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SOCIETY'S TWO MOST VULNERABLE GROUPS HIT HARDEST BY INFLATION

As everyday costs for the UK's over-75s stay disproportionately high, new study spotlights poorest families facing biggest inflation rises

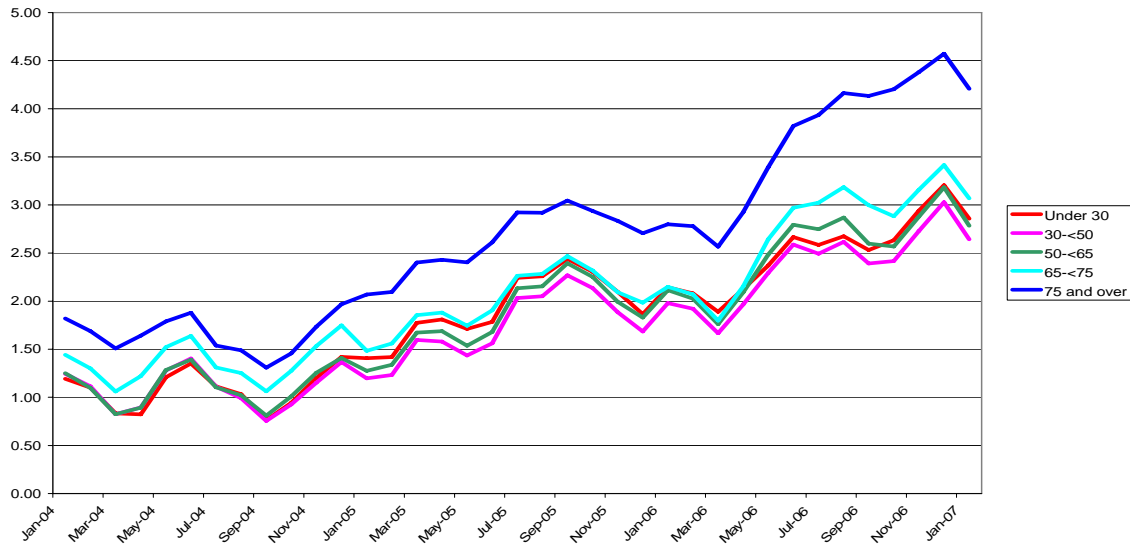
Even though headline inflation has dipped, latest figures out today show that the over-75s are still the age group being hardest hit by inflation. The elderly faced an annual inflation rate in January of 4.2%, which is more than double the government's inflation target, according to the Alliance Trust Research Centre's monthly alert, which is part of its ongoing 'Age and Inflation' study.

The elderly are not the only vulnerable group being hit disproportionately hard by inflation. The Research Centre's new study released today that looks at how inflation affects people on different incomes found that those on the lowest income, whether in work or retired, are being worst hit by inflation.

The headline findings, based on the updated spending patterns of different age groups and income levels and analysis of official January inflation figures are:

- **Inflation for the over 75s is now running at 4.2% - that's 56% higher than headline inflation of 2.7%**
- **Households in the lowest income group face inflation of 3.9% - 44% higher than the headline rate.**
- **Gas price inflation of 39%, electricity price inflation of 27% and the rising costs of some basic foods are the main factors behind these high rates of inflation.**
- **Alliance Trust maintains call for pensions to be linked to rise in retired cost of living**

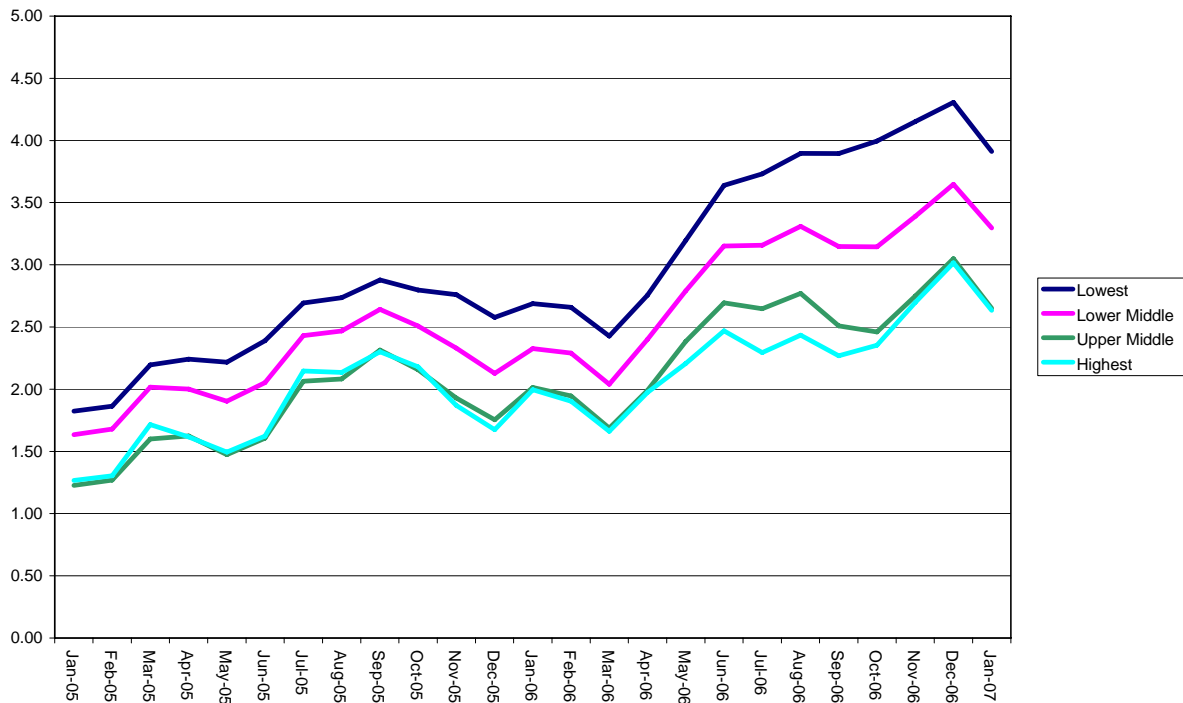
Inflation and Age (Jan 2004 to Jan 2007)



The Alliance Trust's model of age-related inflation has been updated to reflect current spending patterns. Our results show that the rate of inflation facing every identified age group fell back from the record levels reached in December. However, the disparity of the effect on different age groups persists. The rate of inflation facing the over 75s remains by far the highest, at 4.2%. Although the 65-74 year olds have the second highest rate of inflation, at 3.1%, our results confirm that young people, defined as under 30 years, are also coming under increasing pressure from rising prices and now face an inflation rate of 2.9%. This reflects the fact that young people are also spending a large proportion of their budgets on basic goods, such as gas and electricity, which have been rising in price, and the fact that education costs have risen 14% over the last year.

This month our study has been widened for the first time to look at how inflation affects people on different incomes. Our 'Inflation and Income' study found that those on the lowest income of less than £7,000 a year are currently facing the highest rate of inflation, at 3.9%. This is much higher than the official headline rate of inflation of 2.7%. Again, the main reason is that this group of households spends a higher proportion of their budget on basic goods and services for which prices have been rising most quickly over the last year.

Inflation and Income* (Jan 2005-Jan 2007)



(*This chart shows the inflation rate of four representative groups, the lowest, who have income of less than £7,000, lower middle on an average £17,000, upper middle on an average £35,000 and the highest on income of more than £64,000.)

Shona Dobbie, head of the Alliance Trust Research Centre said: *“Our four-year study has shown consistently that the UK’s elderly are hardest hit by inflation among all the age groups and this month’s new study on Inflation and Income highlights the fact that people on the lowest incomes are also suffering most from inflation. Although this month the inflation rate facing every age group has fallen back, the impact of higher prices for basic goods, such as gas, electricity and some foods, continues to fall most heavily on the elderly, who spend a larger proportion of their budgets on these necessities. Over the last year, gas prices have risen 39%, electricity prices by 27% and some food prices, such as fish, oils and fats have risen by 11%.*

Low earners are facing similar difficulties as inflation is hitting the lowest income groups harder than those who are earning more. Low income and elderly households are forced to allocate their budgets to the goods and services which have experienced the highest price changes, with little disposable income left over to spend on discretionary goods, such as clothing, footwear and audio visual products, where prices continue to fall”.

Dobbie said, *“This month’s results continue to illustrate that the official headline inflation rate does not necessarily reflect the actual impact of price increases experienced by many households in the UK. Our study shows that both the over-75s and the lowest income households have had to cope with a rate of inflation in excess of 3% since May of last year.*

Alliance Trust's full latest report on 'Inflation and Age' is available on www.alliancetrust.co.uk
You can obtain a copy of the report by emailing contact@alliancetrust.co.uk or phoning 08000 326323.

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Notes to editors

1. Alliance Trust PLC is the largest generalist investment trust company listed on the London Stock Exchange. Through its subsidiaries, Alliance Trust offers investment dealing, self-invested personal pensions and a choice of investment wrappers.
2. 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.
3. Photographs of Shona Dobbie are available.