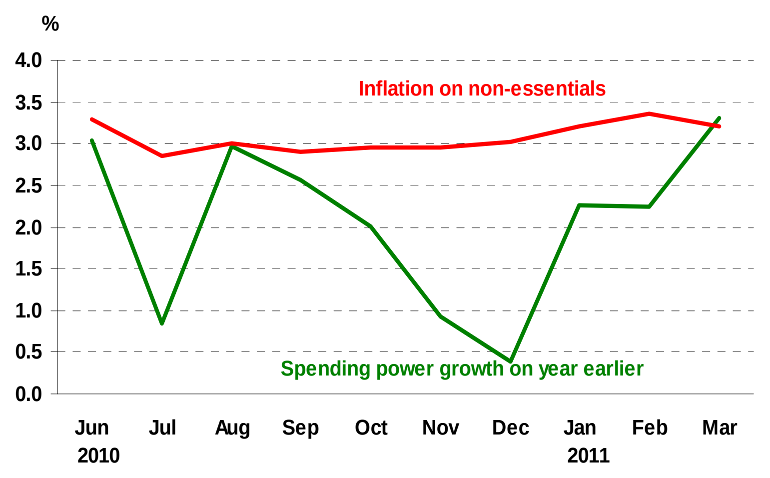
Lloyds TSB

Spending Power Report

Consumers feeling the pinch but belt tightening eases the pain

- Spending power is now 3.3% higher than a year ago.
- A combination of income growth and a reducing debt burden has seen spending power improve in recent months and it is now keeping pace with inflation.
- This follows a sustained period when spending power has lagged the rate of inflation on non-essential items, driving a squeeze on personal finances.
- Incomes in March rose by 2.8% year on year, but are still growing at below current levels of inflation.
- Growth in essential spending has fallen back slightly, from its recent high of 1.5% in September, to 1.1% in March.
- Slower growth in essential spending, despite high inflation on food and fuel, is a result of consumers cutting back on their levels of debt in recent years. Required debt repayments fell 4.3% over the year to March.
- However, consumers' perceptions about spending power are increasingly negative, with over two thirds believing that 75% of their income goes on essentials, and 49% of customers believing money is tight

Spending power growth[1] versus inflation



March CPI inflation estimated by Lloyds Banking Group

Patrick Foley, Chief Economist at Lloyds TSB says:

"It is encouraging to see stronger growth in spending power, despite pressures from rising fuel and food prices. Consumers' actions to lower their indebtedness are beginning to pay off.

"However, with discretionary spending power having lagged behind inflation for a sustained period, and reducing debt a key part of freeing up monthly income for discretionary spending, it is unsurprising that consumer confidence is low. This suggests a weak outlook for consumer spending in the coming months."

The Lloyds TSB Spending Power Report examines trends in consumers' spending power, defined as income left after essential spending. Each month it will cover 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[2] and subtracts essential spending – rent, mortgage and debt payments, utility bills, council tax, TV licences, food and fuel. Additionally, 2,000 consumers[3] are asked about their current and future spending habits and how their commitments affect their spending power.

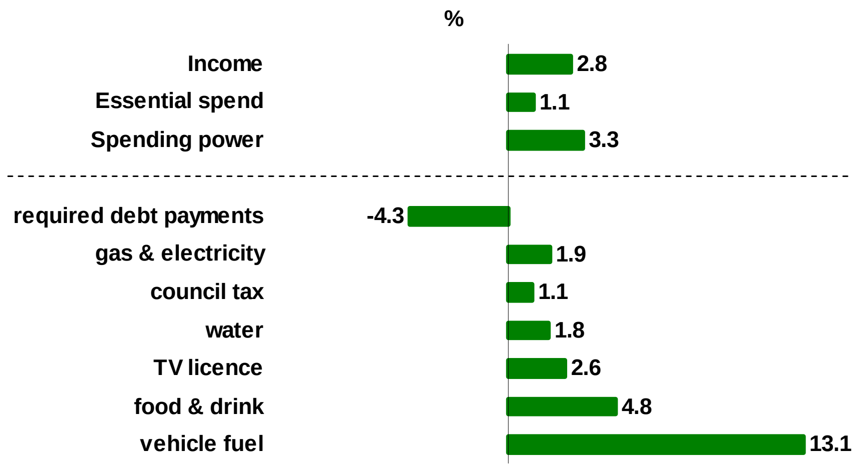
For media enquiries:
Charlotte Sjoberg, charlotte.sjoberg@lloydstsb.co.uk 0207 661 4985
Claire Barratt, claire.barratt@lloydstsb.co.uk 0207 661 4668

Lloyds TSB

Spending Power Report

Spending power is growing, driven by income growth and falling required debt repayments

- Growth in spending power rose from a year earlier for the third month in succession in March to 3.3%.
- Incomes have risen 2.8% from a year ago, but essential spending has increased by just 1.1%.
- The weak growth of essential spending, despite significant price increases on food and vehicle fuel, stems from a sharp fall in required debt payments over the past year. Required debt payments have declined by 4.3%, whilst spending on food has risen 4.8% and on vehicle fuel by 13.1%. Therefore, lower debt payments have offset three quarters of the increase in food and fuel spend.
- Consumer deleveraging, as opposed to lower interest rates (which have been flat over the past year) is the primary driver of lower debt payments.
- If consumers' borrowing behaviour hadn't changed, spending power would have seen a decline and it's the actions of consumers rather than the economic environment which has prompted this growth.



Change in income and essential spend from a year ago, March 2011

However consumers are cautious in their expectations for future spending power with concern shown over levels of inflation…

- The number of consumers expecting they will be spending more on essential expenditure in the future is increasing – a third (33%) believe they will have less disposable income in the future, an increase since the previous month (29% of consumers).
- Current and anticipated expenditure is affected by the population's concerns over inflation. 90% perceive the current levels of inflation as not good with a similar proportion also believing that the delay in a fuel duty rise will have little effect on stemming consumers' concerns.
- 80% of consumers are concerned about the impact inflation will have on food prices with 78% concerned about gas and electricity prices and 73% about petrol and diesel. A quarter (27%) are concerned about the impact inflation will have on their savings.

For media enquiries:
Charlotte Sjoberg, charlotte.sjoberg@lloydstsb.co.uk 0207 661 4985
Claire Barratt, claire.barratt@lloydstsb.co.uk 0207 661 4668

Lloyds TSB

Spending Power Report

And consumers are pessimistic about general financial wellbeing despite growth in spending power

- There is a growing trend in the proportion of the population having negative perceptions on their personal financial situation and on the housing market; this is now at 55% and 81% respectively (March 2011) compared with 52% and 80% in February.
- The household financial situation helps explain this pessimism with more people (half of those questioned – 49%) claiming that money is tight with a further 9% confirming they do not have enough to meet monthly outgoings.
- However 39% will reduce spending on essentials to help make ends meet.
- Very few people are likely either to draw down from savings or to increase spending on a credit card to cover essential spending (13% respectively).

Mike Regnier, director of current accounts for Lloyds TSB says: "Our data reveals a real-time snap-shot of consumer behaviour and sentiment and it's refreshing to see growth in spending power after a period of decline."

"However, the proportion of consumers concerned about the UK's financial situation, employment and the housing market continues to grow. Trends in the index and customer feedback are consistent in reflecting a mood of caution and conservatism, as consumers rein in spending and reduce exposure to debt."

Highlights from consumer research (March 2011):

- **66%** of consumers use more than three quarters of their income to cover essential spending
- **39%** of consumers plan to reduce spending to help meet monthly outgoings (46% Feb 2011)
- **33%** of consumers expect to have less disposable income in six months time than they do now
- **more** consumers will save disposable income (66%) rather than treat themselves (55%)

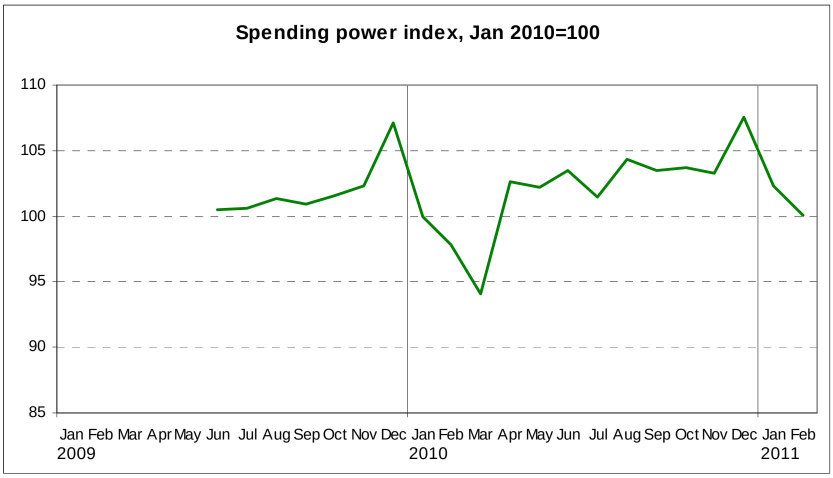
For media enquiries:
Charlotte Sjoberg, charlotte.sjoberg@lloydstsb.co.uk 0207 661 4985
Claire Barratt, claire.barratt@lloydstsb.co.uk 0207 661 4668

Lloyds TSB

Spending Power Report

Methodology:
Lloyds TSB has created an index of spending power. A rise or fall in one point equals a reduction or increase of £113 per annum to consumers' spending power[4]– just short of £10 per month (£9.41).

Index of spending power[3]



Index of spending power[3]

Index movement

	Level	**Change from a year ago**
March 2011	97.2	3.3%
February 2011	100.1	2.2%
January 2011	102.3	2.3%
December 2010	107.5	0.4%
November 2010	103.2	1.9%

January 2010 = 100

Consumer research – monthly change in sentiment

Consumers have revealed they:

	Nov '10	**Dec '10**	**Jan '11**	**Feb '11**	**Mar '11**	*Apr '11*
Think money is tight	43%	40%	46%	46%	49%	
Think they live comfortably	17%	18%	14%	14%	13%	
Think their personal finances are bad	47%	44%	52%	52%	55%	
Are negative about the housing market	78%	78%	78%	80%	81%	
Use >75% of income on essentials	57%	60%	63%	64%	66%	
Are unlikely to use surplus income for treats	37%	39%	41%	41%	40%	
Will have less disposable income in the future	29%	28%	34%	29%	33%	
Think they will have the same amount of disposable income in the future	51%	50%	46%	49%	46%	
Think future spending power will be affected by redundancy	11%	11%	6%	8%	8%	
Will reduce spending on essentials to help ends meet	41%	41%	44%	46%	39%	
Will draw down on savings or increase credit card spend to help ends meet	27%	27%	23%	23%	26%	
Are likely to save the money left over once essentials have been paid for	71%	72%	69%	70%	66%	

Notes to editors:

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.

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
2. Data is extracted from Lloyds TSB current accounts. Actual income and expenditure is analysed on a rolling monthly basis from the 21st to 20th of each month.
3. Consumer research is compiled in conjunction with TNS Financial and Professional Services. A total of 2,001 consumers were questioned. Interviewing took place via an online survey between 4 and 14 March 2011.
4. Based on average across LTSB customers.

For media enquiries:
Charlotte Sjoberg, charlotte.sjoberg@lloydstsb.co.uk 0207 661 4985
Claire Barratt, claire.barratt@lloydstsb.co.uk 0207 661 4668