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NEW UK CONSUMER BAROMETER SHOWS:
Employment flat and wage bargaining power reduced
Consumer interest rate expectations pessimistic

UK consumers are experiencing stable employment expectations and high levels of pessimism over domestic interest rates, according to Lloyds TSB Financial Markets UK Consumer Barometer.

The employment index shows that although the population still feels relatively confident about their current employment conditions, they feel the overall UK job market is less favourable than it was 12 months ago. This would imply that they are now less likely to look for another job than a year ago and is likely to diminish workers' wage bargaining powers, perhaps helping to explain the 'puzzle' of low wage inflation at a time of low unemployment.

The employment picture varies dramatically across the UK, with people in London, the South East and Scotland all feeling less secure about their employment prospects than last November. In contrast, workers in East Anglia and the North West have more job security than last year.

Trevor Williams, Financial Markets economist at Lloyds TSB, said: "Workers are reporting stable employment prospects and the flow in and out of unemployment is flat. This will help keep down wage inflation as well as price inflation, which is good for the sustainability of economic growth."

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When asked whether UK interest rates will rise, 69 per cent of consumers expect further rate increases, compared to just 12 per cent expecting rates to fall. This contrasts strongly with the current financial market view, where there is a growing belief that UK interest rates have already peaked at 4.75%.

Trevor Williams, continued; “This current level of pessimism among consumers suggests that if rates undershoot expectations and don’t rise, consumer confidence and consumer spending both could strengthen and lead to faster economic growth than is currently expected. This could also lead to a recovery in the housing market, as consumers become increasingly confident that interest rates have peaked at such a low level. In addition, as there is no spare capacity left in the UK economy, increased consumer confidence should lead to heightened inflation pressure. “

This is the first of a new monthly consumer confidence barometer from Lloyds TSB’s Financial Markets Division and represents the responses of over 2,000 UK consumers. It maps their expectations for job security and employment prospects, price inflation and interest rate expectations.

Full national survey response

1. During the last 12 months, do you think prices in general:	UP	Same	Down	Balance *
Percentage balance (%)	51	40	5	46
2. During the next 12 months, do you expect prices in general:	UP	Same	Down	Balance
Percentage balance (%)	69	23	6	63
3. Do you feel your job is more secure or less secure than it was 12 months ago:	UP	Same	Down	Balance
Percentage balance (%)	25	48	24	1
4. Do you think employment prospects in the UK in general are better or worse than 12 months ago	UP	Same	Down	Balance
Percentage balance (%)	27	37	31	-4
5. Do you think interest rates will be higher or lower in 12 months' time than they are now?	UP	Same	Down	Balance
Percentage balance (%)	69	17	12	57

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Regional detail – headline balances* (%)

Region → Question ↓	London	South East	East Anglia	W Midlands	E Midlands	Yorkshire & Humberside	North	North West	South West	Scotland	Wales
1.	49	48	61	43	42	46	48	43	38	35	47
2.	58	62	73	66	53	67	72	63	62	59	64
3.	-11	-2	8	4	1	5	5	9	3	-5	3
4.	-2	6	-16	-17	3	-8	-22	4	-11	-12	-1
5.	56	57	71	62	65	72	56	61	55	65	67

* Balances reflected are those expecting an increase/improvement minus those expecting a decrease/worsening

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Notes to Editors:

- Trevor Williams available for interview.
- Barometer based on responses from 2,000 UK consumers in November 2004.
- Survey conducted for Lloyds TSB Financial Markets by BMRB.

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