

Poor hit hardest by inflation, says PwC

By Chris Giles,
 Economics Editor

Britain risks being seduced by a myth of middle-class inflation, said PwC, the accountants, yesterday as its research suggested rising food, fuel and energy prices hit the poorest hardest.

The study, based on a representative sample of families' bills rather than a few examples, showed the poorest 10th of households already faced 4 per cent consumer price inflation on average in May, while the equivalent rate was 3.1 per cent for people further up the income ladder.

The analysis draws on the Expenditure and Food Survey, the official annual survey of households income and expenditure.

John Hawksworth, of PwC, said that, with inflation concentrated in food, fuel and energy, there was no doubt of the findings because of "the much higher weight of domestic energy and food bills in the budgets of the poorest households".

The findings contradict studies that have recently shown that supposedly typical or middle-class families have been hardest hit. Earlier this week Ernst & Young, the accountants, published a report saying the average family was 15 per cent worse off than five years ago, despite income and discretionary spending having risen faster than inflation over the period.

Mr Hawksworth said such measures were unrepresentative: "You can create almost any number just by picking a specific household type and inventing typical data for that household."

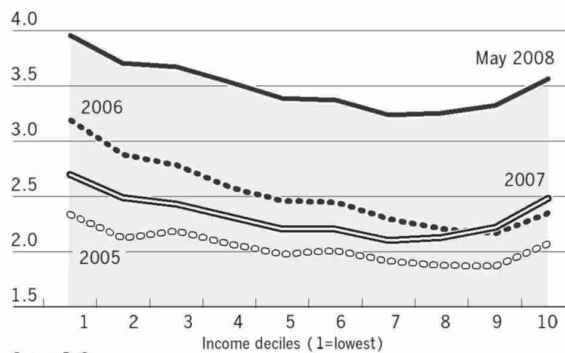
Jonathan Loynes, of Capital Economics, which recently said middle-class families faced 6.7 per cent inflation in May, agreed with PwC that that the poor were hardest hit by rising prices.

But he gave examples of families with high and low individual inflation rates to illustrate the divergence of inflation experiences.

Not only are poorer households' budgets under pressure from higher rates of inflation, however – they also face slower rates of income growth than middle-income families. This contributed to the rise in poverty rates in official figures last month. While the impact of inflation among a wide variety of households remains debated, economists do not doubt family finances are under strain across the income distribution.

The Bank of England's monetary policy committee will have an advance view of the official consumer price inflation figures at its meeting to set interest rates today. If these show another big jump in overall inflation, the MPC is more likely to be swayed by fears inflation will become entrenched than by the slowing economy.

Estimated CPI inflation rates by income decile
 Per cent



Source: PwC

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