

# Inflation and Age

June 2008



This annual update of the relationship between inflation and age by Alliance Trust Research Centre focuses on 2007. The results show that:

- Throughout most of 2007, 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 been re-established in the early months of 2008.
- The oldest households saw their rate of inflation decline sharply over the year, from 4.5% in January to 2.4% in December – a decline of 47% over the year.
- On average, the inflation rate facing the over 75s was 35% higher than the official CPI. In 2006, the average monthly difference was twice as high, at 56%.
- The inflation rate facing the youngest age group, the under 30s, fell from 2.7% in January to 2.3% in December – a decrease of 15% over the year. This group continued to benefit from falling prices for clothing and audio-visual goods.
- Towards the end of the year the 50-64 year old age group faced the highest rate of inflation. This group allocates a relatively high proportion of spending on transport costs and was hit by higher petrol prices.

## 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 2007. 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 30-50, those aged between 50-65, those aged

between 65-75 and those aged over 75. Our model has been updated to incorporate the latest information we have regarding spending patterns.

Throughout 2007 the rate of inflation facing the over 75s was generally higher than that facing younger age groups, although this trend became more blurred in the second half of the year. Inflation rates facing all age groups fell back during 2007. The inflation rate facing the over 75s fell from 4.5% in January to 2.4% in December, a decline of 47%. The oldest age group experienced the highest rate of inflation in each of the first nine months. On average, we found that the inflation

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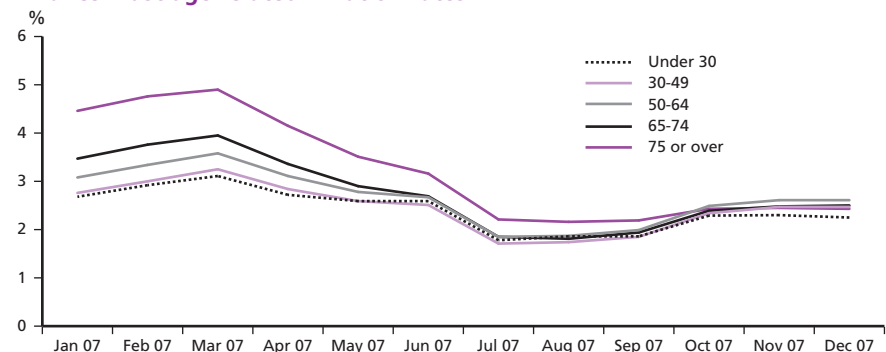
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## Alliance Trust age-related inflation rates



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rate facing the over 75s was 35% higher than the official rate of inflation, as measured by the Consumer Price Index.

Our study establishes that young people had one of the lowest rates of inflation throughout the entire year. The inflation rate facing the under 30s peaked at 3.1% in March before declining steadily to just 1.8% in July. Although the inflation rate facing this particular age group had risen to 2.3% in December, this still represented a decrease of 15% over the year. On average, the inflation rate facing this group was 31% 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, whose prices have been falling.

Households headed by a 50-64 year old saw their inflation rate rise towards the end of the year, overtaking that facing each of the other age groups. These households have been hit particularly hard by rising transport costs, which account for a relatively large proportion of their budgets.

## Explaining the results – spending patterns and age

Our research shows that during 2007 the oldest households still faced the highest rate of inflation in each of the first nine months of the year. In the final three months it was the 50-64 year olds who faced the highest rate of inflation. 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 18% of spending in the case of the oldest households, but for only 9% 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 18% of total spending, and so rising gas and electricity prices have a big impact on the oldest households.
- Households headed by someone aged 65-75 direct the largest share of their spending towards recreation and culture. This category, which includes package holidays, accounts for 18% of spending. In addition, transport accounts for 16% of the total, while food and beverages account for 15%.

- The 50-65 year old households allocate the largest share of their spending to transport, which accounts for 17% of the total. Recreation and cultural goods and services account for a further 16% and food and beverages account for 13%.
- The 30-50 year old households also allocate the largest share of expenditure to transport, which accounts for almost 18% 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 relatively high spending on clothing & footwear, again benefiting from falling prices.
- 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 20% of their total expenditure. Rising transport costs have also hit this group hard, as transport accounts for 14% of spending. Eating out is also popular, and is reflected in that fact that restaurants and hotels accounts for 11% of this group's total spending.

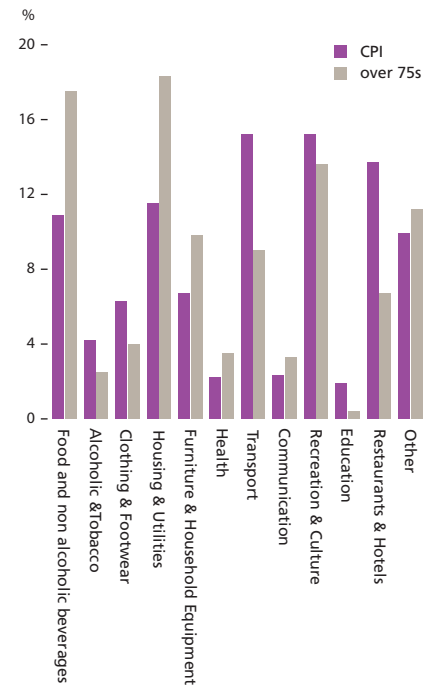
## Alliance Trust Age Related Household Inflation Rates

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 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 2007 and CPI reports for each month between January and December 2007. The Family 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

## Breakdown of spending



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 30-50 years. On average these households contain three 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 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 Survey 2007, Consumer Price Indices (ONS), In-house research.