



03/05

10 January 2005

UK CONSUMER BAROMETER SHOWS:

- *Interest rate rises still anticipated by consumers, but lower prices expected*
- *Skills shortages likely to lead to labour market bottlenecks*
- *UK growth prospects remain bullish*

UK consumers still believe interest rate rises are on the cards – despite market predictions that rates will either be left at 4.75% for all of 2005 or be cut, according to the latest UK Consumer Barometer from Lloyds TSB Financial Markets.

In December, 70 per cent of UK consumers said they expected interest rates to continue to rise, compared with 15 per cent who expect rates to remain static and only 11 per cent who expect rates to fall.

However, since the November survey, fewer consumers, on balance, experienced higher prices and the balance of people expecting prices to rise over the next 12 months has reduced by 9 per cent. This suggests that UK inflationary expectations have moderated and the outlook remains relatively benign.

Trevor Williams, Financial Markets economist at Lloyds TSB, said: “There seems to be a strongly held view among consumers that interest rates are still on their way up, which is at odds with the market view that rates will be held throughout 2005. This suggests that if the interest rate environment turns out to be more benign than people are anticipating, inflation and employment expectations are likely to rebound. Another outcome could be a burst of activity in the housing market and faster economic growth, as consumers increasingly realise that interest rates may have peaked at a low level.”

.../more

UK CONSUMER BAROMETER/...2

Employment prospects and job security have both seen a small deterioration between November and December (both experiencing a change of -1), but the indicators are still strong and suggest UK growth prospects remain bullish for 2005. Only a quarter (24 per cent) of workers feel their job is less secure than 12 months ago, compared with three quarters (73 per cent) who view conditions as better or the same – a promising situation given UK employment is already at record levels.

However, skills shortages are likely to grow, which is likely to lead to labour market bottlenecks which, going forward, have the potential to swiftly raise wage pressures.

Trevor Williams continued: “The message seems to be that economic growth may slow from its robust pace in 2004, but the slowdown is only likely to be modest. Although recent data and comments from the Bank of England indicate interest rates stay at 4.75%, or fall, in 2005, upcoming price inflation developments and Q4 economic growth figures will provide crucial pointers to rate activity. There still remains scope for one further rate rise, but that prospect is receding and may occur later in 2005 than previously seemed likely.”

Headline survey responses – December 2004

No	Question	Balance	
		Dec.	chg.*
1.	<i>During the last 12 months, do you think prices in general are higher</i>	+39	-7
2.	<i>During the next 12 months, do you expect prices in general to be higher</i>	+54	-9
3.	<i>Do you feel your job is more secure or less secure than it was 12 months ago?</i>	Zero	-1
4.	<i>Do you think employment prospects in the UK in general are better or worse than 12 months ago?</i>	-5	-1
5.	<i>Do you think interest rates will be higher or lower in 12 months' time than they are now?</i>	+59	+2

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

.../more

UK CONSUMER BAROMETER/...3

Full national survey response

During the last 12 months, do you think prices in general are:	UP	Same	Down	Balance
Percentage balance (%)	48	39	9	+39
During the next 12 months, do you expect prices in general to be:	UP	Same	Down	Balance
Percentage balance (%)	63	26	9	+54
Do you feel your job is more secure or less secure than it was 12 months ago:	UP	Same	Down	Balance
Percentage balance (%)	24	49	24	Zero
Do you think employment prospects in the UK in general are better or worse than 12 months ago	UP	Same	Down	Balance
Percentage balance (%)	28	33	33	-5
Do you think interest rates will be higher or lower in 12 months' time than they are now?	UP	Same	Down	Balance
Percentage balance (%)	70	15	11	+59

This is the second edition of a new monthly consumer confidence barometer from Lloyds TSB's Financial Markets Division and represents the responses of over 2,000 UK consumers. It maps their expectations for job security and employment prospects, price inflation and interest rate expectations.

-ends-

Notes to Editors:

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

Further information:

Kirsty Clay
Lloyds TSB Press Office
Tel: 020 7356 1517
www.mediacentre.lloydstsb.com

Trevor Williams
Lloyds TSB Financial Markets
Tel: 020 7696 4597
Mobile: 07710 986691
www.lloydstsbfinaancialmarkets.com