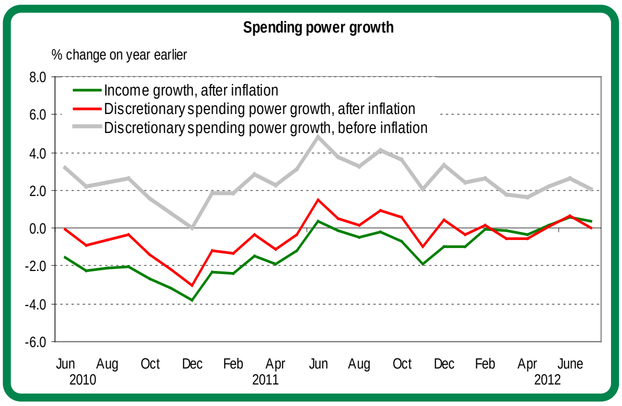
Lloyds TSB

Spending Power Report

Consumer spending power growth flattens out in July



- **Spending power growth flattened out in July,** as income growth weakened further.
- **After inflation, spending power showed no growth** in July compared with the same time last year, meaning consumers had no extra money to spend on discretionary items last month.
- **Income growth remains weak at 2.4% on a year ago.** However, with inflation falling in recent months, income growth remained positive in real terms in July (0.3%).
- **Annual growth in essential spending slowed for the fourth consecutive month and at 3.2% was at its lowest level since November 2011.** This was largely driven by falling required debt repayments and slowing growth in automotive fuel spending.

Weak income growth continues to squeeze household budgets

There was no change in spending power in July as conditions remained tough for consumers, partly due to continued weak income growth. The 0% growth in spending power after inflation means that, once essential items had been paid for, discretionary spending power didn't grow at all compared with a year ago.

Falling inflation in the three months to June, driven largely by lower food and petrol prices in recent months, has provided some relief for household budgets of late. However, income growth fell back in July to its lowest level since November 2011 (2.4%), putting further strain on the pockets of consumers. Nonetheless, income growth remains in positive territory in real terms (0.3%), albeit marginally.

Reflecting the recovery in spending power in recent months, the proportion of people spending all of their income on household bills and essentials continues to decline, reaching 16% in July 2012 compared with 19% in February.

Within essential spending, annual growth continued to slow across a number of categories during the month, with the most notable declines seen in debt payments and automotive fuel. Growth in debt payments moved deeper into negative territory at -0.8%, while growth in automotive fuel fell to its lowest level since the series began (January 2010) at 0.7%.

Patrick Foley, chief economist at Lloyds TSB, says:
"Even though inflation is falling, weak income growth has prevented that from leading to a significant improvement in spending power. But if inflation falls further over the next year, as we expect, spending power should continue its gradual upward trend."

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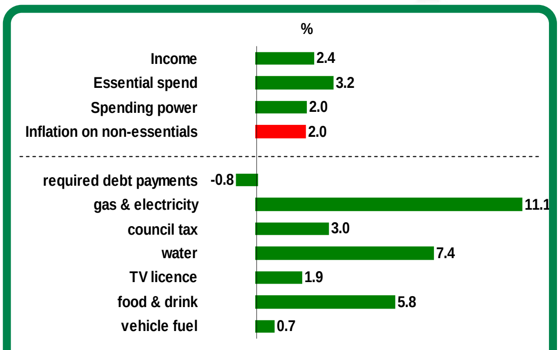
Consumer pessimism towards the UK financial situation grows…

In line with news that the output of the economy shrank by 0.7% in the second quarter of the year, negative perceptions of the UK's financial situation grew during the month, with the proportion believing the situation is 'not at all good' increasing from 43% to 46%. By contrast, just 10% believe it to be good.

Meanwhile, people's perceptions towards their own personal financial situation remained broadly flat month-on-month in July with 50% viewing it negatively - a five percentage point improvement since last year.



Annual change in income and essential spend before inflation, July 2012

…while sentiment towards inflation improves

Official figures released last week showed inflation ticked back up in July to 2.6% following three months of decline. However, consumer research carried out during the month (17 - 23 July) indicated people were showing increased signs of optimism towards the current inflation situation, with sentiment improving for the fourth month in a row. It remains to be seen whether the increase in inflation will have a negative impact on consumer sentiment.

During the month, the proportion of people feeling positive about the current level of inflation increased by four percentage points to 28% - the highest level recorded since views on inflation were first measured in March 2011.

Our consumer research further indicates that more than four fifths (81%) of consumers have noticed the cost of essentials and everyday spending increase in the past 12 months. This compares to 86% in April, suggesting that some people are starting to feel an effect from falling inflation on their pockets.

Looking to the future

Pessimism with regards to future discretionary income declined consistently over a three month period from April to June, however, this trend was not maintained from June to July with the balance of opinion (the difference between those saying they will have more in six months' time minus those saying they will have less) dropping to -6% representing a 3% decline month-on-month. Nonetheless, when compared to this time last year, perceptions have improved (-9% in July 2011 to -6% in July 2012).

Planned spending in six months' time continues to be in negative territory with the balance of opinion (the difference between those saying they will spend more minus those saying they will spend less) standing at -6% for July, implying that there may be a reduction in overall spending in the lead up to Christmas.

Jatin Patel, director of current accounts for Lloyds TSB, comments:
"News that the economy shrank in the second quarter of the year would appear to be dampening spirits towards the UK's financial situation. However, there are signs that the effect of lower inflation is being felt within household budgets. Annual growth in essential spending is not putting downward pressure on budgets in the same way as it was earlier in the year, but with income growth still weak, we are yet to see any noticeable improvement in the amount of money people have left over for discretionary purchases. Until we see this, spending on the high street will likely remain subdued for many in the near future."

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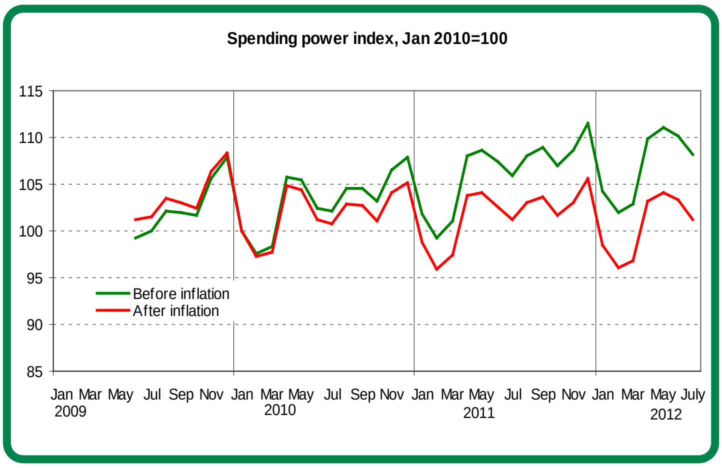
Notes to Editors:

Interviews took place via an online survey (17th – 23rd July 2012), prior to the London 2012 Olympic Games commencing.

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
Nov 11	108.7	2.1	103.1	-1.0
Dec 11	111.6	3.4	105.6	0.4
Jan 12	104.3	2.4	98.5	-0.4
Feb 12	101.9	2.7	96.1	0.1
Mar 12	102.9	1.8	96.8	-0.6
Apr 12	109.9	1.7	103.2	-0.5
May 12	111.1	2.2	104.1	0.1
Jun 12	110.2	2.6	103.3	0.7
Jul 12	108.1	2.0	101.2	0.0

Consumer research – monthly change in sentiment

Consumers have revealed they:

	Feb 12	Mar 12	Apr 12	May 12	Jun 12	Jul 12
Think the country's financial situation is not good/not at all good	**91%**	**91%**	**92%**	**91%**	**90%**	**90%**
Think the country's employment situation is not good/not at all good	**93%**	**93%**	**92%**	**92%**	**91%**	**89%**
Think their personal financial situation is not good/not at all good	**50%**	**50%**	**52%**	**48%**	**50%**	**50%**
Are negative about the housing market	**80%**	**79%**	**81%**	**79%**	**78%**	**79%**
Are concerned about inflation	**79%**	**80%**	**85%**	**79%**	**75%**	**72%**
Use all of their monthly income on household bills and essentials	**19%**	**18%**	**18%**	**16%**	**17%**	**16%**
Use three quarters of income on household bills and essentials	**46%**	**45%**	**48%**	**47%**	**46%**	**46%**
The net balance of consumers who believe they will be spending more in six months	**-6%**	**-5%**	**-8%**	**-6%**	**-7%**	**-6%**
The net balance of consumers who believe they will be saving more in six months	**2%**	**5%**	**5%**	**2%**	**5%**	**4%**
The net balance of consumers who believe they will have more discretionary income in six months	**-6%**	**-4%**	**-7%**	**-5%**	**-3%**	**-6%**
Believe the cost of essentials and everyday spending has increased	**NA**	**73%**	**86%**	**83%**	**83%**	**81%**

[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 2,379 consumers were questioned. Interviewing took place via an online survey between 17th and 23rd July 2012.

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