

CONSUMERS SEE NO END TO RATE HIKES

Consumer barometer for July shows:

- *Consumers expect further interest rate rise*
- *Consumer perceptions of the job market plummet*
- *Job security levels well below average*

July's hike did little to reassure consumers that Bank of England base rates have peaked, despite five increases in less than a year, according to the latest **Consumer Barometer from Lloyds TSB Corporate Markets**.

Surveyed after July's quarter per cent increase in the base rate to 5.75 per cent, the majority of consumers are gearing up for further hikes, with 79 per cent of respondents predicting rates will be higher in 12 months' time. This is just 1 per cent lower than in June. Only 5 per cent of consumers thought interest rates would be lower in a year's time, the same as last month.

The latest base rate hike, however, saw consumers become more anxious about general job prospects. The balance of those reporting better rather than worse employment prospects compared to 12 months ago fell to -20 per cent in July, down from -17 per cent in June. This was despite recent official data showing continuing strong economic growth and a record number of people employed. Consumers also remained worried about the security of their own jobs with the balance of respondents feeling more rather than less secure compared to last year at -4 per cent in July, well below the six month average of -1.7 per cent.

Although official data showed annual CPI inflation declined further in June to 2.4 per cent, from 2.5 per cent in May, the survey showed consumers' price expectations remained elevated in July. The balance of respondents expecting prices to rise rather than fall in the next 12 months rose to 77 per cent from 74 per cent in June, near the survey record of 79 per cent.

Trevor Williams, chief economist, Lloyds TSB Corporate Markets, said: “The interest rate hike in July did little to reassure consumers there was an end in sight to the increases and they widely seem to agree with the prevailing view in financial markets that at least one more hike is on the horizon. This is probably a good thing in that it suggests consumers are preparing for higher mortgage payments. The growing uncertainty consumers feel about the labour market should appear in weaker confidence indices and a slowdown in spending in the coming months. The Bank of England will be watching this data particularly closely as it could determine whether they will need to raise interest rates again this year.”

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Full national survey response (July 2007)

During the last 12 months, do you think prices in general are:	Up	Sam e	Down	Balance
Percentage balance (%)	61	32	3	+58

During the next 12 months, do you expect prices in general to be:	Up	Sam e	Down	Balance
Percentage balance (%)	80	16	3	+77

Do you feel your job is more secure or less secure than it was 12 months ago:	Mor e	Sam e	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	Bett er	Sam e	Worse	Balance
Percentage balance (%)	17	41	37	-20

Do you think interest rates will be higher or lower in 12 months' time than they are now?	High er	Sam e	Lower	Balance
Percentage balance (%)	79	12	5	+74

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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