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Essential spending down as consumer sentiment holds steady

- Actual spend on essentials falls for the 15th consecutive month
- Proportion of people who have disposable income remains steady
- Overall spending power and consumer sentiment still buoyant

Actual spend on essentials fell for the 15th consecutive month in February, according to the latest data released by from Lloyds Bank.

With spending 0.8% lower than a year ago, evidence is emerging that the pace of decline has been slowing in recent months, following falls of -1.1% in January and -1.6% in December. The recent uptick in the growth rate is largely driven by increased food spend, which is now flat at 0%, having been in negative territory since November (-0.6%).

Spending on utilities is easing the pressure on household budgets, with continued strong negative growth in gas and electricity, down 5.2% in February from a year ago. Fuel also shows no sign of emerging from its long-term negative growth rate, with spend at the pump falling for the 28th consecutive month, down 5.4% year on year.

Looking ahead, consumer research conducted in conjunction with Ipsos MORI shows there has been a significant increase in the proportion of people who expect to be spending 'somewhat more' or 'much more' in six months' time, rising from 12% in January to 15% in February.

Robin Bulloch, Managing Director at Lloyds Bank, said:

"While the data indicates a slight uplift in essential spending, there is no hiding the fact that we remain in the midst of a prolonged period of negative spending growth. The continued falls in fuel and utility spending, and their impact on spending power, will obviously be welcomed by consumers.

However, with less than a third of individuals opting to save their disposable income for a rainy day, and more than half opting to spend it, people should ensure they have a plan in place to absorb any change in circumstances."

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Disposable income

The research also shows that the number of consumers who say that they have money left over after they have covered all monthly outgoings has remained steady, at 81% in February, unchanged from January.

There has also been little change in how people chose to use their disposable income, with spending remaining the most common option (52%), followed by saving (31%) and paying off debt (18%).

Consumer sentiment

As a result, consumers' discretionary spending power, defined as the income left over after spending on essential items has been deducted, has remained stable.

People's sentiment towards their current situation was unchanged in February, driven by a slight rise in attitude towards personal financial situation (up 1pp), with a small decline in sentiment towards household financial situation (down 2pp).

This contrasts with a sharp drop in people's view of the country's financial situation, which significantly decreased in February, dropping 9pp. This widens the gap between people's perception of the country's financial situation and their own personal financial situation to a 52pp difference.

There has been a marginal increase in people's attitude towards their future situation, driven by a slight improvement in people's expectations about their future disposable income. 21% of people now think they will have much more or somewhat more disposable income in 6 months' time, compared with 19% in January.

This outweighs the marginal decline seen in sentiment towards own job security (down 1pp).

Patrick Foley, Chief Economist at Lloyds Bank said:

"Confidence in the country's financial situation dipped in February following a period of market volatility and heightened uncertainty around the global economic outlook. Nevertheless, sentiment around personal finances held steady, with households' maintaining a generally positive view of the employment situation and job security. Meanwhile, muted price pressures for essentials continues to create scope for spending on discretionary items."

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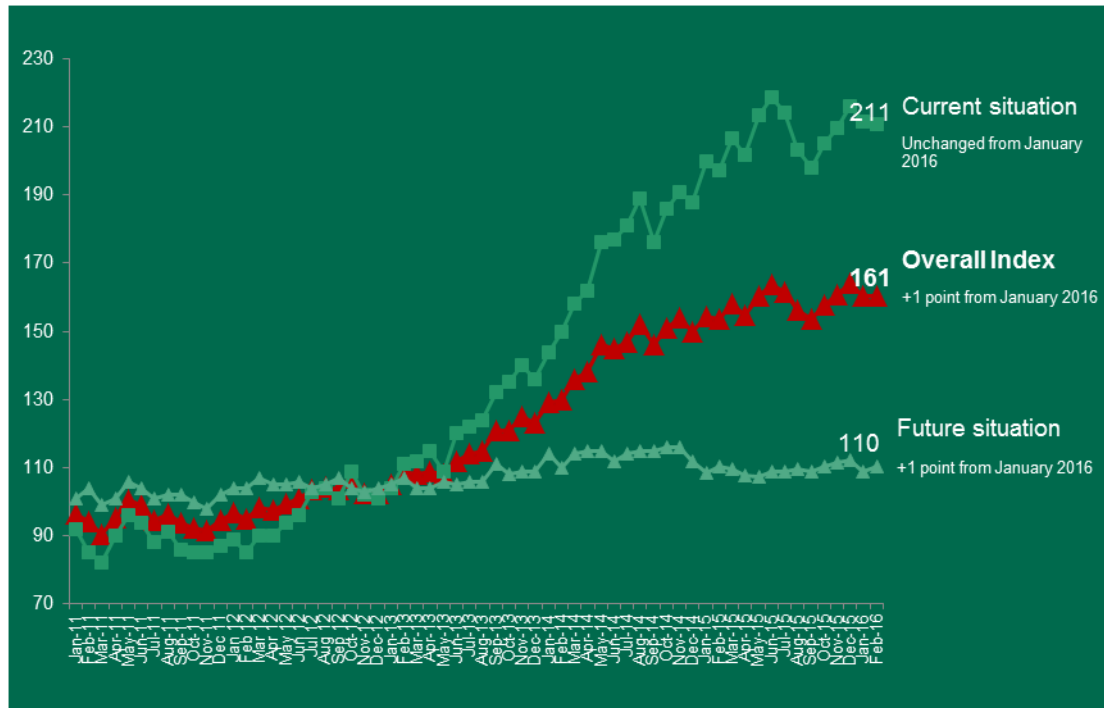
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Notes to editors

Chart 1 – Spending Power Indices



The three indices are calculated to provide a reflection of the public's attitude to the general economic situation and their perceived current and future individual circumstances (the Current and Future Situation Indices are composed of sentiment on personal and household financial situation, employment and job security and perceptions of levels of spending, saving and debt payment). The Overall Spending Power Index is a combination of the Current and Future Situation Indices. Full technical details available at <https://www.ipsos-mori.com/researchpublications/researcharchive>.

The Lloyds Bank Spending Power Report is derived from independent consumer research and current account data of Lloyds Bank, Halifax and Bank of Scotland customers. This provides a robust and representative sample of the entire UK market and its essential spending behaviours.

Essential spending components are made up of rent, mortgage and required debt payments, utility bills, council tax, TV licences, food and fuel, which are identifiable from card spending, direct debits and standing orders from current account data. There are strong calendar effects within essential spending components, some of which will be accounted for using year-on-year growth rates while we attempt to adjust for irregular calendar effects. As a longer history of data becomes available, the adjustment methodology may be altered in future to better correct some of these changes.

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Each month, over 2,000 adult bank account holders are asked about their current and future spending habits and how their commitments affect their spending power. Consumer research is compiled in conjunction with Ipsos MORI: Ipsos MORI interviewed a representative sample of 2,070 adults who hold a bank account aged 18-75 across the United Kingdom. Interviews were conducted online between 10th – 22nd February 2016. Survey data were weighted to the known population proportions of this audience. People or people's refers to people surveyed as per Editor's notes.

Research conducted by TNS during January 2011 - December 2014 (Feb 2011 Base: 2001). Jan 2015 – February 2016 research conducted by Ipsos MORI.

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