

United Kingdom

Consumers under pressure as inflation worries intensify

- Bank of England survey data show rising inflation expectations
- Data may have contributed to monetary policy being left unchanged
- Household worries over higher prices likely to act as drag on economy

Data from the Bank of England showed inflation expectations rising in February. Inflation in 12 months' time is expected to be running at 3.6%, up from 3.5% in January and the highest seen since last May. In five years' time, inflation is anticipated at 3.6%, unchanged on the January survey and the highest seen since the survey, conducted by NOP, commenced in 2009.

The upturn calls into question somewhat the Bank of England's belief that inflation expectations are well-anchored, as [stressed by Bank Governor Sir Mervyn King when presenting the latest Inflation Report](#) and cited as one of the reasons why the current above-target rate of inflation could be "looked-through" when setting policy. However, with these data presumably available in advance to the MPC at the March meeting, the uptick in inflation expectations may have contributed to the [Committee's decision against further stimulus](#).

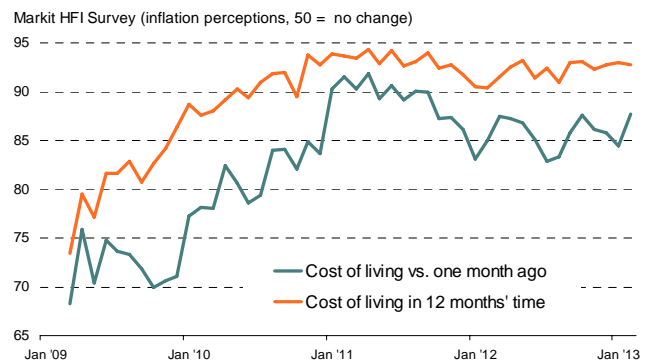
Higher inflation expectations are also signalled by Markit's [Household Finance Index](#), though the elevated level of these expectations has been seen continually since late-2010. This survey suggest that inflation expectations may indeed be "well-anchored", but at an uncomfortably high level. With perceptions of rising prices persisting, worries about falling real incomes remain a significant drag on consumer spending. While retail sales may be showing signs of life in early 2013, the wider measure of consumer spending is unlikely to act as a stimulus to stronger GDP growth in 2013 as a whole.

Inflation expectations

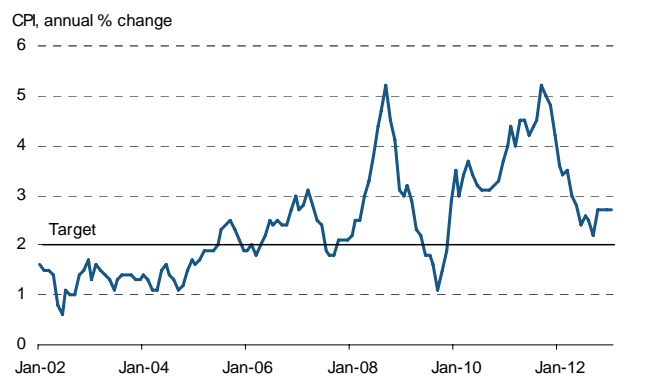


Source: Bank of England/NOP

Markit HFI survey on inflation perceptions



Consumer price inflation



Source: Office for National Statistics (via Ecowin).



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