of what consumer expenditure really looks like, which is why we have developed the Visa Europe: UK Expenditure Index."

Chart 1: Visa Europe: UK Expenditure Index*



*Values of the Visa Europe: UK Expenditure Index, as represented by the line in Chart 1 which shows absolute real spending with a base year of 2008, provide a convenient summary of the level of real card expenditure. By comparing different index values this gives an indication of how spending levels have changed across different time periods. For example, the index value in Q2 2010 is higher than it was in Q2 2007 indicating that real spending levels have recovered to pre-recession levels.

Card expenditure trends remain positive, suggesting solid consumption growth in Q2.

Preliminary Visa data for the second quarter of 2010 indicated the continued recovery of UK consumer expenditure, with real spending on cards increasing for a fourth successive quarter and again at an accelerated pace.

More than £1 in £4 in the UK is spent on a Visa card, therefore data covering such a significant proportion of household expenditure provide a unique opportunity to gauge the consumer recovery following the most severe recession since the Great Depression.

However, with consumers increasingly shifting away from cash to debit cards for everyday transactions, and the number of Visa cards in the UK increasing, it is important to account for these effects prior to making an assessment of the underlying consumer trends.

The headline 'Visa Europe: UK Expenditure Index' is therefore presented after adjustment for card issuance, consumer payment preferences and inflation to provide a more accurate guide to changes in real consumer spending. Figures are based on spending on all card types issued by Visa (debit, credit and prepaid).

Recent trends show an ongoing recovery in Visa expenditure following the recession. Having returned to growth in Q3 2009, spending has shown increasingly impressive growth and, based on preliminary estimates, reached in Q2 a year-on-year rate of 10.1%, up from 8.4% in the previous quarter.¹

Nonetheless, it is worth bearing in mind that growth in part reflects positive base effects. At its worst, the extremely severe recession in 2008/2009 was characterised by near double-digit declines in Visa spend data but in absolute terms, real spending has now recovered to levels seen prior to the recession (see chart 1).

Tracked against broadly equivalent household spending data from the Office for National Statistics (ONS), the Visa expenditure index has proven to be an excellent

Chart 2: Visa Europe: UK Expenditure Index & Household Expenditure

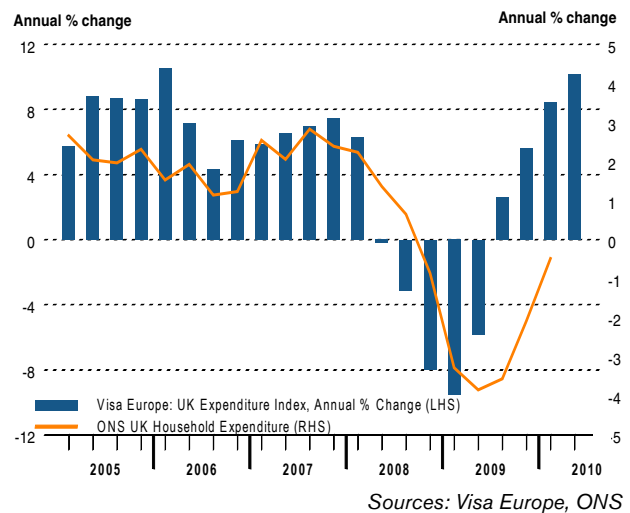
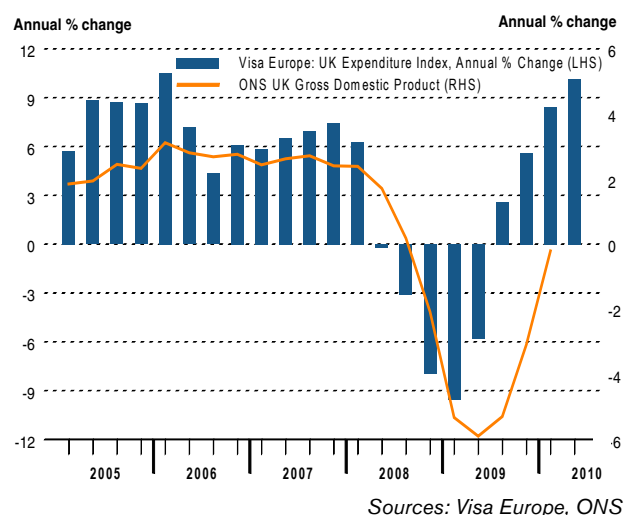


Chart 3: Visa Europe: UK Expenditure Index & GDP



¹ Figures for Q2 are first estimates, based on transactions processed directly by Visa card operations. These account for around 90% of the final data, which are generally available 6-8 weeks after the end of a quarter.

Visa Europe: UK Expenditure Index

indicator of official spending trends, providing an advance signal of the recovery (see chart 2). On the basis of this historical relationship, the Visa data suggest that household consumption is on course to make a positive contribution to economic growth in the second quarter of 2010.

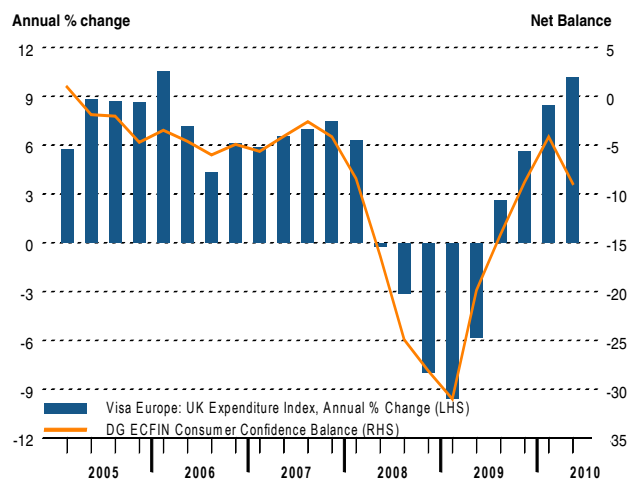
Given the large proportion that household expenditure makes to UK economic output (around 60%), the Visa data also have a strong relationship with trends in gross domestic product (GDP). The more timely Visa data therefore point to, at the very least, a return to year-on-year UK growth in the second quarter and a continuation of the recent economic recovery (see chart 3).

While the positive Visa data bode well for growth in Q2, and suggest some positive momentum, a key question is whether this can be maintained into the second half of 2010. There are doubts on the horizon, with worries over the negative impact that the government's austerity drive is likely to have on the wider economy. With just over one-in-five workers in the UK employed by the state, public sector job cuts are likely to knock confidence and dampen spending over the coming months. Indeed, analysis of the trends in the unadjusted Visa expenditure data suggest this may already be under way: the rate of growth was seen to weaken in June following a peak in May.

Chart 4 highlights the relationship between consumer confidence and the Visa index. Again, the correlation between the two series has been strong, particularly during the recession where an improvement in sentiment was matched by an increased willingness to spend amongst consumers. However, Q2 saw a softening in sentiment as political and financial uncertainties undermined confidence. This provides further evidence that the peak in the recovery of consumption may have passed.

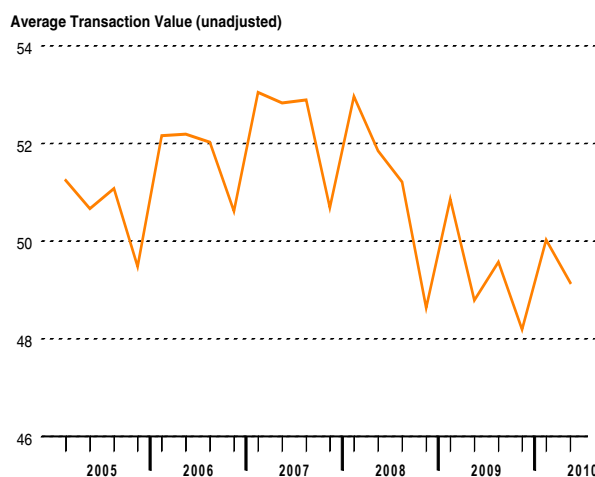
A development in Visa card spending trends in recent years has been a decline in average transaction value

Chart 4: Visa Europe: UK Expenditure Index & Consumer Confidence



Sources: Visa Europe, DG ECFIN

Chart 5: Average Transaction Value (ATV)



Source: Visa Europe

Visa Europe: UK Expenditure Index

as consumers increasingly switch their spending preferences away from cash to debit cards for lower valued transactions (see chart 5). This trend is likely to continue as technological advancements such as contactless payments ensure that consumers and retailers become increasingly accustomed to using their cards for everyday purchases.

Inflation has been relatively strong in recent months compared to rates seen over the past two decades and this ensured that ATV was, at £49.2, estimated to be slightly higher in Q2 than the same period of 2009. Nonetheless, ATV remains well down on levels seen in previous years.

Given the increasingly important role that cards (particularly on the debit side) are playing in household spending behaviour, the ATV data further serve to highlight the relevance that the expenditure index has in understanding consumer trends.

Notes and Further Information

The headline 'Visa Europe: UK Expenditure Index' is based on spending on all cards issued by Visa – debit, credit and prepaid – with a number of adjustments made to ensure that the data provide an accurate indication of consumer spending trends.

First, the data are deflated by changes in the number of Visa cards in order to account for the expansion of Visa's card operations, particularly on the debit side. Secondly, 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. Finally, 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.



Visa Europe is a membership association of more than 4,000 European banks that have collectively issued more than 399 million Visa debit, credit and commercial cards in Europe. In the 12 months ending December 2009 those cards were used to make purchases and cash withdrawals to the value of €1.4 trillion. 11.2% of consumer spending at point of sale in Europe is with a Visa card.

In October 2007, Visa Europe became independent of the new global Visa Inc., with an exclusive licence in Europe.

As a dedicated European payment system it is able to respond quickly to the specific market needs of European banks and their customers – cardholders and retailers, and to meet the European Commission's objective to create a true internal market for payments.

Visa enjoys unsurpassed acceptance around the world. In addition, Visa/PLUS is one of the world's largest global ATM networks, offering cash access in local currency in over 200 countries

e-mail: europeanmedia@visa.com

<http://www.visaeurope.com>



Markit Economics is a specialist compiler of business surveys and economic indices, including the Purchasing Managers' Index (PMI) series, which is now available for 26 countries and key regions including the Eurozone and BRIC. The PMIs have become the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.

e-mail: economics@markit.com