

## Poorest households face highest average inflation rates

Recent increases in the prices of food and fuel have led to higher inflation rates among older and poorer households than among younger and richer ones. Households in the poorest 10% of the population had an average inflation rate of 7.9% in September compared to rate of 5.1% for those in the richest 10%. The average across all households was 6.7%.

The Office for National Statistics (ONS) has today published inflation figures for September 2008, showing a Retail Prices Index inflation rate of 5.0%<sup>1</sup>. This figure is extremely important as it is typically used to uprate key non-income related state benefits next April, including the State Pension. With this inflation outturn, the Government may now find itself spending around £3 billion more next year on benefits than it thought at the time of the Budget, when it forecast RPI inflation for September of just 3¼%<sup>2</sup>.

ONS inflation figures are based on an 'average' basket of goods and services purchased by households. This average is unlikely to reflect the actual budget of any one household. Different households will face different inflation rates based on their own expenditure patterns. Using more than 30 years of data on household expenditures from the Expenditure and Food Survey, along with RPI inflation data over the same period, IFS researchers calculated household-level inflation figures and looked at how inflation varied both across and within household types.

Older and poorer households are currently facing the highest average inflation rates because they spend much more of their budget on food and fuel than other households and these are precisely the items rising most rapidly in price. In September 2008, food inflation as measured by the RPI was 11.2% while household fuel inflation was 39.6%. Fuel inflation is now higher than any time since at least 1975.

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<sup>1</sup> This is lower than the average we estimate using all households in our data, though there is no reason to expect the two figures to match and it does not mean that the RPI is wrong. The RPI average basket of purchases excludes two groups: pensioner households deriving two-thirds of their income from benefits, and the richest 4% of households. Both are included in our figures. Other differences are discussed in the report on Pensioner Inflation published by IFS last week, see endnote 1.

<sup>2</sup> See table C3 of the Budget 2008 report at [http://www.hm-treasury.gov.uk/d/bud08\\_chapterc.pdf](http://www.hm-treasury.gov.uk/d/bud08_chapterc.pdf).

While there are substantial differences in the average inflation rates of different groups at the moment, the differences are smaller if we look at average inflation over a longer period. Differences across groups tend to even out over time: those who have high inflation in one period are not always most badly affected (see Table). Although poorer and older households currently face higher average inflation, it is not clear that this will persist into the future.

## **Key findings**

### *Inflation and age*

- In September 2008, average annual inflation was higher for older households than for younger households<sup>3</sup>. Households under 30 had an average inflation rate of 5.6% compared to 9.8% for those over 80.
- Differences across age groups tend to even out over time. Over a longer period since 1977, or since 1991 (the last time inflation was at current levels), the average rates faced by different age groups have been much more similar. The age group facing the highest rates changes frequently – for example, in 2006 older households faced higher rates than younger households but in 2007 this reversed.

### *Inflation and income*

- Average inflation for September 2008 was substantially lower for richer households than for poorer households. The richest 10% of households saw an average inflation rate of 5.1% compared to 7.9% for those in the poorest tenth and 8.5% for those in the second-poorest tenth.
- Income-related benefits such as Income Support and Housing Benefit are normally uprated in line with the September ROSSI index (the all-items RPI minus most housing costs). Housing cost inflation was lower in September than the overall RPI, so benefits for low-income people will rise by more than the current RPI inflation rate next April. Low income households have very high average inflation rates at present, though this may not be the case next April.
- Again, over longer time periods, differences across income groups are much smaller. If anything, poorer households have typically faced slightly lower average inflation rates than richer households if we look at the long-term average since 1977.
- Within income groups, older households currently have higher average inflation rates than younger ones. For households in the poorest fifth of the population, those aged over 65 had an average inflation rate of 9.4%, compared to 7.4% for those under 35. For households in the richest fifth of the population, those over 65 had average inflation of 6.1% whilst those under 35 had average inflation of just 4.4%.

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<sup>3</sup> The age of the household is determined by the age of the head of house or their spouse, whichever is older.

### *Inflation and housing tenure*

- Households who own their homes outright currently face the highest average inflation rate (8%) by housing tenure. These households tend to be older as they have finished paying mortgages, and so this accords with our findings on age. With no rent or mortgage payments, they also tend to spend less on housing costs, which were rising by just 1.5% in September.
- Those renting from their Local Authority face higher average inflation (7.9%) than those renting from private landlords (6.9%). Private renters tend to be richer so these findings are consistent with our income results.
- Those with mortgages currently face the lowest average inflation rate amongst tenure groups at 5.3%. Mortgage interest payments form a significant part of the budget of these households and in September, mortgage interest inflation was actually negative, at -2.9%, pulling down the overall average for this group. Those with mortgages typically have quite volatile inflation rates that depend on the level of interest rates – rising interest rates in 2007, for example, meant this group then faced the highest inflation rate.

### *Inflation and household composition*

- Pensioner households<sup>4</sup> currently have significantly higher average inflation than non-pensioner households. Pensioners living alone have the highest average rates of 9.2% for single males and 9.1% for single females. These are much higher than the rates for single male non-pensioners (6.3%) and single female non-pensioners (5.9%). Pensioner couples have an average inflation rate of 7.7%, again higher than the non-pensioner childless couple rate of 5.7%.
- Lone parents had an average inflation rate of 6.9% in September, higher than couples with children (5.6%) or single adults without children, but lower than average pensioner inflation rates. Over longer periods, however, lone parents have had a lower average inflation rate than other households groups.

Commenting on these findings, Cormac O’Dea, Research Economist at the IFS, said “Today’s inflation numbers are keenly awaited as they will determine by how much many benefits and tax thresholds rise next April. With RPI inflation at 17-year highs, benefit payments are likely to increase substantially next year, but those households who will typically depend most on higher benefits – the old and the poor – are also those who currently have the highest average inflation. However there may be good news ahead for these vulnerable groups – if and when recent falls in oil and commodities prices feed into lower retail price inflation, these are the very household types likely to see the most substantial drops in their inflation rates.”

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<sup>4</sup> Those in which either the head or their spouse (or both) are of pensionable age.

**Table 1. Average annual inflation rate for different household groups, September 2008, annual averages for 2006 and 2007, and longer-term averages**

Group	September 2008	2007 average	2006 average	Average 1977–2008	Average 1991–2008
All households	6.7%	4.5%	3.8%	5.9%	3.2%
Age 18–29	5.6%	4.4%	3.4%	5.9%	3.0%
Age 30–39	5.5%	5.3%	3.6%	6.0%	3.1%
Age 40–49	5.7%	5.1%	3.6%	5.9%	3.2%
Age 50–59	6.5%	4.5%	3.6%	5.8%	3.2%
Age 60–69	7.4%	3.7%	3.7%	5.7%	3.2%
Age 70–79	8.4%	3.7%	4.2%	5.8%	3.3%
Age 80+	9.8%	4.1%	4.9%	5.9%	3.4%
Poorest 10% (income decile 1)	7.9%	3.9%	4.0%	5.7%	3.0%
Decile 2	8.5%	4.0%	4.3%	5.7%	3.1%
Decile 3	7.7%	4.1%	4.0%	5.9%	3.2%
Decile 4	7.3%	4.2%	3.9%	5.8%	3.2%
Decile 5	6.8%	4.4%	3.7%	5.8%	3.2%
Decile 6	6.6%	4.5%	3.7%	5.9%	3.2%
Decile 7	6.1%	4.7%	3.6%	5.9%	3.2%
Decile 8	5.9%	4.9%	3.6%	5.9%	3.2%
Decile 9	5.3%	4.9%	3.4%	6.0%	3.2%
Richest 10% (decile 10)	5.1%	5.2%	3.4%	6.1%	3.2%
Local Authority renter	7.9%	3.5%	3.9%	5.7%	3.1%
Private renter	6.9%	3.3%	3.4%	5.8%	3.2%
Owned with mortgage	5.3%	6.2%	3.8%	6.1%	3.2%
Owned outright	8.0%	3.4%	3.8%	5.6%	3.2%
Single male (non-pensioner)	6.3%	5.1%	4.0%	6.3%	3.4%
Single female (non-pensioner)	5.9%	5.1%	3.8%	6.0%	3.3%
Lone parent	6.9%	4.6%	3.8%	5.6%	2.9%
Couple, no children	5.7%	4.7%	3.5%	5.9%	3.2%
Couple, with children	5.6%	5.3%	3.6%	5.9%	3.1%
Single male (pensioner)	9.2%	3.9%	4.9%	6.1%	3.5%
Single female (pensioner)	9.1%	4.0%	4.7%	5.9%	3.3%
Pensioner couple	7.7%	3.6%	3.7%	5.7%	3.2%
Other type, with children	5.9%	4.2%	3.2%	5.6%	3.0%
Other type, no children	6.6%	3.8%	3.3%	5.7%	3.1%
Poorest 20%, aged under 35	7.4%	3.7%	3.6%	5.6%	2.9%
Poorest 20%, aged over 65	9.4%	4.0%	4.6%	5.8%	3.2%
Richest 20%, aged under 35	4.4%	5.8%	3.5%	6.2%	3.1%
Richest 20%, aged over 65	6.1%	3.6%	3.2%	5.8%	3.2%

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#### Notes

1. The method used to calculate these figures is described in “The inflation experience of older households” by Andrew Leicester, Cormac O’Dea and Zoë Oldfield, IFS Commentary 106 (<http://www.ifs.org.uk/comms/comm106.pdf>) which also contains a more detailed analysis of average inflation for different pensioner groups.
2. The ONS published RPI and CPI inflation figures for September 2008 today. See <http://www.statistics.gov.uk/pdfdir/cpi1008.pdf>.