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CONSUMER INFLATION FEARS HIT RECORD HIGH

Consumer barometer for February shows:

- *Record number of consumers feel pressure of high prices*
- *Consumers become more pessimistic about future interest rate cuts*
- *Job security fears ease*

A record number of consumers fear that food, fuel and energy prices will continue to rise according to the latest **Consumer Barometer from Lloyds TSB Corporate Markets**.

The survey of 2,000 consumers found that respondents increasingly believe that prices are higher now, compared to last year, and are set to rise further still in coming months. The balance* of respondents that believe prices are higher now than last year, leapt 8 per cent in February, the biggest monthly rise for two years, to a survey record of 86 per cent. At the same time, a record 87 per cent of respondents predicted that prices will continue to rise over the year ahead.

The respondents' views matched official data in February which showed that consumers expected the rate of CPI inflation to be 3.2 per cent in twelve months' time versus 3.1 per cent in January.

Consumers' pessimistic view of inflation was reflected in their prediction for the outlook for interest rates. The balance of respondents that expected higher rather than lower interest rates next year rose for the second consecutive month to 31 per cent in February from 27 per cent.

Despite consumers' negative outlook for inflation and interest rates, their perception of job security eased from January's low. The balance of consumers feeling more rather than less secure in their jobs, compared to last year, rose to -1 per cent in

February from -6 per cent in January. This was in line with robust official labour market data.

Trevor Williams, chief economist, Lloyds TSB Corporate Markets, said: “These findings demonstrate just how difficult a challenge the Bank of England is currently facing. With consumers clearly feeling the pressure of high prices, there is a need to put the brakes on inflation. But this must be balanced with the need to manage the risk of an economic downturn with further interest rate cuts.

“With official data on consumer inflation expectations rising in February, controlling inflation is likely to be the Bank of England’s top priority. With this in mind, economists are revising their outlook for interest rate cuts and consumers appear to be following suit. It is increasingly looking like interest rates are close to bottoming out in the next few months. The UK is not likely to see the sharp interest rate cuts being enacted in the US by their central bank.”

Full national survey response (February 2008)

During the last 12 months, do you think prices in general are:	Up	Same	Down	Balance
Percentage balance (%)	87	11	1	+86

During the next 12 months, do you expect prices in general to be:	Up	Same	Down	Balance
Percentage balance (%)	87	10	2	+85

Do you feel your job is more secure or less secure than it was 12 months ago:	More	Same	Less	Balance
Percentage balance (%)	18	61	19	-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 (%)	12	42	41	-29

Do you think interest rates will be higher or lower in 12 months’ time than they are now?	Higher	Same	Lower	Balance
Percentage balance (%)	53	20	22	+31

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Notes to editors:

* The balance is the difference between the number of consumers expecting an increase and the number of consumers expecting a decrease.

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

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