



NEWS

16 June 2009

INFLATION RATE FACING ELDERLY DROPS TO 3.6% BUT GAP BETWEEN OLD AND YOUNG REMAINS PERSISTENTLY HIGH

- **Latest figures from Alliance Trust Research Centre show the inflation rate facing over 75 year olds fell to 3.6% in May, from 3.9% in the previous month. This remains 64% higher than the official rate of inflation of 2.2%**
- **The gap between inflation rates facing young and old remains high, with the elderly facing an inflation rate 71% higher than the under 30 year olds**
- **Although there was a drop in electricity prices over the month, and gas prices held steady, petrol and food prices increased and there were tax related increases in the prices of alcohol and tobacco following the Budget in April**
- **Although the headline rate of inflation continues to decline, basic goods inflation remains high at 4.6% and it is this rate which impacts most on the elderly**

This month's official inflation report showed that the headline rate of inflation fell by less than expected, to a rate of 2.2%. Alliance Trust's monthly study of age related inflation rates also reveals a drop in the inflation rate facing all age groups, with the rate of inflation facing the elderly decreasing the most, by 0.3%. However, in spite of this drop, this still leaves the oldest age group facing the highest rate of inflation, at 3.6%. This is because households in this age group spend the highest proportion of their budgets on basic goods and services, such as utilities and food; where price inflation remains high. The over-75s face an inflation rate that is now 64% above the headline rate and 71% higher than the inflation rate facing the under 30 year olds. The 65-74 year old age group faces the second highest rate of inflation, at 3.0%.

Shona Dobbie, Head of the Alliance Trust Research Centre, said, *"Although it is good to see the inflationary pressures facing the elderly continue to recede, the rate of inflation facing this age group remains persistently high, at 3.6%. This is much greater than the official rate of inflation, and much higher than the inflation rate facing any of the other age groups. The benefits of falling prices continue to come through more slowly for the elderly, who spend a larger share of*

their budgets on the basic goods and services; where price falls have been more limited. Unfortunately it is the elderly, who often rely on income from savings, who are simultaneously suffering the biggest impact of very low interest rates.”

Age Group	Inflation Rate
Under 30	2.1%
30-49 Year Olds	2.2%
50-64 Year Olds	2.4%
65-74 Year Olds	3.0%
75 and Over	3.6%

Utility price inflation has fallen once again this month, but the move has been limited and inflation in this sector is still high, at 11%. Although electricity price inflation has dropped to just below 7%, gas price inflation was unchanged at the much higher level of 24%. These basic price pressures continue to hit the over 75 year olds the hardest, as this age group spends more than 7% of their budget on electricity and gas bills, whereas the under 30 year olds spend just over 3% on these services.

Over 75 year olds also suffer when food prices are high. Food price inflation has dropped this month, but again this downward trend has been limited and food price inflation remains well above 8%. This hits the over-75s most acutely, as they allocate more than 16% of their household budget to food, compared to just 9% for under-30s. Inflation for many basic food items remains high. Fruit prices are 11% higher than they were at this time last year, meat prices are 10% higher, vegetable prices are up more than 9% and bread and cereal prices have gained almost 8%.

In contrast, the under 30s face an inflation rate of just 2.1%, which is lower than the official rate. This youngest age group is currently benefiting from the fact that they spend a higher proportion of their income on discretionary items, such as audio-visual goods, clothing and footwear; where prices continue to fall sharply. Over the last year, the prices of audio-visual goods have fallen by almost 12%, while clothing prices have dropped by more than 9%. The under 30s spend almost 6% of their budget on clothing and footwear, compared to the 4% allocated by the over 75 year olds.

Spending Weights

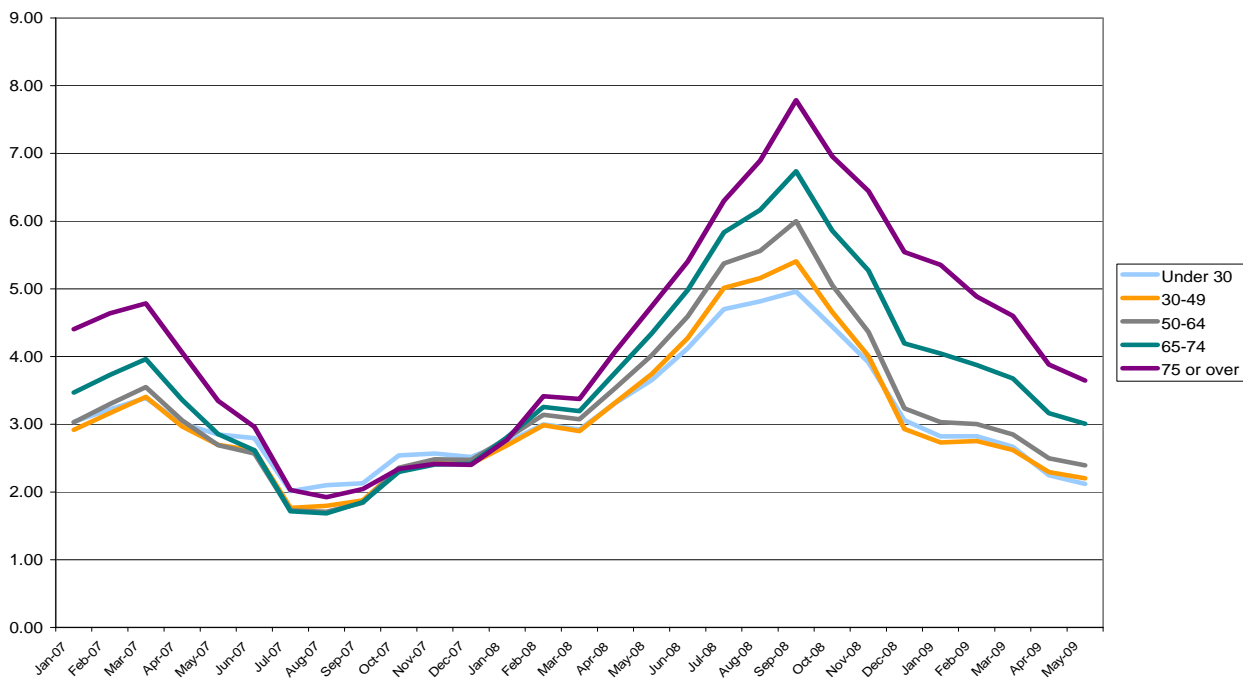
Age Group	Food	Electricity	Gas	Petrol
Under 30	9.0%	1.8%	1.5%	4.3%
30-49 Year Olds	10.9%	2.0%	1.8%	5.0%
50-64 Year Olds	11.6%	2.2%	2.0%	5.2%
65-74 Year Olds	14.4%	2.7%	2.5%	4.6%
75 and Over	16.4%	3.7%	3.5%	3.2%

Note: This table shows the spending patterns of different age groups across different spending categories.

Shona Dobbie added, "Inflation continues to fall, but the pace of improvement is disappointing. Basic cost inflation remains relatively high and this continues to hit the elderly in particular. Although electricity and food price inflation is easing, and gas prices were unchanged this month, price levels in these sectors are still elevated and the need to cover these basic costs leaves elderly households with much less money to spend elsewhere. Although younger age groups are also hit by high costs for basic goods, they spend proportionately more of their income on discretionary items, where prices continue to fall quite sharply. This makes their inflation rates significantly lower. The under 30s currently face the lowest rate of inflation, at just 2.1%, since they benefit most from falling prices of clothing and audio-visual goods."

"The gap between the inflation rates facing the young and elderly continues to cause us some concern, as this clearly highlights the extent to which the elderly are not reaping the same relative benefits of easing prices. The results of our ongoing study prove that it is misleading to apply one rate of inflation across all age groups and all types of households."

Inflation and Age (January 2007 to May 2009)



Source: In-house

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