

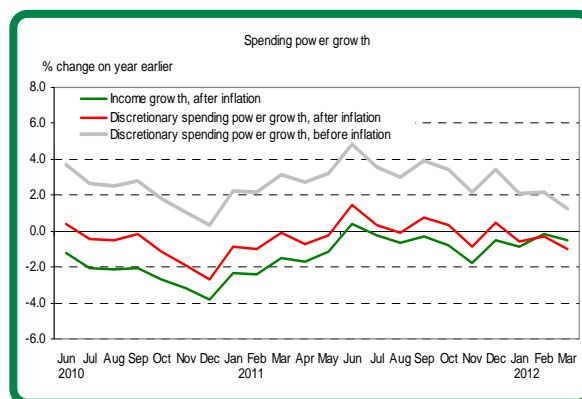


# Spending Power Report



## Consumers feel biggest squeeze in spending power in over a year

- **Consumers' spending power continued to deteriorate in March**, and after inflation fell 1.1% from a year earlier – its lowest level since February 2011. This equates to £113 less a year to spend on non-essential items.
- **At 6.2% spending on essentials is rising at its fastest rate since the Index began.**
- **Income growth has slowed to its weakest rate for over a year to 2.4% from 12 months ago.**
- **Nearly three quarters of consumers (73%) have noticed an increase in the cost of essentials and everyday spending.**
- **There was a significant rise in spending on vehicle fuel in March compared with February (12%)** as people reacted to the threat of a fuel distribution strike towards the end of the month. However, this increased essential spending by only 0.2%.
- **64% of people believe they are spending more on petrol and diesel compared to a year earlier.**



### Spending power continues to be squeezed as income growth weakens

While inflation ticked up slightly in March, five consecutive months of decline to February has seen it drop 1.7 percentage points from its peak in September of last year. However, there is little to suggest that these declines have started to feed through into the pockets of consumers by way of an improved ability to spend. By contrast, the latest Spending Power Report shows discretionary spending power growth after inflation fell to its lowest level in over a year in March (-1.1%), the equivalent of approximately £113 less a year for consumers to spend on non-essential items.

A major factor behind this fall is weakening income growth, which slowed to 2.4% in March, compared to 3.0% in February. Income is now at its lowest rate since February 2011 and remains below inflation. At the same time, essential spending rose by 6.2% in the year to March, its highest rate since the series began. This was largely driven by an increase in food and drink, gas and electricity bills and spending on debt payments. However, consumers also spent an extra 33% on vehicle fuel in the last week of the month compared to the week before in reaction to the threat of a fuel distribution strike, and overall spending on fuel in March rose by 12% compared to February.

#### Patrick Foley, chief economist at Lloyds TSB, says:

“Contrary to expectations at the start of the year, the squeeze on consumers is not yet beginning to ease. Although overall inflation declined in the five months to March, prices of essentials are rising at an increasing rate, whilst at the same time growth in incomes has slowed. The pace of economic recovery is thus likely to remain very weak over the next few months at least, with subsequent improvement dependent on a stabilisation in living costs and impetus for growth from outside the consumer sector, particularly exports.”

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## Lower inflation yet to be felt by majority of consumers who continue to see a squeeze on their spending power

The failure of a lower rate of inflation to noticeably feed through into consumer spending power is reflected in consumers' attitudes towards the cost of essentials and everyday spending. Consumer research indicates that nearly three quarters of consumers (73%) have noticed the cost of essentials and everyday spending increasing, while just 19% believe costs have stayed the same or decreased as inflation begins to creep back towards the Government's 2% target following last year's highs.

Notably, people have seen an increase in spend on household groceries, gas/electricity and water rates with 57%, 67% and 45% respectively saying they are paying more now compared to the same time last year. 29% of people say they are spending a lot more on petrol and diesel compared to 12 months ago, while 64% say they have seen an increase to some degree. The survey was conducted between 17-23 March and therefore fell before the rush to buy fuel in the last week of the month.

## Consumers remain concerned about the effects of inflation in months ahead

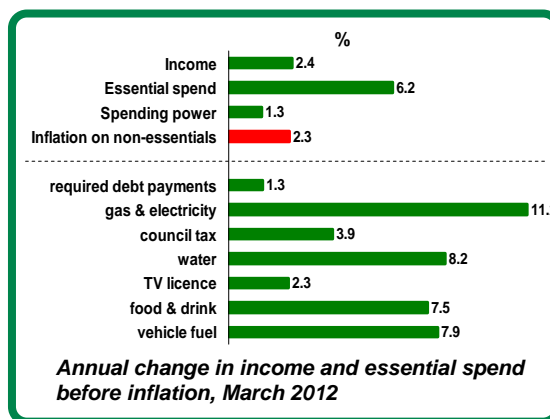
Looking ahead, an increase in fuel prices was cited as a source of inflationary concern among consumers in March, up by four percentage points to 70%.

Three quarters (75%) of people remain concerned about the effects of inflation on gas and electricity prices; however, this is significantly lower than the high of 84% seen in July of last year.

## The rise in essential spending is broad based

Essential spending growth rose to 6.2% in March and this was largely driven by an increase in food and drink, which is up 7.5% from a year ago, as well as gas and electricity bills, which is up 11.2%. Spending on fuel also continues to rise strongly at 7.9%, although annual growth has fallen back significantly since the turn of the year.

Of particular note is consumer spending on debt payments, which grew by 1.3% over the year to March. Following a series of monthly falls in this measure towards the end of 2011, it is now at its highest level since the series began.



With essential spending continuing to grow and negativity remaining high towards the country's financial (91%) and employment situation (93%), it is likely that consumers will be hoping to see improvements to inflation over the coming months. However, the rise in inflation reported for March may see pessimism remain for longer, with 80% of people already viewing the UK's inflation situation negatively.

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

"Consumer spending power continues to be squeezed despite a lower inflation rate when compared to last year. Fuel was clearly an influencing factor on consumer behavior and spending in March, however the cost of essential items across the board continues to put pressure on households as income growth struggles to keep pace with rising prices."

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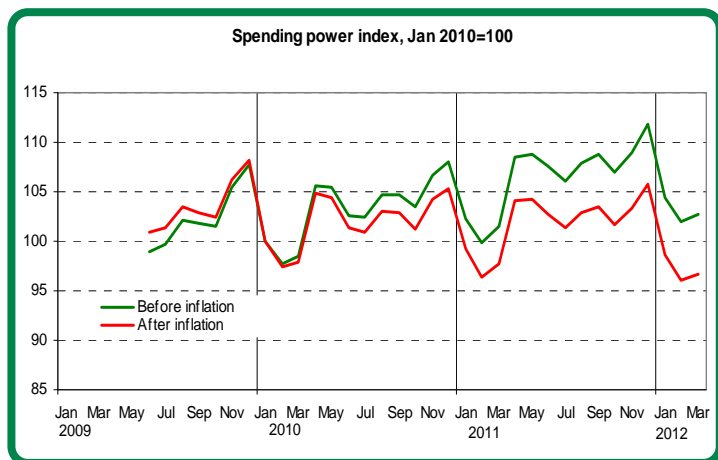
# Spending Power Report



## 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<sup>1</sup> and subtracts essential spending – rent, mortgage and required debt payments, utility bills, council tax, TV licences, food and fuel. Additionally, 2,000 consumers are asked about their current and future spending habits and how their commitments affect their spending power<sup>2</sup>.

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.



	Before Inflation		After Inflation <sup>3</sup>	
	Level	Annual % change	Level	Annual % change
July 11	106.0	3.6	101.3	0.4
Aug 11	107.9	3.0	102.9	-0.1
Sept 11	108.8	3.9	103.6	0.7
Oct 11	107.0	3.4	101.6	0.3
Nov 11	108.9	2.2	103.3	-0.8
Dec 11	111.8	3.4	105.8	0.5
Jan 12	104.4	2.1	98.6	-0.6
Feb 12	102.0	2.2	96.1	-0.3
Mar 12	102.8	1.3	96.7	-1.1

## Consumer research – monthly change in sentiment

Consumers have revealed they:

	Oct 11	Nov 11	Dec 11	Jan 12	Feb 12	Mar 12
Think the country's financial situation is not good	93%	92%	92%	91%	91%	91%
Think the country's employment situation is not good	92%	93%	94%	93%	93%	93%
Are negative about the housing market	82%	82%	83%	81%	80%	79%
Are concerned about inflation	88%	87%	87%	84%	79%	80%
Are concerned about inflation on petrol/diesel prices	66%	68%	67%	66%	66%	70%
Are concerned about inflation on gas/electricity prices	80%	79%	79%	77%	76%	75%
Use all of their monthly income on household bills and essentials	19%	18%	15%	19%	19%	18%
Use three quarters of income on household bills and essentials	47%	46%	46%	43%	46%	45%
Believe the cost of essentials and everyday spending has increased	NA	NA	NA	NA	NA	73%
Are spending more on gas/electricity compared to last year	NA	NA	NA	NA	NA	67%
Are spending more on water rates compared to last year	NA	NA	NA	NA	NA	45%
Are spending more on petrol/diesel compared to last year	NA	NA	NA	NA	NA	64%
Are spending more on household/groceries compared to last year	NA	NA	NA	NA	NA	57%

<sup>1</sup> 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.

<sup>2</sup> Consumer research is compiled in conjunction with TNS Financial and Professional Services. A total of 2,343 consumers were questioned. Interviewing took place via an online survey between 17<sup>th</sup> to the 23<sup>rd</sup> of March 2012.

<sup>3</sup> Calculated using Lloyds TSB estimates of inflation on discretionary spend items.

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