



02/06

9 January 2006

UK CONSUMERS EXPECTING INTEREST RATE HIKE

CONSUMER BAROMETER FOR DECEMBER SHOWS:

- *consumers still expect interest rates to rise*
- *oil price-led inflation believed to have peaked*
- *employment outlook pessimistic but defies unemployment trends*

UK consumers believe interest rates are on the rise, despite a sharp fall in inflation expectations for 2006, according to December's Consumer Barometer from **Lloyds TSB Financial Markets**.

Across the UK, 61 per cent of people believe that interest rates will rise this year, compared with just 11 per cent expecting rates to fall. However, this view is against a backdrop of belief that prices in December 2005 had reduced significantly from the year before, implying a less inflationary outlook.

In December, 53 per cent of consumers felt prices rose in 2005, compared with 44 per cent who thought that prices had remained the same or reduced. However, this represents a significant improvement from the 64 per cent who believed prices had risen in the November survey. This fall in consumers' views on inflation coincides with official data that shows the oil-induced price rises may have already peaked. Regarding price expectations, 70 per cent of consumers surveyed believe that inflation in 2006 will be higher compared with just 6 per cent expecting it to be lower. This is why there is still a majority expecting interest rates to rise.

When asked about job security and employment prospects, the picture has remained fairly steady when compared to November. However, there are still more people feeling pessimistic than optimistic about the labour market. Of the people surveyed, 20 per cent feel more secure about their own job security than 12 months ago, but 24 per cent feel less secure.

.../more

UK CONSUMERS EXPECTING INTEREST RATE HIKE/...2

. In addition only 17 per cent think UK employment prospects are on the up, compared with 32 per cent that believe the situation has got worse. Despite this, the picture is still brighter than November, defying the rising trend in official unemployment figures.

Trevor Williams, chief economist at Lloyds TSB Financial Markets, said: “December’s data shows that consumers are not expecting the interest rate cuts that are starting to be called for by some within the industry and increasingly expected by the financial markets. With the latest PMI figures showing service sector growth rising faster than expected, making a recovery in economic growth in 2006 more likely, they may be right.

“Calls for a rate cut now are somewhat premature and the next move in base rate is more likely to be a rate hike based on recent evidence from the housing market – but not until the second half of the year.”

Full national survey response

During the last 12 months, do you think prices in general are:	Up	Same	Down	Balance
Percentage balance (%)	53	38	6	+47
During the next 12 months, do you expect prices in general to be:	Up	Same	Down	Balance
Percentage balance (%)	70	21	6	+64
Do you feel your job is more secure or less secure than it was 12 months ago:	More	Same	Less	Balance
Percentage balance (%)	20	53	24	-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 (%)	17	45	32	-15
Do you think interest rates will be higher or lower in 12 months' time than they are now?	Higher	Same	Lower	Balance
Percentage balance (%)	61	22	11	+50

-ends-

Notes to Editors:

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

Further information contacts:

Kirsty Clay
Lloyds TSB Press Office
Tel: 020 7 356 1517
www.lloydstsbfinancialmarkets.com

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