

22 February 2010

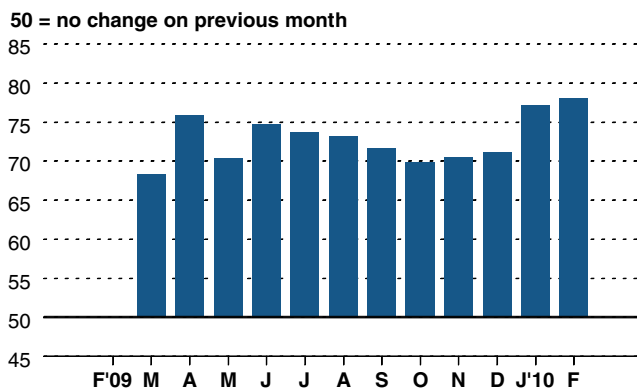
Perceptions of current inflation hit record high

- **Current inflationary perceptions intensified...**
- **...but inflation expectations eased.**
- **Older households again hit hardest by price rises.**

UK households' current inflation perceptions rose to a survey record high during February. In recent months consumers have been hit by the combination of higher VAT and rising petrol prices, while the longer-term impact of the depreciation of sterling has raised the cost of goods and services bought from abroad. Although this suggests that the official measure of inflation is set to rise further when figures are released for February, policy makers at the Bank of England will be heartened to see a mild reduction of UK households' expectations for prices in one year's time.

The easing of inflation expectations suggests that recent statements from the central bank have acted (to some degree) to ground consumers' inflation expectations. Nevertheless, future inflation perceptions remain elevated.

Current Prices



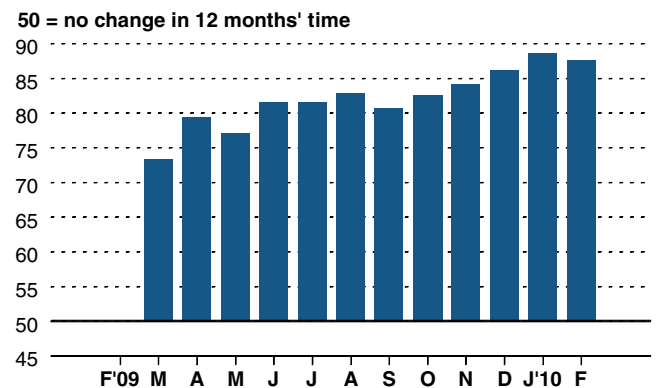
Just under 60% of the 2,000 UK households surveyed by Markit and YouGov in February reported that, on average, the prices they paid for goods and services had risen. This compared with the less than 4% of respondents that adjudged prices to have fallen during same period. The resultant index reading of 78.1 was up marginally since January (77.2) and the highest since data were first collected in March of last year.

Those households in the lowest income groups (those with combined annual incomes below £15,000 and between £15,001 and £23,000), where day-to-day bills take up a greater proportion of income, registered the highest perceived rates of inflation during February.

By age, it was again those panellists in the oldest age bracket (those aged over 55) that saw average prices rise at the sharpest rate. Although inflation perceptions were highest in the oldest age group, it was the youngest respondents that recorded the sharpest *increase* in perceived inflation during the month.

The latest data broken down by region showed the strongest perceived rates of inflation in the South East and South West of the country. The slowest increases in average prices were reported by households in Scotland and East of England.

Price Outlook



UK households' inflation expectations eased marginally in February, but nevertheless remained elevated. Highlighting the intensity of respondents' inflation expectations, over 78% of households expect average prices to be higher this time next year.

Price outlooks are broadly similar across income categories. Broken down by age group, however, there are marked differences. The oldest households again have the highest inflation expectations, and the youngest respondents the weakest.

Households in Northern Ireland expect prices to rise at the steepest pace over the year, while respondents in the West Midlands foresee the weakest rise in average prices.

Current perceptions of inflation

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

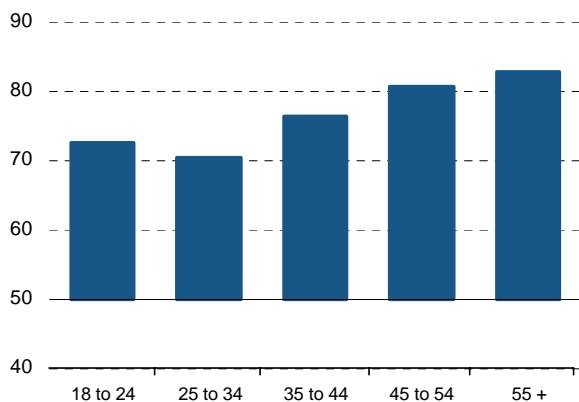
By income

50 = no change on previous month



By age

50 = no change on previous month



By region

50 = no change on previous month

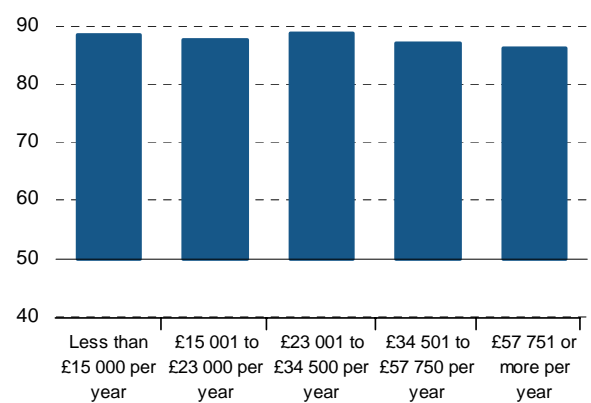


Inflation expectations

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

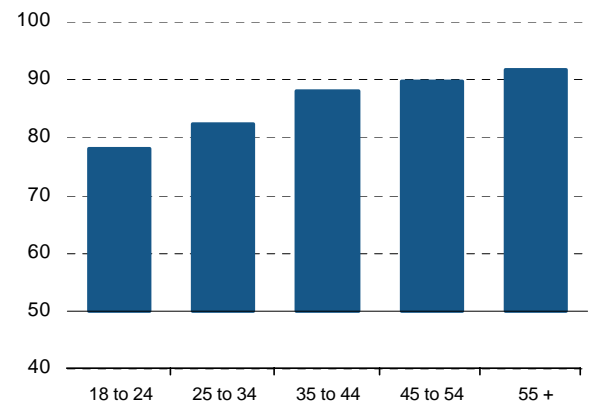
By income

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By region

50 = no change on previous month

