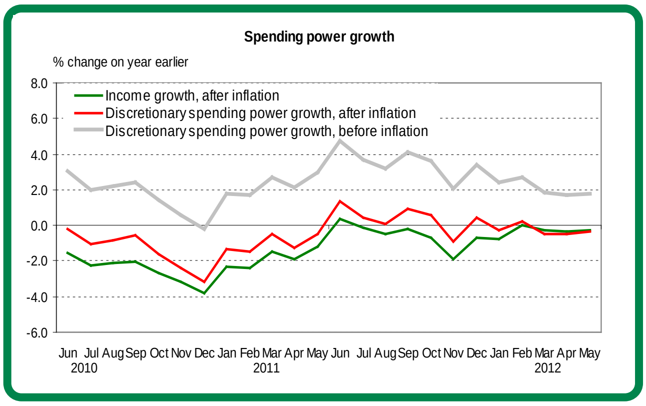
Lloyds TSB

Spending Power Report

Spending power squeeze continues despite falling cost of essentials



- **Discretionary spending power fell by 0.3% in May as real incomes continue to shrink.** On average, this equates to almost £34 a month less than a year ago to spend on non-essential items.
- **However, growth in essential spending eased,** suggesting consumers could be starting to feel the effects of falling inflation.
- **At 5.1%, annual growth in spending on automotive fuel fell to its lowest level** since the index began in January 2010.
- **Perceptions of the country's financial and employment situations have deteriorated** compared to this time last year.

Squeeze on spending power remains as inflationary pressures ease

The 0.3% decline in spending power, after inflation, illustrates that conditions for consumers remain tough largely due to weak income growth. On average, consumers had around £34 less to spend on non-essential items in May compared with the same time last year.

Due to unseasonal weather and calendar effects, extra caution should be applied when interpreting recent short term movements in the data. However, it does appear that there were some positive signs for consumers in May as growth in essential spending fell back to 3.9% from 4.6% in April – likely reflecting recent falls in inflation.

Despite recent falls, the current level of inflation remains high. Consumer research indicates that 79% of people believe the current level of inflation to be 'not good' or 'not at all good', compared with 85% in April and 83% in May last year. At the same time, the proportion of people surveyed who say they have noticed the cost of essentials and everyday spending increasing over the past 12 months declined, but remains high at 83%.

Patrick Foley, chief economist at Lloyds TSB, says:
"Weak income growth and stubbornly high inflation is ensuring that the squeeze on consumers is remaining in place longer than many thought it would. Growth in spending on essentials is now showing signs of moderating which is positive. But the weakness in income growth is severely limiting the benefits for consumers.

"I would expect the benefits of falling inflation on consumers' spending power will be limited until we also see a stronger economy and faster growth in incomes."

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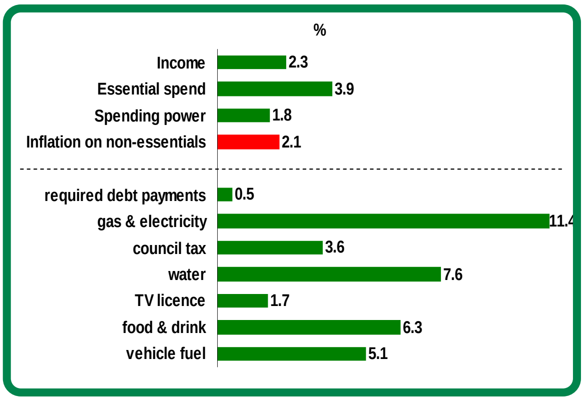
Growth in essential spending eases

Greater affordability of essential items was a key factor in limiting the squeeze on consumers in May. Annual growth slowed across nearly all measures of essential spending during the month, with the most notable declines seen in debt payments, water bills and automotive fuel. For the latter, falling costs at the pump have driven spending growth to its lowest level (5.1%) in at least two years.



Improving situation for household finances

Household finances showed some improvement in May, with 54% of survey respondents stating that they live comfortably or meet their bank or current account outgoings with some left over each month. This is up by six percentage points since April. At the same time, the proportion of people who state they do not have enough to meet monthly outgoings fell by two percentage points to 7%.

People aged 35-54 were found to be more likely to say they do not have enough money to meet monthly outgoings, while those aged 24 or under are least likely to feel financially restricted.

Consumers expect to see spending power remain tight but more look to save

Despite some positive signs in May, future discretionary income expectations continue to remain negative with more feeling that they will have less to spend in six months time (25%) than more (20%). Currently 63% of consumers spend at least three quarters of their monthly income on household bills and essentials – a decrease of three percentage points from April.

Consumers are however beginning to show a greater propensity to save should they have money left over at the end of the month. 59% said they would be likely to save any leftover money compared with 56% in April, and driving this across all age groups was the need to save for financial security.

Jatin Patel, director of current accounts for Lloyds TSB, comments:

"Consumers are still under real pressure financially, but we are beginning to see some initial signs that the squeeze on household finances may be easing as affordability of essential items improves.

"Our research suggests that a growing number of people have money left over at the end of the month following outgoings. Nonetheless, people continue to spend a large portion of their monthly income on household bills and essentials, and it is unlikely that we will see any significant further improvement until income growth returns to more positive levels."

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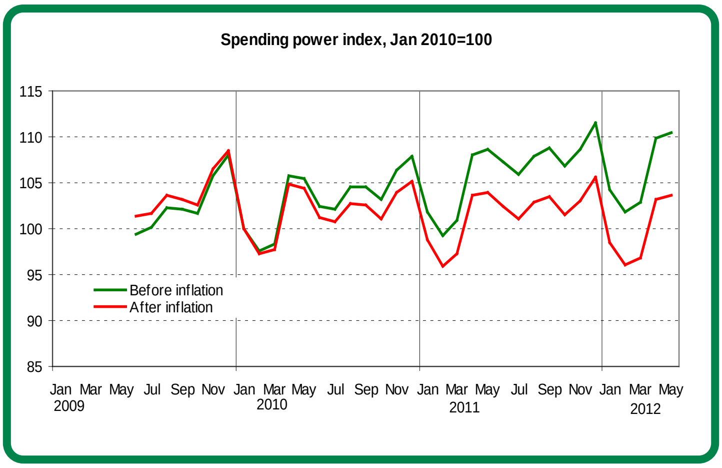
Notes to Editors:

The Lloyds TSB Spending Power Report examines trends in consumers' spending power, defined as income left after essential spending. Each month it covers both changes in actual spending power and in consumers' perceptions, as well as recording how consumers are reacting. The Spending Power Report measures payments into Lloyds TSB current accounts[1] and subtracts essential spending – rent, mortgage and required debt payments, utility bills, council tax, TV licences, food and fuel. Additionally, over 2,000 consumers are asked about their current and future spending habits and how their commitments affect their spending power[2].

The Index is derived from the current account data of all Lloyds TSB customers, the largest provider of current accounts in the UK. This provides a robust and representative sample of the entire UK market.



Discretionary Spending Power – Index movement				
	Before Inflation		After Inflation[3]	
	Level	Annual % change	Level	Annual % change
Sept 11	108.8	4.1	103.6	0.9
Oct 11	106.9	3.6	101.5	0.6
Nov 11	108.6	2.1	103.0	-0.9
Dec 11	111.5	3.4	105.6	0.4
Jan 12	104.2	2.4	98.4	-0.3
Feb 12	101.9	2.7	96.0	0.2
Mar 12	102.8	1.9	96.8	-0.5
Apr 12	109.8	1.7	103.1	-0.5
May 12	110.5	1.8	103.6	-0.3

Consumer research – monthly change in sentiment

Consumers have revealed they:

	Dec 11	Jan 12	Feb 12	Mar 12	Apr 12	May 12
Think the country's financial situation is not good	**92%**	**91%**	**91%**	**91%**	**92%**	**91%**
Think the country's employment situation is not good	**94%**	**95%**	**93%**	**93%**	**92%**	**92%**
Are concerned about inflation	**87%**	**84%**	**79%**	**80%**	**85%**	**79%**
Are negative about the housing market	**83%**	**81%**	**80%**	**79%**	**81%**	**79%**
Use all of their monthly income on household bills and essentials	**15%**	**19%**	**19%**	**18%**	**18%**	**16%**
Use three quarters of income on household bills and essentials	**46%**	**43%**	**46%**	**45%**	**48%**	**47%**
Believe the cost of essentials and everyday spending has increased	**NA**	**NA**	**NA**	**73%**	**86%**	**83%**
Meet monthly bank/current account outgoings with some left over	**34%**	**32%**	**32%**	**31%**	**32%**	**34%**
Don't have enough to meet monthly bank/current account outgoings	**8%**	**8%**	**9%**	**9%**	**9%**	**7%**
Expect to have more money in six months' time once all household bills and essentials have been paid	**19%**	**21%**	**21%**	**21%**	**20%**	**20%**
Expect to have less money in six months' time once all household bills and essentials have been paid	**28%**	**27%**	**27%**	**25%**	**27%**	**25%**

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[1] All the data (numbers and charts) derived from Lloyds TSB current accounts in the report is based on three month averages of the raw current account data. Actual income and expenditure is analysed on a rolling monthly basis. There is a strong seasonal pattern to the Spending Power Index, and this may change over time as consumers and firms change their usage of different payment types. The methodology of the index may be altered in future to correct for some of these changes, once a longer history of data is established.

[2] Consumer research is compiled in conjunction with TNS Financial and Professional Services. A total of 2,328 consumers were questioned. Interviewing took place via an online survey between 22nd to the 26th of May 2012.

[3] Calculated using Lloyds TSB estimates of inflation on discretionary spend items.

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