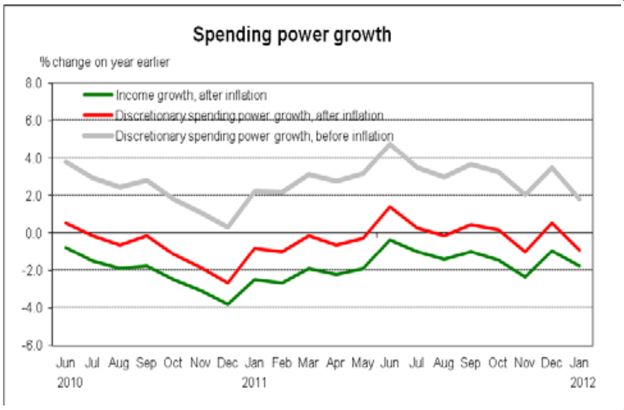
Lloyds TSB

Spending Power Report

Falling inflation fails to halt squeeze on spending power



- **Consumers' spending power remains under pressure** from the twin impacts of weak income growth and rising spend on essentials.
- **Almost one in five consumers say they have no discretionary income after essentials,** whilst those who say money is tight also increased in January.
- **Income continues to grow at a slow pace.** In January annual income growth was 2.6%.
- **Spending on essential items increased again in January,** up 4.9% from a year earlier, influenced by rising spend on utilities.
- **As a result, consumers' discretionary spending power saw the weakest growth in a year,** growing by 1.8% in January.
- **This means that after inflation, spending power fell 0.9% year on year last month**. This is the equivalent of £100[1] less to spend a year on non–essential items.
- **A quarter of consumers say that they will reduce their spending in the future**, and more plan to increase their savings or pay down their debt.

Spending power squeezed by £100 a year

Consumers are suffering at the hands of the rising cost of essentials and weak income growth, leaving discretionary spending power squeezed further despite the latest falls in inflation, according to this month's Lloyds TSB Spending Power Report. After inflation, consumers' discretionary spending power was 0.9% lower in January than the previous year, reducing the amount they have to spend on non-essential items by the equivalent of around £100 a year, or just under £10 a month.

Patrick Foley, chief economist at Lloyds TSB, says:
"The competing effects of falling inflation against a weakening in the employment and income situation are set to be the dominant theme of the first half of 2012. The Spending Power Report shows that in January weakening income growth has outweighed the recent fall in inflation, ensuring that consumers are still being squeezed.

"Similarly, despite recent price cuts for domestic energy, consumers are still faced with increasing spend on household bills as many cuts have yet to filter through to monthly payments. As a result, despite more positive signs for the economy, many households are yet to feel any benefit, although this should change over the coming months."

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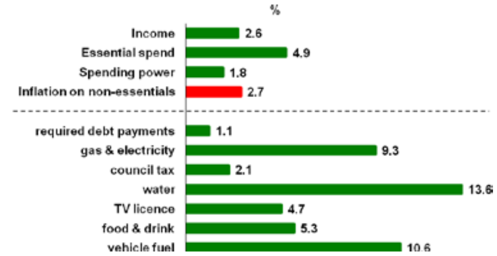
One in five has no spending power after bills and essentials

Following on from Christmas, the proportion of people who say they have no discretionary income once bills and essentials are paid for has increased from 15% to 19%, meaning almost one in five believe they have no discretionary income at all. Similarly the number of consumers who now feel that money is tight has increased from 40% in December to 43% in January. People aged 35-64 (67%) and those living in the North and Midlands (40%) are most likely to have no discretionary income.

The twin impacts of low incomes and higher essential spending

Weak income growth (at 2.6% in January) is still the biggest contributing factor to the squeeze on spending power. Income continues to grow below the rate of inflation, despite recent falls. In January, consumers saw incomes fall by 1.5% in real terms.



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

At the same time, essential spending also continued to increase and reached another series high in January, with 4.9% annual growth. One of the main contributing factors is the rising cost of utilities. Recent cuts in gas and electricity prices are yet to feed through to reduced spending, which was up 9.3% from the year earlier. Similarly, spending on water bills rose 13.6% in January from the year previous.

Required debt repayments, which include all regular mortgage payments, loans and the minimum payment on credit cards, also increased by 1.1% in January from the year earlier, reversing the previous trend of a decline in this category. This is likely due to a combination of factors including the number of consumers refinancing loans and the impact of increased credit card spending over Christmas.

Regionally, Scotland saw the biggest average[2] increase in essential spending in January, with spending on household bills[3] (+5%) and auto fuel (12%) all rising at a faster rate than the rest of the UK. The North follows behind with household bills up 4% and fuel up 9%. In contrast London has seen the smallest rise in essential spending in these categories: household bills (+3%), and fuel (+6%).

Consumers look to future proof their income

More people believe they will have less spending power in six months' time (27%), as opposed to those who are optimistic they will be better off (21%). As a result it is unsurprising that a quarter of respondents (26%) intend to be spending less in six months' time; one in four (24%) plan to be saving more while nearly a fifth (18%) are likely to pay down more debt. At a regional level, Londoners now intend to pay off somewhat more debt than they did in December (18% vs. 10%). Those living in the South (28%) and the North West (27%) displayed the greatest intention to save.

Jatin Patel, director of current accounts for Lloyds TSB, comments:
"It is worrying that a fifth of consumers currently say that they have no spending power, after they have covered all bills and essential spending. Any further squeeze on their wallets will certainly be felt. Although we have seen inflation drop to its lowest level for 14 months, it is clear that this is not yet filtering into consumers' daily lives. Spending on many items, including utilities, are still rising, and in January were at their highest level for the past 18 months. Encouragingly, consumers are not burying their heads in the sand as many are looking to cut back their spending and pay down their debt, where they can."

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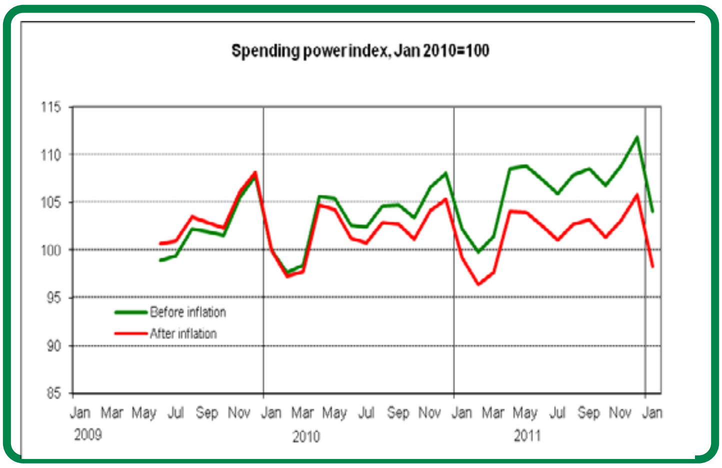
Notes to Editors:

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[2] and subtracts essential spending – rent, mortgage and 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[4].

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	
	Level	Annual % change	Level	Annual % change
May 11	108.8	3.2	104.0	-0.3
June 11	107.5	4.8	102.6	1.4
July 11	106.0	3.5	101.1	0.3
Aug 11	107.8	3.0	102.7	-0.1
Sept 11	108.5	3.7	103.1	0.5
Oct 11	106.8	3.3	101.4	0.2
Nov 11	108.8	2.0	103.1	-1.0
Dec 11	111.8	3.5	105.9	0.6
Jan 12	104.1	1.8	98.3	-0.9

Consumer research – monthly change in sentiment

Consumers have revealed they:

	Aug 11	Sept 11	Oct 11	Nov 11	Dec 11	Jan 12
Think the country's financial situation is not good	92%	92%	93%	92%	92%	91%
Think the country's employment situation is not good	90%	91%	92%	93%	94%	93%
Are negative about the housing market	80%	83%	82%	82%	83%	81%
Are concerned about inflation	85%	88%	88%	87%	87%	84%
Use all of their monthly income on household bills and essentials	18%	17%	19%	18%	15%	19%
Use three quarters of income on household bills and essentials	48%	47%	47%	46%	46%	43%
Think money is tight	43%	46%	45%	42%	40%	43%
Don't have enough to meet monthly outgoings	9%	10%	8%	9%	8%	8%
Think they will have more discretionary income in six months	18%	19%	17%	16%	19%	21%
Think they will have less discretionary income in six months	31%	31%	34%	32%	28%	27%
Are likely to spend less in six months' time	27%	27%	28%	30%	28%	26%
Are likely to save more in six months' time	22%	24%	22%	21%	24%	24%
Are likely to pay down more debt in six months' time	20%	18%	18%	15%	17%	18%

[1] 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– just short of £10 per month (£9.41).

[2] 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.

[3] Household bills includes energy spend, council tax, water bills, TV licence & rent

[4] Consumer research is compiled in conjunction with TNS Financial and Professional Services. A total of 2,553 consumers were questioned. Interviewing took place via an online survey between 17th and 23rd January.

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