

Experience of Inflation

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The main reason why people feel that their experience of inflation does not correspond with the national inflation figures is that the latter are based on averages. In reality every household is different and the impact of inflation depends on how and where people spend their money. This is so even within readily identifiable categories of people such as pensioners, one parent families and dual-income no-kids couples (“dinkies”). In addition people’s perceptions of inflation are most influenced by those goods and service which they purchase more frequently. This paper does four things

1. Presents an analysis of price trends relating to frequent purchases to show how the latter may have influenced people’s perceptions of inflation.
2. Reports on the new on-line Personal Inflation Calculator (PIC), on the National Statistics website, which allows the public to put in an estimate of how much they spend on a range of goods and services to give them an indication of how their household inflation may differ from the average.
3. Uses expenditure profiles for different types of household derived from the Expenditure and Food Survey to show how they have been affected by price changes. First the analyses uses the highly aggregated price indices and fixed weights of the PIC, then it allows for variation in expenditure at a lower level by using the detailed indices and chaining of the published indices
4. Finally the paper provides an initial report on an analysis that allows for the identification of expenditure patterns by exact product and place of purchase. Using household based scanner data for selected coicop classes we show how the inflation experienced by different social groups is affected by precisely what they buy and where they buy it.