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CONSUMER INFLATION EXPECTATIONS EASE

Consumer barometer for October shows:

- *Inflation expectations for the year ahead begin to ease*
- *But consumers feel immediate pressure of higher prices*
- *Fewer consumers expect interest rates to rise next year*

An increasing number of consumers believe that inflation will remain within its official 2% target over the next year, supporting the view that the Bank of England will lower interest rates in coming months, according to the latest **Consumer Barometer from Lloyds TSB Corporate Markets.**

The survey found that 35 per cent, which was the largest share of respondents, felt that actual inflation would be between 1.75% and 2% in 12 months' time, up sharply from 23 per cent of respondents in September. The latest official figures showed that CPI inflation was steady at 1.8% in September for the second consecutive month.

However, despite the steep fall in actual CPI inflation, since hitting a decade high of 3.1% in March, consumers are still feeling the immediate pressure of higher prices. This was demonstrated with the balance - the percentage of consumers reporting prices to have risen minus the percentage of consumers reporting prices to have fallen over the last 12 months – hitting 65 per cent, the highest since the survey started in November 2004. The balance of consumers expecting prices to rise rather than fall during the next 12 months was 79 per cent, up from 78 per cent in September. This also matched the highest result for the survey.

Even so, an increasing number of consumers believe that interest rates will fall over the next 12 months, in line with the prevailing view in the financial markets. In October, the balance – the percentage of consumers predicting interest rates will be higher minus the percentage of consumers predicting interest rates will be lower – fell sharply to 53 per cent from 67 per cent in September.

Trevor Williams, chief economist at Lloyds TSB Corporate Markets, said: “A key reason behind the Bank of England’s decision to maintain base rates last month was that consumers’ inflation expectations still remained elevated. Even though official data shows inflation is falling, the Bank noted that various survey measures of inflation expectations had not declined. Our survey suggests that expectations may now be starting to ease, adding weight to the view that a fall in base rates is on the horizon; although we don’t believe this will be until next year.

“Despite an easing in consumers’ inflation expectations, it’s clear they are feeling the immediate pressure of high prices. This is likely to be from higher monthly mortgage repayments putting the squeeze on household budgets and could lead to a slowing in consumer spending growth in the months ahead.”

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Full national survey response (October 2007)

During the last 12 months, do you think prices in general are:	Up	Same	Down	Balance
Percentage balance (%)	67	27	2	+65

During the next 12 months, do you expect prices in general to be:	Up	Same	Down	Balance
Percentage balance (%)	82	13	3	+79

Do you feel your job is more secure or less secure than it was 12 months ago:	More	Same	Less	Balance
Percentage balance (%)	21	55	22	-1

Do you think employment prospects in the UK in general are better or worse than 12 months ago	Better	Same	Worse	Balance
Percentage balance (%)	13	44	39	-26

Do you think interest rates will be higher or lower in 12 months’ time than they are now?	Higher	Same	Lower	Balance
Percentage balance (%)	66	18	13	+53

Further information contacts:

Eleanor Ross
Lloyds TSB Press Office
Tel: 020 7356 1714

Trevor Williams
Lloyds TSB Corporate Markets
Tel: 020 7696 4597
Mobile: 07710 986691

http://www.lloydstsbcorporatemarkets.com/economicresearch.asp

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