Lloyds TSB Spending power report finds spending power boosted by falling inflation

Friday 20 July, 2012

The nations finances experienced some respite in June as spending power improved due to falling inflation. Discretionary spending power was 0.7% higher year-on-year last month after inflation, putting the equivalent of an additional £80 a year back into consumers wallets, according to the latest Lloyds TSB Spending Power Report.

Lower growth in spending on essentials is also boosting spending power; however the benefit is being limited by weak growth in incomes. Annual income growth in June was just 2.8%, which remains well below long run averages, but with inflation levels falling in recent months, income growth turned marginally positive in real terms (0.3%).

At the same time, more consumers now believe they have more to spend than this time last year, with a greater proportion saying that they can meet monthly outgoings with money left over; this has increased by 6% over the past year and now stands at 50%. People aged 35-64 are most likely to spend all of their income which may be perhaps a reflection of the financial demands being placed on them (mortgage, older children etc).

Patrick Foley, chief economist at Lloyds TSB, says:
"Finally consumers are starting to see some of the benefits of lower inflation. It has taken a while but the fall in inflation has fed through to spending on essentials. Although spending power is heading in the right direction it remains far from healthy, in particular because income growth remains weak.

We haven't seen the unemployment rate react to the apparent weakness in the economy so far, but this remains the biggest risk to spending power in the short term."

Growth in essential spending fell for the third consecutive month in June, and at 3.3%, stood at the lowest it has so far in 2012. A key driver for this reduction was the amount people are required to pay to service their debts which was 0.6% lower than it was a year ago - consistent with very weak borrowing.

Growth in spending on petrol and diesel was also at a series before inflation, June 2012 low, rising just 1.6% in the year to June. This compares to rises of 11% at the start of the year and is a sign that price drops on the forecourts are feeding through to lower spending. When asked how their spending had changed over the past year, 5% fewer respondents felt that they were spending more on petrol and diesel last month than the same time last year, one of the more significant changes in the categories asked.

Spending on gas, electricity, water, food and council tax remained largely unchanged in June.

Consumers remain negative, but inflation concerns starting to ease
Concerns about inflation are at a series low; with three quarters (75%) currently believing inflation levels to be concerning, however this is a fall of 10% since April. Meanwhile, sentiment towards the countrys financial, employment and housing situation remain similar to previous months and predominantly negative, however there was a downward shift in the number of people believing them to be not at all good (down 4% for the countrys financial situation and 3% lower for employment). This movement hasnt increased the proportion believing the situation to be good; rather negative views are slightly less pronounced.

Conversely, outlooks relating to personal job security deteriorated in June, with the proportion of consumers believing their situation to be not at all good increasing by two percentage points to 8% from May to June. Sentiment regarding personal finances also deteriorated having previously improved from April to May: Currently 17% felt that their situation was not at all good up three percentage points from May.

Jatin Patel, director of current accounts for Lloyds TSB, comments:
We are still a long way from consumers having a huge amount of confidence in the economy, but there are small signs that inflation is one thing they are worrying less about. That more people have money left over once they have covered their monthly outgoings is positive, but with many still negative about the outlook for employment, it is unlikely that this will translate into a lot more spending in the high street. It is more likely that we will see people concentrating any spare cash on paying down debts or savings for a

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