

Inflation and Age

April 2011



This annual update of the relationship between inflation and age by Alliance Trust Research Centre focuses on 2010. The results show that:

- In 2010, households run by someone aged 50-64 faced the highest rate of inflation. On average, these households faced an inflation rate of 4.5% which was 36% higher than the headline rate of inflation.
- The 50-64 year old households faced the highest rate of inflation in every month of 2010, mainly due to the fact that they allocate a high proportion of their spending to transport. In the first half of 2010 in particular, 50-64 year olds were hit by high petrol price inflation.
- Households aged 75 and over faced the lowest rate of inflation in 2010. Their inflation rate averaged 3.6% during the year.
- The oldest households were the only ones to experience an increase in inflation over the course of the year. From January to December, the inflation rate facing this age group increased by 16%.

Conclusion – 50-64 year old households faced highest rate of inflation

The Alliance Trust Research Centre has updated its research project, which looks at the relationship between inflation and age, by focusing on trends that prevailed in 2010. As in the initial study, the research team used data from the Family Spending Survey and monthly Consumer Price Index reports to construct indices for inflation based on the age of the main householder. We have identified five key age groups, namely those aged under 30, those aged between 30-49, those aged between 50-64, those aged between 65-74

and those aged 75 and over. Our model has been updated to incorporate the latest information we have regarding spending patterns.

It was the households headed by someone aged 50-64 that experienced the highest rate of inflation during 2010. On average these households faced an inflation rate of 4.5% which was 36% higher than the official rate of inflation, as measured by the Consumer Price Index. These households were hit hard by higher petrol price inflation during the first half of 2010 highlighted by the fact that their inflation rate peaked at 5.1% in January. By the end of 2010 their inflation rate was 11% lower.

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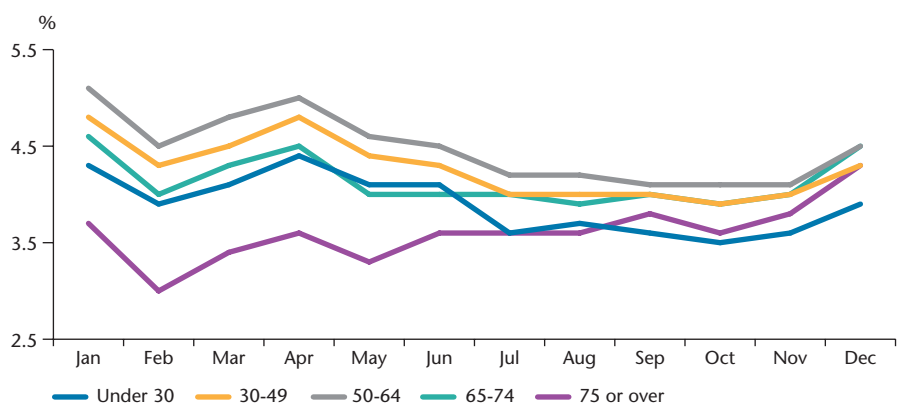
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Alliance Trust age-related inflation rates (2010)



Every age group with the exception of the oldest households saw their inflation rates falling between January and December. Households headed by someone aged 75 and over saw their rate of inflation rise from 3.7% to 4.3%, an increase of 16%. Despite this, our study establishes that older people generally faced the lowest rate of inflation during 2010. On average they experienced an inflation rate of 3.6%. These movements can be explained by changes in food and non-alcoholic beverage price inflation, the category to which the oldest households allocate a large proportion of spending. Food and non-alcoholic beverage inflation was subdued at the start of the year but accelerated towards the end of 2010.

Explaining the results – spending patterns and age

Our research shows that on average, during 2010, it was the 50-64 year old households which faced the highest rate of inflation. This is explained by the spending patterns of different age groups.

Our findings show that

- In the 50-64 year old households the highest proportion of spending is allocated to recreation and culture. This category accounts for 17% of total spending and includes spending on package holidays and recreational and cultural services, such as TV subscriptions. In addition, transport accounts for more than 16% of spending in the case of these households, which is the highest share of any age group. Transport includes spending on petrol and, in the first half of 2010, petrol price inflation rose sharply helping to explain why the inflation rate of this age group was the highest, on average, during the year.
- Households headed by someone aged 75 and over allocate the largest share of their spending towards housing and utilities. This category accounts for almost 20% of household spending. This age group also assigns 18% of their spending to food and non-alcoholic beverages. The fact that food and non-alcoholic beverage price inflation was relatively subdued, until the end of the year, helps to explain why this age group had the lowest average inflation rate in 2010. Food and non-alcoholic beverage inflation stood at 1.9% in January 2010 but increased to 6.1% at the very end of the year.

- The 65-74 year old households allocate the largest share of their spending to food and non-alcoholic beverages, which account for almost 17% of total spending. Recreation and cultural goods and services account for a further 17% and transport accounts for almost 15%.
- The 30-49 year old households allot the largest share of their expenditure to transport, which accounts for 16% of their spending. Recreation and culture accounts for a further 15% of spending.
- The under 30s allocate the largest share of their spending to housing & utilities. This category of spending accounts for 26% of their total expenditure, the highest of all age groups. The second largest spending category is transport which accounts for 14% of expenditure. Food and non-alcoholic beverages account for a further 11%. This age group also has by far the highest spending on education, at over 5%.

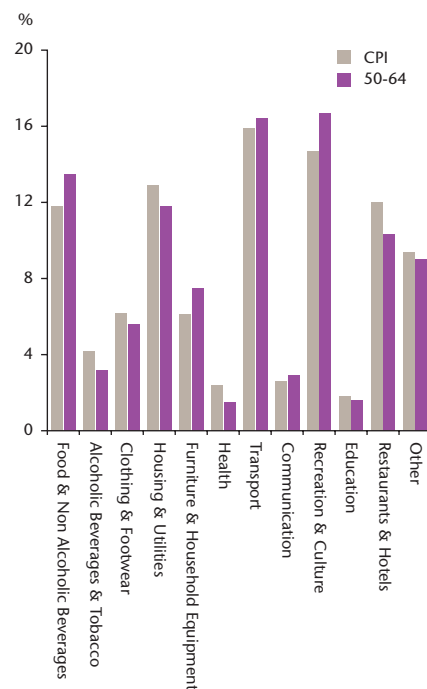
Alliance Trust Age Related Household Inflation Rates

Inflation indices measure price changes in a 'shopping basket' covering a wide range of goods and services. Initially we looked at the breakdown of the CPI with a view to analysing how accurately the weights in this inflation index match actual expenditure patterns. Our first study was published in May 2005, and we have released our results on a monthly basis since August 2006.

Methodology

Our analysis uses official data, provided by the Family Spending Survey and the Consumer Price Index (CPI). Both cover expenditure based on the international classification system, COICOP, which classifies individual consumption by purpose. We have used data from the Family Spending 2010 edition and CPI reports for each month between January and December 2010. The spending survey identifies detailed average expenditure, on a weekly basis, in terms of the age of the household reference person. In most cases, this is the person who either owns the household accommodation, or who is legally responsible for the rent of the accommodation. If there are joint householders then the reference person is the one with the highest income. If incomes are identical, then the eldest householder becomes the reference

person. Expenditure is reported on a household basis, rather than on an individual basis, and this has an impact on the total levels of spending recorded. The largest households are those where the reference person is aged between 30-49 years. On average these households contain 2.9 people. The smallest households are those where the reference person is aged 75 and over and on average these households contain just 1.4 people. Children's expenditure is included in the survey.



Breakdown of Spending

We have identified 12 major and 68 detailed categories of expenditure covering all the major commodities and services.

Using data from the Family Spending Survey, we have identified average weekly spending on these items and we used this to calculate weighted indices of expenditure for our five different age groups.

Sources: Family Spending 2010 edition, Consumer Price Indices (ONS), In-house research.