

100/06

## **Job Fears Rise On Gloomy Inflation Outlook**

*Consumer barometer for August shows:*

- *Job security falls for first time in three months*
- *Inflation concerns rise for second consecutive survey*
- *Rate fears climb to highest level since 2004*

Consumers increasingly believe that job prospects in the UK have worsened, with inflation fears rising for the second consecutive month, according to the latest **Consumer Barometer** from **Lloyds TSB Corporate Markets**.

Just 14 per cent of consumers believe general employment prospects have improved over the last 12 months, while almost three times as many - 40 per cent - believe they have worsened. The -26 per cent balance (those reporting an increase minus those reporting a decrease) compares unfavourably to the previous month's survey, when it stood at -23 per cent.

The key driver behind this gloomy assessment appears to be consumers' increasingly pessimistic outlook for inflation and interest rates. Seventy-six per cent of consumers believe interest rates will be higher in 12 months' time while just 5 per cent believe they will be lower. The 71 per cent balance is not only a significant increase on July's 66 per cent figure, it is also the highest balance since the survey began in 2004.

The outlook for rates appears to be a consequence of consumers' price expectations, which rose for the second consecutive month in August. Eighty per cent of respondents expect prices to be higher in 12 months' time, while just 4 per cent expect them to be lower. The 76 per cent balance – up from July's 74 per cent balance - suggests that firms are facing increasing pressure from workers to raise wages. It may also signal increasing acceptance of above target cost rises.

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Trevor Williams, chief economist, Lloyds TSB Corporate Markets, said: “Consumers’ inflation expectations are a real worry and this was one of the reasons why the Bank of England addressed this by raising rates in August. Its aim is to help keep wage demands under control by keeping inflation low. But it may have to do more and we believe rates will rise to 5 per cent in November and then possibly even higher in early 2007.

“Although the MPC kept rates on hold in September, consumers are increasingly convinced they will rise again and this is hitting confidence in the job market. Although this response is somewhat unexpected - employment gains have been strong and economic growth has quickened - it suggests the rate rise in August may have confirmed earlier fears and played a key role in this month’s worse results.”

### Full table of results

During the last 12 months, do you think prices in general are:	Up	Same	Down	Balance
Percentage balance (%)	63	30	3	+60
During the next 12 months, do you expect prices in general to be:	Up	Same	Down	Balance
Percentage balance (%)	80	14	4	+76
Do you feel your job is more secure or less secure than it was 12 months ago:	More	Same	Less	Balance
Percentage balance (%)	20	56	23	-3
Do you think employment prospects in the UK in general are better or worse than 12 months ago	Better	Same	Worse	Balance
Percentage balance (%)	14	40	40	-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 (%)	76	15	5	+71

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### Notes to Editors:

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

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