

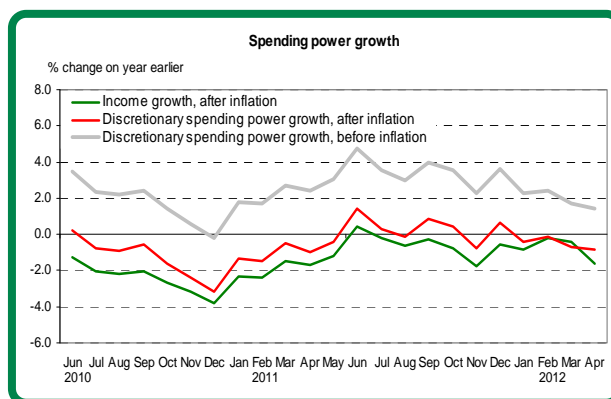


Spending Power Report



Weakest income growth in over a year adds to squeeze on spending power

- **The squeeze on consumers' spending power continued in April, falling 0.9% after inflation.** On average, this equates to almost £100 less than a year ago to spend on non-essential items.
- **Income growth slowed to its weakest level since February 2011** with consumers' incomes growing by only 2.2% in the year to April.
- **Negativity towards the UK's financial situation increased in April with 51% believing it to be 'not at all good'.**
- **86% of consumers have noticed an increase in the cost of essentials and everyday spending compared to 12 months ago** – an increase of 13 percentage points from March.
- **67% of people believe they are paying more on petrol and diesel compared to a year earlier, while 60% are spending more on household groceries.**



Spending power continues to be squeezed as income growth weakens

After inflation, spending power fell by 0.9% from a year earlier – equivalent to almost £100 a year less to spend on non-essential items – driven by falling real incomes. Despite recent falls in inflation, real incomes fell by 1.6% in April as earnings before inflation grew at their slowest pace since February 2011 (2.2%). This weakness highlights the challenge faced by consumers to allow for discretionary spending while the costs of everyday living continue to rise.

Spending on essential items continues to grow at a fast pace, with annual growth at 4.6% in April. However, the sharp acceleration seen at the turn of the year appears to have ended with April's reading, which remains in line with that of February and March.

Within essential spending there were rises in spending on both gas and electricity (11.7%) and water bills (9.1%). However, these were offset by falls in the growth in spending on food (6.8%) and fuel (6.8%). Consumer research indicates that more than four fifths (86%) of consumers have noticed the cost of essentials and everyday spending increase in the past 12 months. This compares to 73% in March, indicating that a growing number of people are feeling a noticeable effect from rising prices on their pockets.

Patrick Foley, chief economist at Lloyds TSB, says:

“Household finances are still under real pressure despite the significant falls in inflation we have seen over the past seven months. Although unemployment has been broadly stable, wage growth has eased and so incomes are growing well below their long term average.

“Even though we expect to see further falls in inflation, the weakness in the broader economy is likely to mean that consumers aren't going to feel any better off in the near future.”

For media enquiries:

Roy Beale, roy.beale@lloydstsb.co.uk, 020 8936 5883

Claire Barratt, claire.barratt@lloydstsb.co.uk, 020 7661 4668



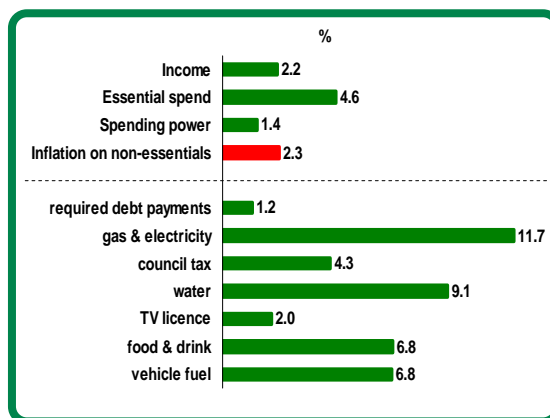
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Consumer pessimism grows towards the UK's inflation and financial situation

In line with official figures released in April that confirmed the UK is back in recession, 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 45% to 51%. By contrast, just 8% believe it to be good.

The proportion who views the UK's level of inflation as being 'not at all good' spiked by six percentage points to 34% between March and April. In particular, rises in food and clothing prices were cited as causing concern. But despite the perception of rising prices, consumer spending on food and drink is easing – falling back from its record high of 7.5% in March to 6.8% in April.



Spending on fuel falls back further from last year's highs

Following the spike in spending on vehicle fuel towards the end of March, in reaction to the threat of a fuel distribution strike, spending growth declined by 1.1 percentage points in April leaving the annual growth rate (6.8%) at its lowest level since the series began and well below the peak of 15.4% seen in March 2011.

Nonetheless, 37% of consumers feel that they are spending a lot more on petrol and diesel compared to the same time last year, while 67% have seen an increase in their spending to some degree. This compares to 64% who stated they had felt an increase to some degree in the 12 months to March.

People also continue to see an increase in spending in other areas, with 67%, 47% and 60% saying that they are paying more now compared to the same time last year on gas/electricity, water rates and household groceries respectively.

A higher proportion of monthly income is now being spent on household bills and essentials

Since January 2012 between 18-19% of people state that they spend all of their income on household bills and essentials. While this figure has remained fairly constant, the proportion saying they spend around three quarters of their income increased from 45% in March to 48% in April.

It remains to be seen whether this trend will be continued, but it is perhaps a further indication of the impact high inflation and weak income growth is continuing to have on consumer spending power.

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

“There was little respite for consumers in April and it is clear that a growing number are feeling concerned about the state of the UK's economic situation. This will not have been aided by news suggesting that the UK has entered into a double dip recession, while continued weak income growth and rising prices act as a very tangible drag on sentiment. While spending power is not being eroded at quite the same pace as the beginning of last year, events in the global economy will likely have a significant bearing on consumer spending power in the months ahead.”



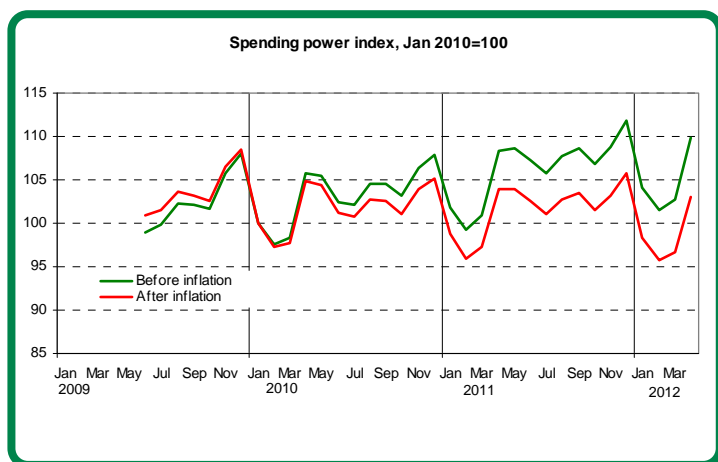
Spending Power Report



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 accounts¹ 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 power².

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 ³				
	Before Inflation		After Inflation ³	
	Level	Annual % change	Level	Annual % change
Aug 11	106.9	3.0	102.7	-0.1
Sept 11	107.5	4.0	103.4	0.8
Oct 11	106.2	3.5	101.4	0.5
Nov 11	108.0	2.3	103.2	-0.8
Dec 11	110.8	3.6	105.8	0.7
Jan 12	104.8	2.3	98.3	-0.4
Feb 12	102.0	2.4	95.7	-0.1
Mar 12	102.4	1.7	96.6	-0.7
Apr 12	108.0	1.4	103.0	-0.9

Consumer research – monthly change in sentiment

Consumers have revealed they:

	Nov 11	Dec 11	Jan 12	Feb 12	Mar 12	Apr 12
Think the country's financial situation is not good	92%	92%	91%	91%	91%	92%
Think the country's employment situation is not good	93%	94%	93%	93%	93%	92%
Are negative about the housing market	82%	83%	81%	80%	79%	81%
Are concerned about inflation	87%	87%	84%	79%	80%	85%
Are concerned about inflation on food prices	76%	75%	76%	75%	73%	77%
Are concerned about inflation on clothing prices	20%	19%	19%	20%	18%	21%
Use all of their monthly income on household bills and essentials	18%	15%	19%	19%	18%	18%
Use three quarters of income on household bills and essentials	46%	46%	43%	46%	45%	48%
Believe the cost of essentials and everyday spending has increased	NA	NA	NA	NA	73%	86%
Are spending more on gas/electricity compared to last year	NA	NA	NA	NA	67%	67%
Are spending more on water rates compared to last year	NA	NA	NA	NA	45%	47%
Are spending more on petrol/diesel compared to last year	NA	NA	NA	NA	64%	67%
Are spending more on household/groceries compared to last year	NA	NA	NA	NA	57%	60%

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 2,380 consumers were questioned. Interviewing took place via an online survey between 24th to the 30th of April 2012.

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

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