Lloyds Bank warning on economy as it tells customers "seek help"

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RITAIN'S biggest bank today issued stark warnings about what could happen to the economy if inflation takes grip and told customers in trouble to seek help sooner rather than later.

Lloyds Bank also added £177 million to its reserves, a sign of its fears about how many loans could go bad.

That's a reversal of last year when Lloyds and other banks released hundreds of millions of cash set aside for Covid defaults.

While first quarter profit of £1.6 billion was better than the City expected, it was also down 14% on a year ago suggesting the bounce back from Covid has now been usurped by fears about the cost of living crisis and the war in Ukraine.

Yesterday Primark boss George Weston said he feared the UK was heading "back to the 70s" as an inflationary spiral grips the nation.

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Lloyds boss Charlie Nunn was less dramatic, using the word "uncertain" to describe the outlook. He said: "We are proactively contacting customers where we feel they may need assistance and will continue to help with financial health checks and other means of support. We encourage customers, where affected, to get advice early and talk to us."

In the small print, the bank's outlook was in places grim. Its "downside" assessment of the economy has unemployment at 6.1% next year, house prices down 7% and growth at a torpid 0.7%. The "severe downside" bet has house prices down 12.1% as unemployment hits 8.5% and the UK sinks into recession.

As a clear proxy for the UK economy, that would undoubtedly hit Lloyds own returns. The lacklustre shares, among the most widely held by small investors, edged up 1p to 47p.

Rising interest rates will boost bank profit margins, but loans going bad as families struggle with fuel and food bills is plainly a bigger factor.

Smaller rival Metro Bank, a loss-maker, said today the economic environment was "changing".

Nunn, paid £5.5 million already this year by Lloyds, thanks to a £4.2 million buyout of shares he held with previous employer HSBC, wants Lloyds to expand rapidly in wealth management.

While Lloyds does not have direct exposure to Ukraine or Russia, the higher energy costs the war is leading to will hurt its customers.

Richard Hunter, Head of Markets at interactive investor, said: "Against the backdrop of an unstable UK economy and an increasingly squeezed consumer, Lloyds has made a generally impressive start to the year. Even so, the instability of the economy is one which has particular resonance for Lloyds, given that it is often seen as a barometer for the UK economy.”