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HIGH OIL PRICES FUELLING CONSUMER INFLATION CONCERNS

CONSUMER BAROMETER FOR SEPTEMBER SHOWS:

- *Record number of respondents expect higher price inflation*
- *Interest rate expectations show first rise in 6 months*
- *Job security falls for third successive month*

UK consumers are feeling the pinch as higher crude oil prices have pushed up fuel related costs and consumer price inflation to an eight year high. Sixty per cent of consumers in September noticed an increase in prices during the last 12 months, up eight per cent on August, according to the **Lloyds TSB Financial Markets Consumer Barometer**.

Looking ahead, over three quarters of consumers signalled they expected prices to increase further over the next 12 months, an increase of four per cent on last month. The more pessimistic outlook about inflation has led to an increase in the number of consumers believing this time next year interest rates will be higher.

This view contrasts with expectations within the financial markets, which are anticipating further interest rate cuts. The Bank of England left base rates unchanged at 4.5% in September and the minutes of the MPC meeting suggested rates would not be cut in the months immediately after that meeting.

Along with an increase in prices, confidence has also been eroded among consumers when it comes to job security. The number of consumers feeling fragile about their future employment prospects increased for the third consecutive month in September. Only 20 per cent of people cited that they feel their job is more secure than it was 12 months' ago compared with 22 per cent last month.

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Trevor Williams, chief economist at Lloyds TSB Financial Markets, "It's not surprising there's a significant increase in the number of consumers experiencing price increases - annual consumer prices have risen sharply in recent months, and are currently at an eight year high of 2.4%.

"With consumer price inflation likely to have also accelerated in September, due to higher oil prices, it appears consumers expect inflation to increase further.

"The majority (76 per cent) of consumers expecting prices to continue to climb over the next year is a worrying development as it suggests consumers' inflationary expectations are rising.

"The fact consumers are starting to expect higher prices, is a concern for Mervyn King, Governor of the Bank of England, because it could feed secondary effects on wages, ratcheting them higher.

"It suggests the BoE will be cautious, despite weaker than expected economic growth this year, facing an inflationary profile that is very likely to be upward sloping at least over the short-term.

"On the employment front, confidence seems to be dropping among consumers, this may be because the number of people claiming benefits rose for a seventh consecutive month in August and recent company trading reports have been signalling a challenging environment for new hires. The outlook is only likely to improve significantly once the wider data becomes more favourable, but a high seventy-seven percent of respondents still feel as secure as or more secure than last year."

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Full national survey response:

Table 1: Headline survey responses – September 2005

No	Question	Balance (%)	
		Sept	chg.*
1.	During the last 12 months, do you think prices in general are higher	+55	+10
2.	During the next 12 months, do you expect prices in general to be higher	+71	+4
3.	Do you feel your job is more secure or less secure than it was 12 months ago?	-2	-2
4.	Do you think employment prospects in the UK in general are better or worse than 12 months ago?	-17	+4
5.	Do you think interest rates will be higher or lower in 12 months' time than they are now?	+38	+8

* Represents the difference in balance from the previous month's survey

Notes to Editors:

- Trevor Williams is available for interview.
- Barometer based on responses from over 2,000 consumers.
- Regional breakdown available.
- Survey conducted for Lloyds TSB Financial Markets by BMRB.

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