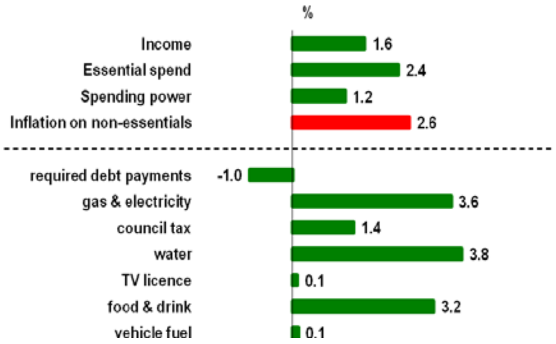
Lloyds TSB

Spending Power Report

Consumer spending power growth suffers fall in January

- **Spending power growth fell back in January** as continued weak income growth put pressure on households.
- **Spending on essential items grew by 2.4%,** down from 2.8% in December.
- **Weather conditions helped to peg back spending on automotive fuel in January,** as annual growth rose marginally by 0.1% from a year ago.
- **Growth in spending on gas and electricity bills rose to 3.6% in January,** reversing a trend of eight consecutive months of decline.
- **Consumer sentiment toward the wider economy remains depressed but improved slightly in January.**



Annual change in income and essential spend before inflation, January 2013

Household budgets remain under pressure

The Lloyds TSB Spending Power Report for January reveals that consumers began the New Year with a further squeeze on household budgets. Weak income growth year-on-year forced a decline of -1.4% in spending power growth in real terms, meaning consumers had the equivalent of approximately £13[1] less a month to spend on non-essential items.

The latest data continues a period of relatively weak income growth in real terms with incomes still struggling to keep pace with uncomfortably high inflation. To add to this, consumer research[2] shows that nearly a third (30%) of people who had a budget for Christmas spent more than they intended to, while nearly a quarter (22%) of those who didn't budget spent more on Christmas in 2012 when compared with 2011. Therefore, the effects of January's fall in spending power growth may be compounded for many consumers who find they are still paying for purchases made over the festive period into the New Year.

Annual spending growth on essential items did, however, fall back in January (2.4%) compared with December 2012 (2.8%), offering some respite for consumers. Within this, there was a noticeable decline in spending growth on automotive fuel (0.1%), which can be largely attributed to the heavy snowfall seen during the month keeping a number of vehicles off the roads. By contrast, spending growth on gas and electricity bills increased following eight consecutive months of falls, suggesting that the price rises introduced by UK energy suppliers in the second half of 2012 are now starting to feed into spending.

Patrick Foley, chief economist at Lloyds TSB, says:
"The latest Spending Power Report shows consumers remain under some pressure. Essential spending growth has clearly been affected by the snow in January, but the picture of weak discretionary spending power remains in place at the start of 2013. Looking ahead, inflation is likely to remain high and is expected to pick up in the first half of the year, so what happens to income growth will continue to dictate the extent of the squeeze on households."

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Consumer Sentiment

Current situation

Although perceptions of the country's overall financial situation remain largely negative, January saw a seven percentage point swing away from those saying that it is 'not at all good', which now stands at 39%. When viewed year on year, the situation is much improved on January 2012 when the proportion of people stating that the situation was 'not at all good' was almost one in two (48%).

Consumers in the older age group are the most negative about the economy with 96% of those aged 55 years and over rating the country's current situation as either 'not good' or 'not at all good'. Those aged 18 to 34 are the most positive with around one in seven (14%) feeling that the economy is at least 'somewhat good', compared with just under one in ten (8%) 35 to 54 year olds.

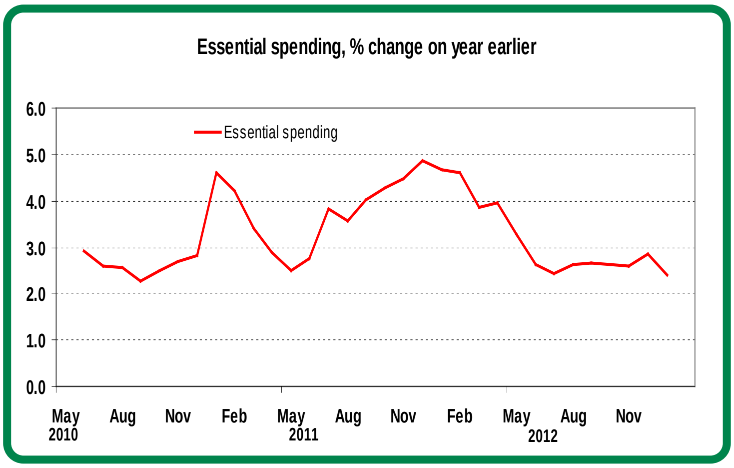
Post-Christmas, people's perceptions about their personal financial situation remains flat with one in two (50%) saying that their situation is 'not good' or 'not at all good'. Men are feeling more optimistic about their personal financial situation than women with 11% of men saying their situation is 'excellent' or 'very good' compared to 7% of women.

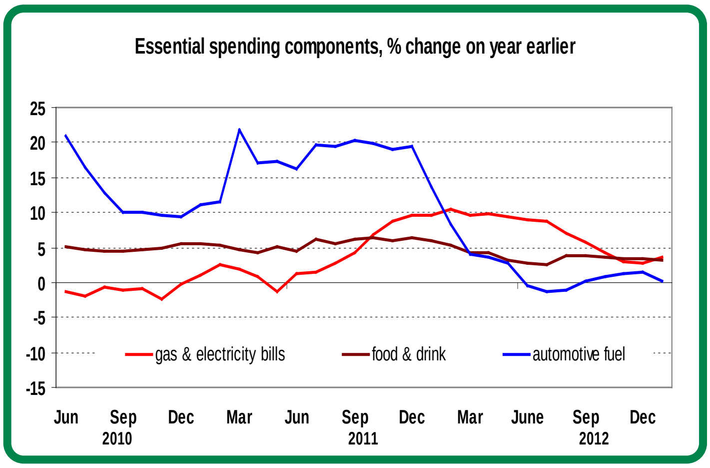
As seen in January 2012, those considering themselves 'cash rich' dropped two percentage points between December (52%) and January (50%), possibly as a result of Christmas spending. Unlike January 2012, however, there is an increased openness to credit heading into the New Year with 17% now willing to increase spending via credit cards, overdrafts and loans.

Future situation

There is a marginal uplift in those saying they expect to have more money in six month's time compared to December. Overall, the balance of opinion on future discretionary income (the difference between those saying they will have more and those saying they will have less in six months time) stands two percentage points closer to zero at -6%, the same level as January 2012. Viewed year-on-year, the picture is similar with the balance of opinon reaching its lowest levels in the Autumn and improving into January, although the overall picture through 2012 was less downbeat when compared with 2011.

Spending Power charts – essential spending





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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[3] and subtracts essential spending – rent, mortgage and required debt payments, utility bills, council tax, TV licences, food and fuel, which is identifiable from card spending, direct debits and standing orders. An adjustment is made to account for cash and cheque spending by allocating total identified cash and cheque spending to individual categories in line with survey evidence. Additionally, over 2,000 consumers are asked about their current and future spending habits and how their commitments affect their spending power[2].

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
Aug 12	114.3	2.9	106.9	0.9
Sep 12	114.4	2.5	106.6	0.4
Oct 12	113.3	2.7	105.1	0.2
Nov 12	116.0	3.3	107.1	0.5
Dec 12	118.7	3.1	109.3	0.3
Jan 13	106.5	1.2	98.0	-1.4

Consumer research – monthly change in sentiment

Consumers have revealed they:

	Aug 12	Sep 12	Oct 12	Nov 12	Dec 12	Jan 13
Think the country's financial situation is not at all good	**42%**	**45%**	**43%**	**44%**	**46%**	**39%**
Think their personal financial situation is not good/not at all good	**49%**	**49%**	**49%**	**52%**	**48%**	**50%**
Think the country's employment situation is not good/not at all good	**88%**	**89%**	**85%**	**87%**	**88%**	**87%**
Think money is tight/don't have enough to meet monthly outgoings	**49%**	**50%**	**49%**	**50%**	**49%**	**51%**
Use all of their monthly income on household bills and essentials	**16%**	**18%**	**17%**	**17%**	**16%**	**17%**
Use three quarters of income on household bills and essentials	**46%**	**46%**	**44%**	**46%**	**45%**	**47%**
The net balance of consumers who believe they will have more discretionary income in six months	**-4%**	**-3%**	**-9%**	**-7%**	**-8%**	**-6%**
The net balance of consumers who believe they will be spending more in six months	**-6%**	**-5%**	**-6%**	**-7%**	**-7%**	**-7%**
The net balance of consumers who believe they will be saving more in six months	**3%**	**5%**	**2%**	**2%**	**1%**	**0%**
Are likely to save if there is money left in their account at the end of the month	**55%**	**55%**	**58%**	**54%**	**56%**	**56%**

[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] Consumer research is compiled in conjunction with TNS Financial and Professional Services. A total of 2,387 consumers were questioned. Interviewing took place via an online survey between 4th and 10th January 2013.

[3] 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.

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