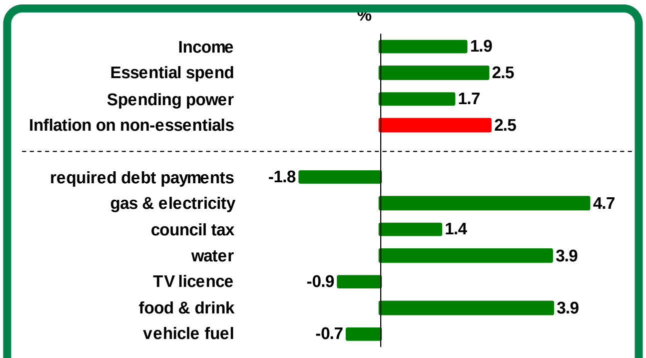
Lloyds TSB

Spending Power Report

Easter fails to breathe new life into spending power

- **Consumer spending power remained under pressure in March** as weak income growth continues.
- **Spending on essential items grew by 2.5%,** with price rises on gas and electricity now beginning to feed into bills.
- **Consumer concerns towards the wider economy and future discretionary income deepened in March.**
- **Two thirds (66%) of people have seen no increase to their income over the past 12 months.**



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

Weak income growth and high inflation continue to hold back spending

There was little respite for consumers in March as weak income growth continued to put downward pressure on household budgets, leaving discretionary spending power after inflation in negative territory for the fourth consecutive month. At -0.8%, the position remained unchanged to February, meaning consumers had the equivalent of approximately £10[1] less a month to spend on non-essential items than a year ago.

Annual spending growth on essential items continues to track the overall rate of inflation but, at 2.5%, remains close to its lowest over the three year life of the survey. Within essential spending, annual growth on food and drink spend increased for the second consecutive month to 3.9%, while spending growth on gas and electricity bills also continued the upwards trajectory seen in recent months, climbing to 4.7%. This suggests that the price rises introduced by UK energy suppliers towards the end of 2012 may now be feeding into household bills.

Such rises were partly offset in March by falls in others areas of essential spending. Notably, there was a continued decline in spending on debt payments (to -1.8%), while consumers also spent less on automotive fuel during the month compared with the same time last year (-0.7%).

With the overall cost of essential items rising, weak income growth would appear to be placing greater strain on budgets and consumer sentiment. Consumer research[2] reveals that two thirds (66%) of people have seen no change to their income or are receiving less over the past 12 months. Such demands on the purse strings may go some way to explaining the concerns around future discretionary income reflected in March's consumer sentiment figures.

For media enquiries:
Roy Beale, roy.beale@lloydstsb.co.uk, 020 8936 5883

Lloyds TSB

Spending Power Report

Patrick Foley, chief economist at Lloyds TSB, says:
"Whilst growth in spending on essential items isn't particularly high, consumers are under increasing pressure again because of slow growth in their incomes. With reductions in benefit payments hitting this year, and little sign of improvement in the Eurozone to drive increased business confidence, this pattern looks likely to continue throughout 2013. Sustained recovery in the economy, and in consumers' finances, seems some way off yet."

Consumer Sentiment

Current situation

Consumer concerns towards the UK economy deepened in March with those saying that it is 'not at all good' increasing by four percentage points to 47%. Women continue to be more negative about the economy with just under half (49%) stating that the situation is 'not at all good' compared with 44% of men.

Whilst pessimism colours sentiment towards the country's prospects, consumers have a more positive outlook when it comes to their own finances. 51% feel that their situation is either 'excellent', 'very good' or 'somewhat good', while less than half (49%) feel their situation can be described as 'not good' or 'not at all good'. The 25-34 year old age group are most optimistic about their personal finances with one in 10 describing it as 'excellent' or 'very good'.

Fears around increasing gas and electricity prices remained in March, possibly fuelled by the continued wintry conditions during the month. When asked about rising inflation, over three quarters (78%) of respondents said they are concerned about increasing utility prices. Likewise, 77% are concerned about rising inflation on the cost of food, and over two thirds (68%) are concerned about the effect it would have on fuel prices.

Future situation

After a short period where confidence in the future appeared to grow, the balance of opinion on future discretionary income crashed from -2% (the difference between those saying they will have more and those saying they will have less in six months time) back down to -9%.

The key impact of this is that consumers now no longer believe they are going to be able to save more than they currently do going forward. The balance of opinion (the difference between those saying they will save more minus those saying they will save less over the next six months) fell to 0% in March having stood at a record-equalling high of 5% in February.

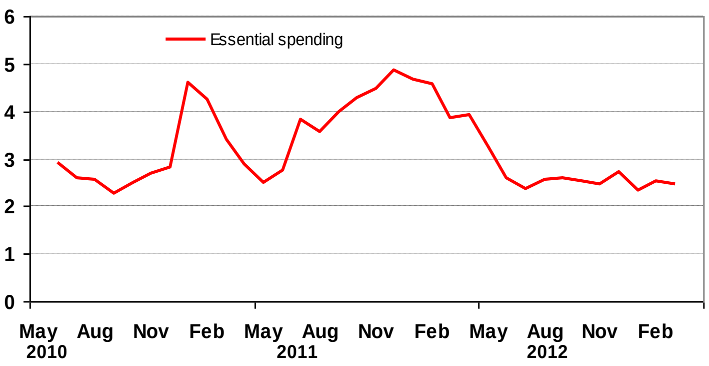
Spending Power charts – essential spending

For media enquiries:
Roy Beale, roy.beale@lloydstsb.co.uk, 020 8936 5883

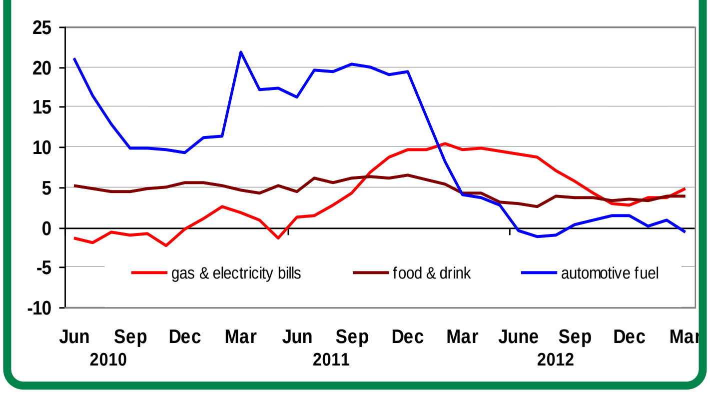
Lloyds TSB

Spending Power Report

Essential spending, % change on year earlier



Essential spending components, % change on year earlier



Lloyds TSB

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 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
Oct 12	113.4	2.7	105.1	0.3
Nov 12	116.4	3.3	107.5	0.6
Dec 12	118.9	2.2	109.4	-0.6
Jan 13	106.7	1.5	98.2	-1.2
Feb 13	105.8	1.7	97.3	-0.8
Mar 13	105.5	1.7	96.9	-0.8

Consumer research – monthly change in sentiment

Consumers have revealed they:

	Oct 12	Nov 12	Dec 12	Jan 13	Feb 13	Mar 13
Think the country's financial situation is not at all good	43%	44%	46%	39%	43%	47%
Think their personal financial situation is not good/not at all good	49%	52%	48%	50%	47%	49%
Think the country's employment situation is not good/not at all good	85%	87%	88%	87%	86%	84%
Think money is tight/don't have enough to meet monthly outgoings	49%	50%	49%	51%	50%	51%
Use all of their monthly income on household bills and essentials	17%	17%	16%	17%	16%	17%
Use three quarters of income on household bills and essentials	44%	46%	45%	47%	45%	45%
Are likely to save if there is money left in their account at the end of the month	58%	54%	56%	56%	58%	58%
The net balance of consumers who believe they will have more discretionary income in six months	-9%	-7%	-8%	-6%	-2%	-9%
The net balance of consumers who believe they will be spending more in six months	-6%	-7%	-7%	-7%	-6%	-5%
The net balance of consumers who believe they will be saving more in six months	2%	2%	1%	1%	5%	0%

[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 2,374 consumers were questioned. Interviewing took place via an online survey between 12th and 18th March 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.

For media enquiries:
Roy Beale, roy.beale@lloydstsb.co.uk, 020 8936 5883