

NEWS

19 May 2009

INFLATION FACING ELDERLY DROPS SHARPLY TO 3.9%

- Latest figures from Alliance Trust Research Centre show the inflation rate facing over 75 year olds was 3.9% in April, but this is 70% higher than the official rate of inflation of 2.3%
- The gap between inflation rates facing young and old has widened with the elderly facing an inflation rate 77% higher than the under 30 year olds
- Like other age groups, the elderly are now benefiting from reductions in gas, electricity, petrol and food price inflation, but these are coming through slowly and the cost of basic goods and services remains high
- Inflation rates for all age groups are already lower than at this time last year, and are expected to fall even further as the price pressure on utilities and food continues to ease and as lower demand impedes companies' pricing power.

This month's official inflation report showed that the official headline rate of inflation fell to 2.3%. Although Alliance Trust's ongoing monthly study of age related inflation reveals a drop in the inflation rate facing all age groups, it is the two oldest age groups which have benefited most this month. This is because these groups spend the highest shares of their budgets on basic goods and services, such as utilities, food and petrol, where price inflation has fallen this month. However, although their rate of inflation has fallen, the over 75 year olds continue to face an inflation rate which is much higher than the official rate, at 3.9%. This rate of inflation is 70% higher than the official headline rate and 77% higher than the inflation rate facing the under 30 year olds. The 65-74 year old age group faces a rate of inflation of 3.2%.

Shona Dobbie, Head of the Alliance Trust Research Centre said, *"Although it is good to see the inflationary pressures facing the elderly begin to recede, the actual rate of inflation facing this age group remains uncomfortably high, at 3.9%. This is much higher 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 are coming through more slowly for the elderly.*

| Age Group | Inflation Rate |
|-----------------|----------------|
| Under 30 | 2.2% |
| 30-49 Year Olds | 2.3% |
| 50-64 Year Olds | 2.5% |
| 65-74 Year Olds | 3.2% |
| 75 and Over | 3.9% |

Although utility price inflation has fallen sharply this month, to a rate of almost 13%, this is still high. Electricity price inflation has dropped to just over 9%, but gas price inflation remains much higher at almost 24%. These price pressures hit 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 30s households spend just over 3% on these services.

Over 75 year olds also suffer relatively more whenever food prices are high. Food price inflation has dropped this month, but it remains above 9%. This hits the over 75 year old age group 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. Meat price inflation is more than 12%, vegetable prices have risen more than 11% over the last year and bread and cereal prices have gained almost 9%

In contrast, the under 30s face a rate of inflation of just 2.2%, 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 incomes 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 more than 13% and clothing prices have dropped by almost 10%. The under 30s spend almost 6% of their budget on clothing and footwear compared to 4% allocated by the over 75 year olds.

Spending Weights

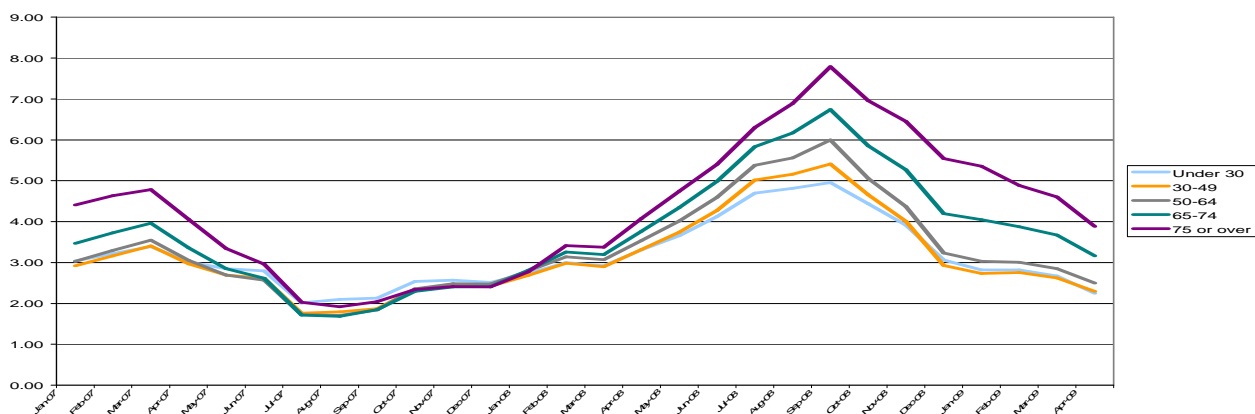
| Age Group | Food | Electricity | Gas | Petrol |
|-----------------|-------|-------------|------|--------|
| Under 30 | 9.0% | 1.8% | 1.5% | 4.3% |
| 30-49 Year Olds | 10.9% | 2.0% | 1.8% | 5.0% |
| 50-64 Year Olds | 11.6% | 2.2% | 2.0% | 5.2% |
| 65-74 Year Olds | 14.4% | 2.7% | 2.5% | 4.6% |
| 75 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 is in retreat, but the elderly continue to be hit hard. Gas, electricity and food price inflation may be easing, but price increases in these areas 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 on discretionary items, where prices are falling quite sharply, making their inflation rates lower. The under 30s currently face the lowest rate of inflation, at just 2.2%, as they are benefiting most from falling prices for clothing and audio-visual goods.*

“It is the gap between the inflation rates facing the young and elderly which continues to cause concern and this has widened even further this month. This highlights the extent to which the elderly are not reaping the same relative benefits of easing price pressures. This is a particular problem at the moment as it is older people, who frequently rely on income from savings, who are also suffering the negative impact of very low interest rates.”

Inflation and Age (January 2007 to April 2009)



Source: In-house

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