

Inflation and Age

June 2009



This annual update of the relationship between inflation and age by Alliance Trust Research Centre focuses on 2008. The results show that:

- Throughout all of 2008, the inflation rate facing households run by people aged over 75 was higher than the inflation rate facing any other age group. This trend has continued in the early months of 2009.
- The oldest households saw their rate of inflation rise sharply during the first 9 months of the year, from 2.8% in January to a peak of 7.8% in September – before retreating to a level of 5.5% at the year end.
- On average, the inflation rate facing the over 75s was 46% higher than the official CPI. In 2007, the average monthly difference was much lower, at 35%.
- The inflation rate facing the youngest age group, the under 30s, rose from 2.7% in January to 5.0% in September – before falling back to 3.1% by the end of the year.
- At the end of the year it was the 30-49 year old age group who faced the lowest rate of inflation. This group allocates a relatively high proportion of spending on clothing and transport and benefited towards the end of the year from the drop in petrol prices, the cut in VAT and the heavy discounting by retailers ahead of Christmas.

Conclusion – the oldest households still face the highest inflation

The Alliance Trust Research Centre has updated its research project, which focuses on the relationship between age and inflation, by focusing on trends that prevailed in 2008. As in the initial study, the research team used data from the Family Spending Survey and monthly Consumer Price Index (CPI) 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.

Throughout 2008 the rate of inflation facing the over 75s was higher than that facing younger age groups, particularly in the second half of the year. Inflation rates facing all age groups rose sharply over the first nine months. The inflation rate facing the over 75s rose from 2.8% in January to 7.8% in September, an increase of almost 180%. The oldest age group experienced the highest rate of inflation in each month during the year. On average, we found that the inflation rate facing the over 75s was 46% higher than the official rate of inflation, as measured by the Consumer Price Index.

Contact

Shona Dobbie

Head of Research Centre

Alliance Trust PLC
8 West Marketgait, Dundee DD1 1QN

Tel +44 (0)1382 321000

Fax +44 (0)1382 321185

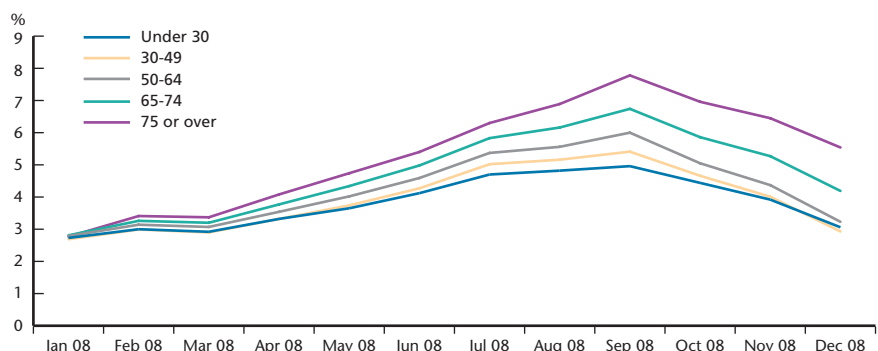
Email contact@alliancetrust.co.uk

Web www.alliancetrust.co.uk

Alliance Trust PLC is the largest generalist investment trust company listed on the London Stock Exchange. The Research Centre is part of Alliance Trust and was formed to carry out economic and social analysis to deepen our understanding of economies, markets and socio-economic issues.

The views, information and data in this publication are those of the Research Centre and this publication is not a financial promotion or recommendation to make any particular investment. Alliance Trust is not authorised to give financial advice.

Alliance Trust age-related inflation rates



Inflation and Age

Our study establishes that young people had one of the lowest rates of inflation throughout most of the year. The inflation rate facing the under 30s rose from 2.7% at the start of the year to peak at 5.0% in September before declining to 3.1% in December. This represented an increase of almost 15% over the year. On average, the inflation rate facing this group was 38% lower than that facing the over 75s, because a larger percentage of their expenditure is directed towards discretionary goods and services, such as clothing and audio visual products, where prices have been falling.

Households headed by a 30-49 year old saw their inflation rate rise least over the year as a whole. These households saw inflation rise from 2.7% in January to a peak of 5.4% in September, before falling back to a level of just 2.9% at the year end. This age group spends the most on clothing and footwear, in relative terms, and benefited from the significant price falls which persisted in this sector throughout the whole year.

Explaining the results – spending patterns and age

Our research shows that during 2008 the oldest households still faced the highest rate of inflation in every single month of the year. This is explained by the inflation related spending patterns of different age groups.

Our findings show that

- In the over 75s' households the highest proportion of spending goes on necessities. Food and beverages account for almost 18% of spending in the case of the oldest households, but for only 10% in the case of the youngest households, even though the latter group spends slightly more in monetary terms. In addition, housing and utilities account for a further 19% of total spending, and so rising gas and electricity prices have a big impact on the oldest households.
- Households headed by someone aged 65-74 direct the largest share of their spending towards recreation and culture. This category, which includes package holidays, accounts for over 18% of spending. In addition, transport accounts for 14% of the total, while food and beverages account for almost 16%.
- The 50-64 year old households allocate the largest share of their spending to transport, which accounts for 18% of the total. Recreation and cultural goods and services account for a further 16% and food and beverages account for 13%.

- The 30-49 year old households also allocate the largest share of expenditure to transport, which accounts for 17% of their spending. Recreation and culture accounts for a further 15%. This category includes spending on audio visual equipment, where sharp price falls have been recorded over the last year, helping to lower the inflation rate facing this group. This age group also has the highest spending on clothing & footwear, and has therefore benefited most from falling prices in this area.
- The under 30s allocate the largest share of their spending to housing & utilities, and are therefore exposed to rising rents and utility prices. This category of spending accounts for 22% of their total expenditure. Rising transport costs have also hit this group hard, as transport accounts for 15% of spending. Eating out is also popular, and is reflected in the fact that restaurants and hotels account for 10% of this group's total spending.

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 Survey 2008 edition and CPI reports for each month between January and December 2008. 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

Breakdown of Spending



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 over 75 years, and on average these households contain just 1.4 people. Children's expenditure is included in the survey.

We have identified 12 major and 68 detailed categories of expenditure covering all the major commodities and services, such as food, drink, clothing, household goods and services. Using data from the family spending report, 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 Survey 2008, Consumer Price Indices (ONS), In-house analysis.