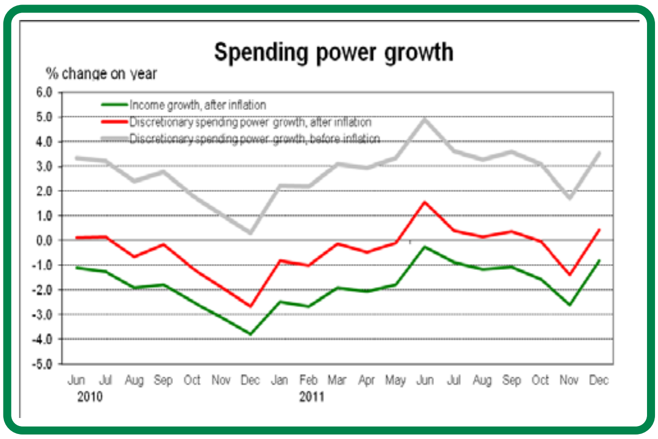
Lloyds TSB

Spending Power Report

Spending on essentials continues to squeeze consumers' spending power



- **Essential spending continues to rise at its fastest pace in over a year and a half,** up 4.6% year on year in December.
- **Spending on utilities, in particular, is squeezing household budgets:** spending on gas and electricity was up 9.3% in December from a year ago.
- **As a result, spending power and consumer sentiment still remain at low levels**, although both improved slightly in December.
- **Spending power rose 0.4%, after inflation, in the year to December**; indicating that consumers are still feeling considerable strain on their finances.
- **At the same time incomes were still growing below the rate of inflation.** December saw a 3.8% annual increase, which is a real terms fall of 0.8%.
- **However, the number of consumers who say that they have money left over after they have covered all monthly outgoings has been rising steadily.** Similarly the number looking to save surplus income is also increasing.

Spending power improves slightly, but from a low level

Consumers' discretionary spending power, defined as the income left over after spending on essential items has been deducted, saw a slight improvement in December from a year earlier, according to the latest Lloyds TSB Spending Power Report. After inflation, spending power rose by 0.4% compared with a year earlier, albeit from a low base and it still remains below the level of growth we would expect in a stronger economic environment. This rise equates to an additional £4[i] a month in discretionary spending available to consumers.

The rise coincides with a similar shift in consumer sentiment, with the latest consumer research indicating that the proportion of people feeling 'not at all good' about the country's financial situation (48%), the UK employment situation (53%), the housing market (27%) and inflation (34%) all fell in December. However, overall the total number feeling generally negative has remained largely unchanged. At the same time, the number of consumers with money left over at the end of the month has been steadily improving and reached a series high in December, at 34%.

Patrick Foley, chief economist at Lloyds TSB, says:
"Discretionary spending power remains under pressure from higher utility bills and anaemic income growth. However with inflation set to fall through much of 2012, exemplified by recent gas price reductions, we could see an improvement in consumers' financial position over the next few months.

"The main risk to this improving picture is the extent to which unemployment rises over the coming months – not only because of the effect on household income, but also to the extent it dents consumer confidence."

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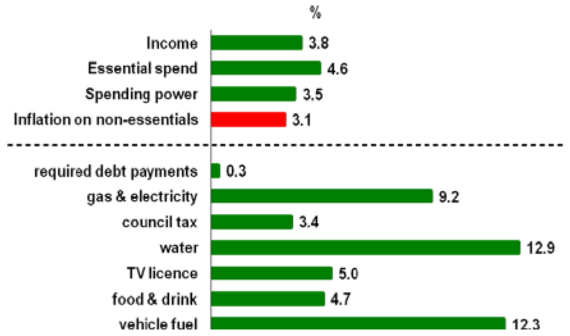
Utilities spending drives up cost of essentials

Spending on essentials is growing at its fastest pace for over 18 months, and reached a series high of 4.6% annual growth in December. The main contributing factor is the increasing cost of utilities.



Annual change in income and essential spend before inflation, December 2011

Spending on gas and electricity hit a high point in December, up 9.2% from the year before, and compares to growth of 8.6% in November. At the same time, water bills were 12.9% higher year on year in December, up from 12.2% in November. However, recently announced price reductions across the main gas and electricty suppliers should lead to slower growth in this category over the coming months.

Debt repayments also acted as a squeeze on spending power in December. Up until last month required debt repayments had been falling and reducing monthly household outgoings, but in December debt repayments increased slightly, removing a source of support to consumers.

Consumers' frugal approach

The number of consumers who say that they have some money left over after they have covered all monthly outgoings has been rising steadily, and was at 34% in December. However, 40% still believe money is tight and almost one in ten (8%) are still falling short each month, indicating that the squeeze on spending power is still having a big impact on a large number of respondents. People aged 45-54 are most likely to spend all of their income with just over 1 in 5 (22%) stating this compared to 14% for other age groups. Unsurprisingly, people with children aged 15 or under living in their household are also more likely to spend all of their income (18%).

The research also indicates that many consumers are starting to take a more frugal approach to their finances. In particular, the momentum with regards to saving continues. In November, just over half (52%) with available income planned to save whereas the figure for December increases to 59%: people aged 45-64 are more likely to intend to save for retirement, whereas those aged under 24 are more likely to be saving to buy something in the future. Saving for financial security is similar across all age groups.

In December, around a quarter (24%) of consumers were looking to reduce spending on monthly essentials, whilst there was also a 5% increase in the proportion of people wanting to pay down debt (up 5% to 30%)

Jatin Patel, director of current accounts for Lloyds TSB, comments:
"Although the research indicates a slight lifting in the mood of the nation, perhaps influenced by the festive period, we are still seeing a predominantly negative picture among consumers, and a large number are still struggling to make ends meet.

"However, it seems that many have gone into the New Year with a determination to spend less and save more and it is an encouraging sign that we are seeing an increasing number of consumers saying that they have money for non essentials at the end of the month."

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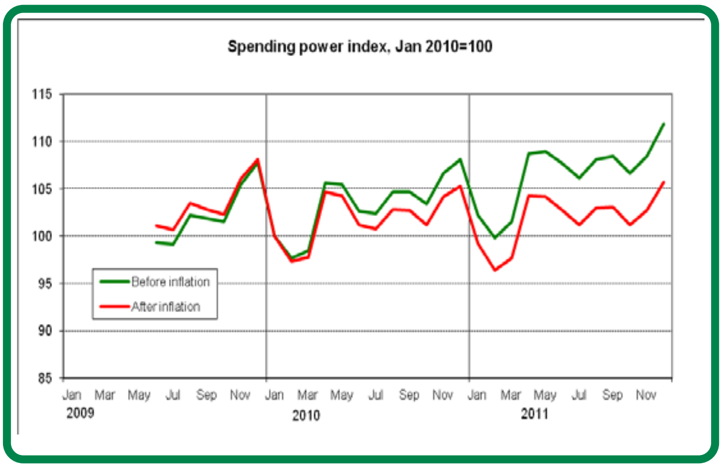
Notes to Editors:

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[ii] 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[iii]

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**
June 11	107.7	4.9	102.7	1.6
July 11	106.1	3.6	101.2	0.4
Aug 11	108.1	3.3	103.0	0.1
Sept 11	108.5	3.6	103.1	0.4
Oct 11	106.6	3.1	101.1	0.0
Nov 11	108.5	1.7	102.7	-1.4
Dec 11	111.9	3.5	105.7	0.4

Consumer research – monthly change in sentiment

Consumers have revealed they:

	Jul 11	Aug 11	Sept 11	Oct 11	Nov 11	Dec 11
Think the country's financial situation is not good (of these % think it is not good at all)	92% (48%)	92% (49%)	92% (49%)	93% (52%)	92% (55%)	92% (48%)
Think the country's employment situation is not good (of these % think it is not good at all)	90% (43%)	90% (43%)	91% (47%)	92% (52%)	93% (57%)	94% (53%)
Are negative about the housing market (of these % think it is not good at all)	81% (24%)	80% (25%)	83% (29%)	82% (26%)	82% (29%)	83% (27%)
Are concerned about inflation (of these % think it is not good at all)	89% (34%)	85% (33%)	88% (37%)	88% (36%)	87% (37%)	87% (34%)
Meet monthly outgoings with some left over	29%	32%	29%	31%	31%	34%
Think money is tight	45%	43%	46%	45%	42%	40%
Don't have enough to meet monthly outgoings	10%	9%	10%	8%	9%	8%
Would look to save any money they had left in their account at the end of the month (3a)	n/a	n/a	n/a	n/a	52%	59%
Would pay down debt with any money they had left in their account at the end of the month (3a)	n/a	n/a	n/a	n/a	25%	30%
Would spend any money they had left in their account at the end of the month (3a)	n/a	n/a	n/a	n/a	37%	37%
Think they will have more discretionary income in six months	20%	18%	19%	17%	16%	19%
Think they will have less discretionary income in six months	29%	31%	31%	34%	32%	28%

[i] 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).

[ii] 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. Data is extracted from Lloyds TSB current accounts. 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.

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[iii] Consumer research is compiled in conjunction with TNS Financial and Professional Services. A total of 2,390 consumers were questioned. Interviewing took place via an online survey between 20th-22nd December and 3rd – 5th January. Some questions are however based on sub-groups within the survey, including: 3a) Based on 2,040 consumers who have disposable income left over after paying for household bills and essentials,