

29 April 2010

Households' inflation expectations hit series record high

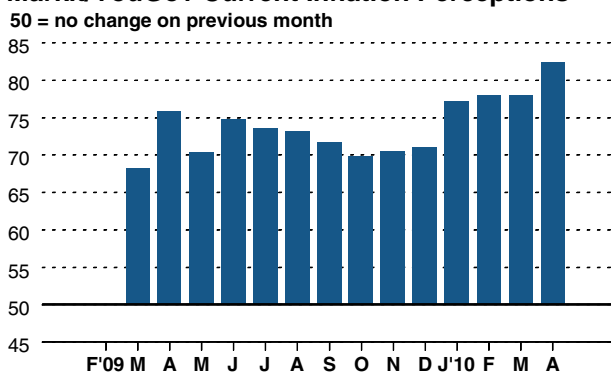
- **Current inflation perceptions accelerated to survey high...**
- **...as did expectations for prices in one year's time.**

Latest Household Finance Index survey data from Markit and YouGov showed that both the perceived rate of current inflation and expectations for future inflation hit new survey highs in April.

The data were collected in the days just before the Office for National Statistics reported that consumer price inflation had risen more than expected to 3.4% in March, well above the Bank of England's target of 2%. The further rise in inflation perceptions will heighten worries about inflation at the Bank of England, an issue already highlighted as a growing concern in the minutes of the Bank's most recent Monetary Policy Committee meeting.

Although the rise in current inflationary pressures may be driven by temporary factors such as higher petrol prices, the continued impact of the return to a higher VAT rate and the weak performance of sterling against major world currencies, concerns will mount that higher current inflation perceptions will become embedded in longer-term inflation expectations.

Markit/YouGov Current Inflation Perceptions¹



The index monitoring current price pressures rose to a survey-high of 82.4¹ in April, reflecting a strong degree of current inflationary pressures across the UK. The survey has signalled an intensification of inflationary pressures in five of the past six months.

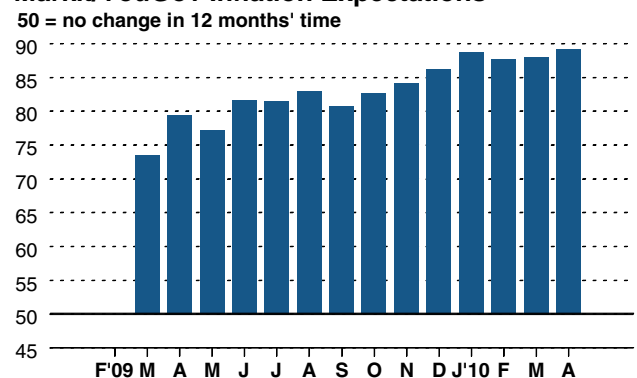
¹ The greater the reading above 50, the more prices are perceived to have risen in the current month.

Across the UK, the rise was broad-based with the rate of current inflation considered to have accelerated across all 12 regions. The sharpest rise was seen in the South West, followed by the North East and North West.

By income category, households with the lowest incomes noted the strongest perceived price rises.

By age, the oldest participants (those aged 55+) saw the steepest increase in average prices during April. Furthermore, the rise was the steepest seen by any age grouping in the history of the survey.

Markit/YouGov Inflation Expectations²



UK consumers' inflation expectations increased for the second month in a row during April. Furthermore, with over 80% of surveyed households forecasting higher prices, the index² monitoring consumers' outlook for prices rose to an all-time high.

Although inflation expectations remained broadly-consistent across income categories, those households in the highest income category continued to present the weakest price outlooks.

Mirroring the trend recorded for current inflation perceptions, it is those households in the oldest age grouping that noted the strongest outlooks for price rises over the coming year.

By region, the strongest price outlooks were recorded in Northern Ireland and the South West. Consumers in London reported the weakest inflation expectations.

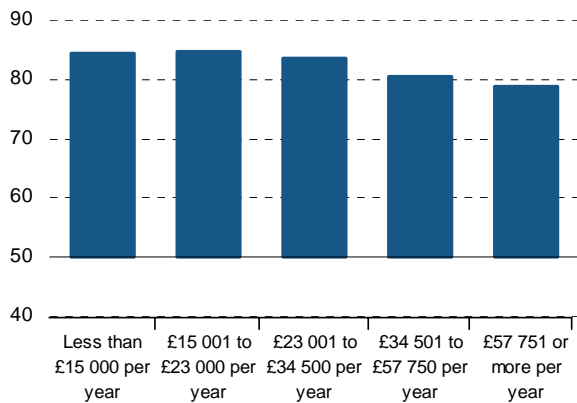
² The greater the reading above 50, the more prices are expected to rise over the next 12 months.

Current perceptions of inflation

April data: Compared to one month ago, how do you think prices generally for goods and services that you buy have changed?

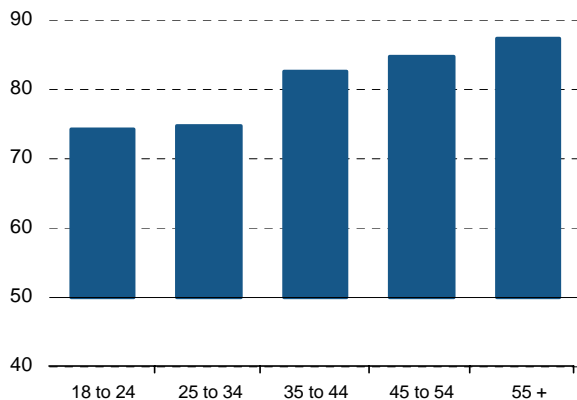
By income

50 = no change on previous month



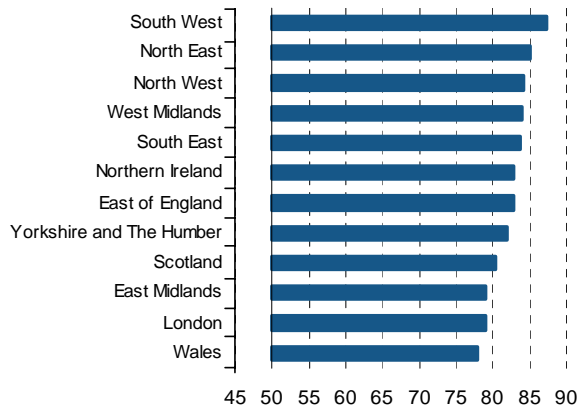
By age

50 = no change on previous month



By region

50 = no change on previous month



Inflation expectations

April data: How do you think prices generally for goods and services that you buy will have changed 12 months from now?

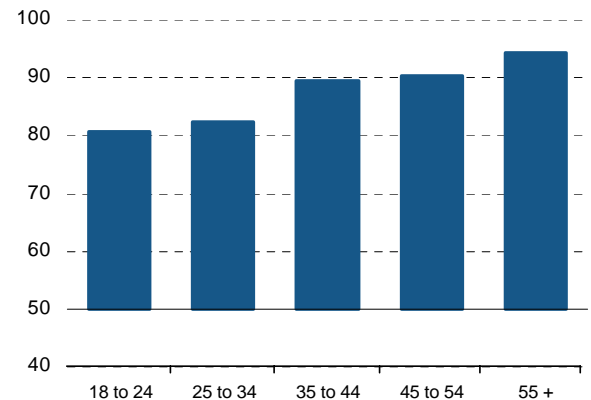
By income

50 = no change on previous month



By age

50 = no change on previous month



By region

50 = no change on previous month

