

## **NEW M&G SURVEY REVEALS CONSUMERS HAVE LOW CONFIDENCE IN CENTRAL BANKS' INFLATION TARGETING**

- **In the UK and Europe, inflation is expected to remain persistently above central bank targets**
- **UK consumers have little confidence that inflation will decline below current levels in the short and medium term**
- **Consumers lack confidence in policymakers' effectiveness**

**London, 27 June 2013** – Consumers lack confidence in central banks' ability to keep inflation under the inflation target in the short and medium term, according to the new, quarterly **M&G YouGov Inflation Expectations Survey**. The survey polls the views of consumers from the UK, Austria, France, Germany, Hong Kong, Italy, Singapore, Spain and Switzerland<sup>1</sup> and is the first survey of its kind reviewing a broad range of people's inflation expectations in Europe and Asia.

M&G conducted an initial survey wave in February and again in May for the purpose of comparison. The results also reveal that most European consumers, including those surveyed in the UK, expect the rate of inflation on a one-year ahead basis to slow down. This is unsurprising given commodity prices have fallen by around 7% since the end of January 2013<sup>2</sup>. Consumers have also benefitted from a 6% fall in the oil price<sup>3</sup> over the same time period.

And although medium-term (5-year) inflation expectations in the UK are stable at 3.0%, respondents in the UK expect inflation to be above the Bank of England's CPI target of 2.0% by more than 0.5% on both a one and five-year ahead basis. This effectively means that £100 today will have the purchasing power of £97.30p in one year.

"It is not surprising that the results of the M&G YouGov Inflation Expectations survey show consumers expect inflation to remain above target, at 2.7% in one year and 3.0% in five years' time. UK inflation has been persistently above the Bank of England's 2.0% target for more than three years and these survey results will concern the Bank, which will need to keep inflation expectations well anchored despite elevated inflation readings," commented Jim Leaviss, Head of Retail Fixed Interest at M&G.

## Inflation expectations

### 1 year ahead (%)

	Austria	France	Germany	Hong Kong	Italy	Singapore	Spain	Switzerland	UK
Feb 13	–	2.5	2.5	5.0	3.0	4.6	3.3	1.2	3.0
May 13	2.8	2.0	2.2	5.0	3.0	4.0	3.0	1.5	2.7

### 5 years ahead (%)

	Austria	France	Germany	Hong Kong	Italy	Singapore	Spain	Switzerland	UK
Feb 13	–	4.0	3.5	5.0	3.3	5.0	4.0	2.5	3.0
May 13	3.0	3.0	3.0	5.8	3.0	5.0	3.0	2.6	3.0

### Most recent HICP/CPI (y/y %)<sup>1</sup>

	Austria	France	Germany	Hong Kong	Italy	Singapore	Spain	Switzerland	UK
	2.4	0.9	1.6	3.9	1.3	1.5	1.8	-0.5	2.7

Since February, survey respondents in France, Germany, Italy and Spain have lowered their inflation expectations over five years. While Hong Kong and Singapore inflation expectations remain high at 5.8% and 5.0% respectively.

All European Monetary Union countries surveyed expect inflation to be equal to or higher than the European Central Bank's CPI target of 2.0% on a one and five year ahead basis. All countries expect inflation to be higher in five years than currently, whilst four – Hong Kong, Italy, Singapore and Spain – anticipate it being equal to or higher than 3.0% in a year.



Other highlights show that rising inflation was a concern for most respondents and their families in the UK (61%), as well as France (76%), Hong Kong (83%), Italy (79%), Singapore (85%) and Spain (75%). In France, Italy and Spain, when asked about their personal income, almost half (47%, 43% and 43% respectively) responded that they expected their net income to be lower in twelve months' time.

The majority of respondents in all regions except Singapore and Switzerland are not confident that their respective central bank is currently pursuing the correct policies to achieve price stability over the medium term.

In addition, a larger proportion of survey participants in the UK (49%), France (59%), Italy (59%) and Spain (73%) do not believe their government is currently following the right economic policies.

- Ends -

<sup>1</sup> YouGov interviewed the below quota samples in the following countries in May 2013. All surveys were carried out online and the figures were weighted to be representative of each population:

	Sample Size
Austria	500
France	1,008
Germany	1,050
Hong Kong	514
Italy	1,002
Singapore	535
Spain	1,002
Switzerland	517
UK	2,089

<sup>2</sup> TR/J CRB Commodity Excess Return Index 31/1/13-31/5/13

<sup>3</sup> WTI Cushing Crude Oil Spot Price 31/1/13 -31/5/13

### **Inflation Expectations methodology**

M&G's Retail Fixed Interest team analyses the statistics for the answers to the first and second questions in the survey (ie, the expected annual inflation rates in 12 months and 5 years from now). To achieve this, all answers are first ranked in ascending order, and several percentiles are subsequently determined. In this context, percentiles are expected inflation rates below which a certain percentage of responses can be found. For instance, the 50th percentile, the so-called median, is the middle value of the distribution, dividing the data set into a lower and an upper 50%. If there is an even number of values, the median is determined by calculating the average of the two middle values. In the statistical analysis of the survey, we have chosen to use the median rather than the arithmetic mean because this is less affected by extreme values. To determine the dispersion of answers, the difference between the 75th and 25th percentiles is taken. Finally, the number of 'don't know' responses is divided by the total number of responses and the resultant percentage is recorded as an indicator of respondents' level of uncertainty around inflation. Data processing for the remaining questions (three to six) is conducted by YouGov. Here, percentage values are calculated for each answer option by dividing the number of respective responses by the total number of responses.

To download the full M&G YouGov Inflation Expectations Survey report and raw data please go to: [www.mandg.co.uk/adviser/fund-centre/asset-classes/fixed-interest/inflation-report](http://www.mandg.co.uk/adviser/fund-centre/asset-classes/fixed-interest/inflation-report)

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### ***Notes to editors:***

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- M&G offers investors a wide range of funds across equities, bonds, property and multi asset.

#### **YouGov**

- Founded in 2000, YouGov is an international, full service online market research agency offering custom research, omnibus, field and tab services, qualitative research, syndicated products and market intelligence reports. Its unique fully integrated online model has a well-documented and published track record illustrating the accuracy of its survey methods and in turn the quality of its client service work. YouGov conducts research in all continents and its online model allows clients to get international results faster and more cost-effectively than traditional methods, with no compromise on quality. YouGov has offices in the UK, US, Europe and the Middle East.

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