Lloyds TSB | Corporate Markets

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ANTICIPATED INTEREST RATE RISE FUELS JOB SECURITY FEARS

Consumer barometer for June shows:

- ***Majority of consumers resigned to further interest rate rise***
- ***Job security fears increase***
- ***Inflation expectations remain stable***

Four out of five UK consumers believe interest rates will rise again, fuelling a slump in confidence about job security, according to the **Consumer Barometer from Lloyds TSB Corporate Markets.**

In a survey of 2,000 consumers, carried out after the MPC's decision to hold rates on 7 June, 80 per cent said they expect interest rates to be higher in 12 months' time. This compares with 12 per cent that expect rates to remain steady and just 5 per cent that anticipate a fall in rates during the next year.

This represents a balance[1] of 75 per cent, up from 70 per cent in May and this outlook tallies with general financial markets' opinion that base rate could rise to 6.25 per cent early in 2008.

This expectation of rate hikes has not been fuelled by a rise in inflation fears, since the balance of consumers expecting prices to rise rather than fall this year remained steady at 74 per cent in June. However, one of the consequences of this is that consumers' confidence about their own job security has taken a big tumble. Just 18 per cent of consumers feel more secure in their own job than a year ago – the lowest figure seen since June 2006, and represents an all-time survey low[2].

Intriguingly, the unease consumers feel about their own job prospects does not reflect their view about the UK employment situation in general. When asked whether general employment prospects in the UK are better or worse than 12 months ago, the number citing an improvement rose slightly from 14 per cent to 15 per cent and those expressing pessimism fell from 36 per cent to 32 per cent.

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Whilst this represents a negative balance i.e. more people think things are getting worse than better, the net figure (-17) is still the most optimistic people have felt since December 2005. However, this may reverse quickly if fears about their own employment situation begin to materialise.

Trevor Williams, chief economist at Lloyds TSB Corporate Markets, said: “Consumers have been holding their breath waiting for another interest rate rise and the majority obviously see it as a fait accompli. However, the combination of interest rate hikes and consumers’ correct expectation that prices are on the rise means the spectre of unemployment is now beginning to weigh more heavily on respondents.

“This realisation is another sign that the last few rate rises are beginning to have an impact. The next stage is for these fears to translate into consumers actually cutting back on their spending and so weakening economic growth in the manner that, after all, the monetary authorities want to see and, in our opinion, will see in the months ahead.”

Full national survey response (June 2007)

During the last 12 months, do you think prices in general are:	Up	Same	Down	Balance
Percentage balance (%)	64	29	4	+60

During the next 12 months, do you expect prices in general to be:	Up	Same	Down	Balance
Percentage balance (%)	78	16	4	+74

Do you feel your job is more secure or less secure than it was 12 months ago:	More	Same	Less	Balance
Percentage balance (%)	18	57	22	-4

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	47	32	-17

Do you think interest rates will be higher or lower in 12 months’ time than they are now?	Higher	Same	Lower	Balance
Percentage balance (%)	80	12	5	+75

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Notes to editors:

[1] The balance represents those expecting a rise minus those expecting a fall

[2] Survey carried out since November 2004. 18% was reported in June 2006 and June 2007 – the lowest figure since the survey began.

- Trend data available from Lloyds TSB Press Office.
- Responses from over 2,000 consumers, however, for questions relating to employment conditions, only responses from employed survey participants are reported.
- Trevor Williams available for interview

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