

MARKET VOLATILITY HASN'T CRUNCHED CONSUMER CONFIDENCE

Consumer barometer for August shows:

- *Consumers finally become more optimistic about interest rates*
- *Job security rebounds after July low*
- *But consumers remain negative on price expectations*

Turbulent markets have failed to rock consumer confidence and may even have prompted a turn in optimism over interest rates, according to the latest **Consumer Barometer from Lloyds TSB Corporate Markets**.

In light of the recent market volatility, consumers may finally be convinced that the Bank of England will not need to raise interest rates further. The balance of those predicting higher rather than lower interest rates in 12 months' time fell in August to a six-month low at 69 per cent from 74 per cent in July. Consumer opinion about interest rates is also likely to have been boosted by the news that CPI inflation fell below the Bank of England target last month to 1.9 per cent.

Optimism over interest rates and news of faster economic growth in the second quarter of this year helped to boost consumer feelings about their own job security in August. The balance of consumers feeling more rather than less secure in their jobs rebounded to 0 per cent up from -4 per cent in June and July.

But, despite this change in sentiment over interest rates and jobs, consumer expectations about prices remained steady. In August, the balance of consumers believing that prices went up rather than down in the last 12 months remained constant at 58 per cent. At the same time, the majority of consumers predicted inflation to rise by between 2.5-3 per cent in a year's time.

Trevor Williams, chief economist, Lloyds TSB Corporate Markets, said: “The recent financial market volatility, coupled with July’s encouraging inflation figures, has prompted economists to reign in their interest rate expectations and it seems like consumers have followed suit. For the first time in six months we’ve seen a positive sign in consumer opinion that interest rates may finally have reached their peak in the current cycle.

“This change in sentiment, coupled with the boost from improved job security, suggests that the coming economic slowdown will be one that steers clear of recession, despite the fact that the full impact of the five interest rate rises so far has not yet been felt..”

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Table 2: Full national survey response (August 2007)

During the last 12 months, do you think prices in general are:	Up	Same	Down	Balance
Percentage balance (%)	62	31	4	+58
During the next 12 months, do you expect prices in general to be:	Up	Same	Down	Balance
Percentage balance (%)	80	14	4	+76
Do you feel your job is more secure or less secure than it was 12 months ago:	More	Same	Less	Balance
Percentage balance (%)	19	59	19	Zero
Do you think employment prospects in the UK in general are better or worse than 12 months ago	Better	Same	Worse	Balance
Percentage balance (%)	15	45	36	-21
Do you think interest rates will be higher or lower in 12 months’ time than they are now?	Higher	Same	Lower	Balance
Percentage balance (%)	75	15	6	+69

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The **Lloyds TSB Consumer Barometer** is a monthly survey of UK consumer opinion. The survey is completed around the middle of each month and should help to provide an early indicator of expectations and economic trends at the consumer level. Participants are asked a series of key questions, the answers to which are either an increase/improvement, no change or a decrease/worsening compared with the previous month. The balance between increase/improvement and decrease/worsening responses is used to provide the summary headline indicator for each question. The survey typically has a **sample size of over 2000**, however, for questions relating to employment conditions, only responses from employed survey participants are reported. As the survey builds up an historical record and its correlation with actual economic trends develops we believe the barometer will be well placed to highlight changing economic conditions in the UK