



SPENDING POWER REPORT

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Spending Power sees short term confidence but long term cautiousness

- Attitudes towards current personal finances shoot up in the month after the election.
- With low levels of inflation, wage growth showing signs of strengthening and unemployment continuing to fall, the short term view for many is increasingly positive.
- However, longer term confidence in the future situation falls for the third consecutive month to its lowest level since August 2013.

CURRENT SITUATION

Up 11 points
(to 213)

FUTURE SITUATION

Down 1 point
(at 107)

OVERALL INDEX

Up 5 points
(to 160)

The latest Lloyds Bank Spending Power Report shows consumer confidence towards the value of the pound in the pocket has continued to rise.

Contrary to last month where almost every aspect of the Current Situation dropped, this month, the surprise political certainty created by the result of the General Election has potentially contributed to a boost in sentiment. Each aspect of the Current Situation has improved, showing people surveyedⁱ are feeling more positive in the short term. This has created a jump in the Current Situation Index by 11 points, resulting in another rise in the Overall Index to a new high of 160. [Chart 1]

The Current Situation Index has reached a new all time high of 213, with people's sentiment towards their personal financial situation improving by 3 percentage points (pp) since April, and their household financial situation increasing by 4pp. Sentiment towards the country's employment outlook improved by 8pp, possibly driven by the unemployment rate continuing to fall to 5.5%ⁱⁱ. At the same time, the consumer research shows the proportion of people with disposable income remained stable at 78%.

In April, the Consumer Price Index (CPI), the main measure of inflation, turned negative for the first time since 1960, and wage growth was showing further signs of strengthening. Although inflation rose slightly to 0.1% in Mayⁱⁱⁱ, both of these have contributed towards strengthening of household spending power.

Claire Garrod, Head of Personal Current Accounts at Lloyds Bank, said: "Short term spending power confidence has surged in May with less uncertainty after the election, low levels of inflation and strengthening wage growth. These factors are contributing to people feeling like their money is going further this month than last. However, confidence towards finances in the longer term has recently fallen, suggesting that people retain a cautious view of the future."



Lloyds Banking Group economic data shows that May saw a further fall in essential spending of -0.9% overall, with growth continuing to be held down by lower spend on gas and electricity (-6.9%) and fuel (-7.5%), compared to 12 months earlier. However, with prices at the pumps rising, the slowing of falling spend on fuel observed over the last couple of months has continued into May.

This is also reflected in the consumer research^{iv} which shows rising fuel prices^v are beginning to be felt by consumers. The proportion of those that say they are spending more on fuel has increased month-on-month over the past five months from 16% in January 2015 to 24% in May.

The Future Situation Index (the measure of confidence towards finances in six months time) has fallen for a third consecutive month, dropping by 1 point in May. Although the dip is small this month, it is now at its lowest level since August 2013. Compared to November 2014, when the Index was at its highest, fewer people now expect to be able to save more, pay off more debt and have more discretionary income in six months time.

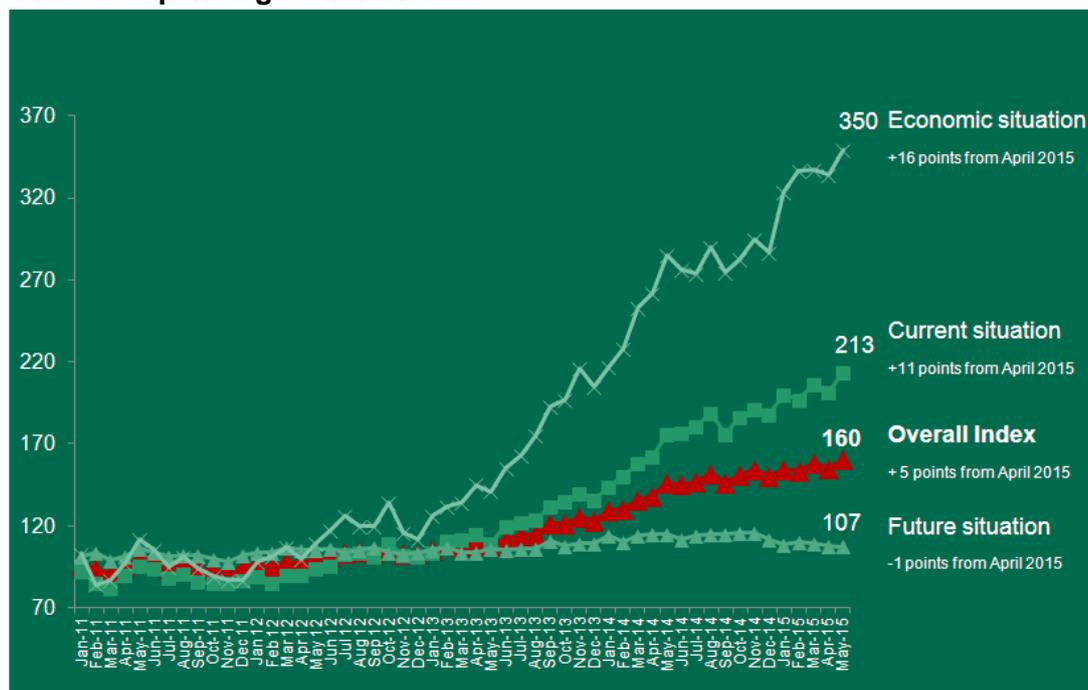
Despite the slight decline in the Future Situation Index, the strength of the Current Situation Index has driven the Overall Index to a new high of 160.

Patrick Foley, Chief Economist at Lloyds Bank, said: “While households continue to have an upbeat view of their current financial situation, confidence in the outlook continues to drift down. But with wage growth now strengthening, households are likely to develop a more positive view of the future, and this should allow the UK’s recovery to make further headway in the second half of the year.”

Ends



Chart 1 – Spending Power Indices



The four indices are calculated to provide a reflection of the public's attitude to the general economic situation (the Economic Situation Index are composed of sentiment on the country's financial situation, the UK housing market, Britain's employment situation and the current levels of inflation) and their perceived current and future individual circumstances (the Current and Future Situation Indices are composed of sentiment on personal and household financial situation, employment and job security and perceptions of levels of spending, saving and debt payment). The Overall Spending Power Index is a combination of the Current and Future Situation Indices.

The Lloyds Bank Spending Power Report is derived from independent consumer research and current account data of Lloyds Bank, Halifax and Bank of Scotland customers. This provides a robust and representative sample of the entire UK market and its essential spending behaviours.

Essential spending components are made up of rent, mortgage and required debt payments, utility bills, council tax, TV licences, food and fuel, which are identifiable from card spending, direct debits and standing orders from current account data. There are strong calendar effects within essential spending components, some of which will be accounted for using year-on-year growth rates while we attempt to adjust for irregular calendar effects. As a longer history of data becomes available, the adjustment methodology may be altered in future to better correct some of these changes.

Each month, over 2,000 adult bank account holders are asked about their current and future spending habits and how their commitments affect their spending power. Consumer research is compiled in conjunction with Ipsos MORI: Ipsos MORI interviewed a representative sample of 2,070 adults who hold a bank account aged 18-75 across the United Kingdom. Interviews were conducted online between 16th and 27th May 2015. Survey data were weighted to the known population proportions of this audience.

Research conducted by TNS during January 2011 - December 2014 (Feb 2011 Base: 2001). Jan 2015 - May 2015 research conducted by Ipsos MORI.

ⁱ People or people's refers to people surveyed as per Editor's notes.

ⁱⁱ ONS Labour Market Statistics, June 2015

ⁱⁱⁱ ONS inflation figures, April and May 2015.

^{iv} Consumer research refers to the Ipsos MORI research referenced in the Editor's notes.

^v AA Fuel Price Report May 2015