M&G YOUGOV INFLATION EXPECTATIONS SURVEY REVEALS CONCERNS OVER PERSISTENTLY HIGH INFLATION

- **In the UK and Europe, consumers continue to lack confidence that inflation will decline below current levels in short or medium term**
- **Confidence in the Bank of England has risen**
- **Confidence that the European Central Bank will achieve its inflation target over the medium term remains weak**

London, 30 September 2013 – Consumers in the UK, Austria and Germany have reported an increase in one-year inflation expectations compared with the results of the last quarterly **M&G YouGov Inflation Expectations Survey**. Overall, consumer inflation expectations remain above central bank targets in most countries.

The rise in short term consumer inflation expectations is particularly relevant in the UK where the Bank of England has stated three scenarios under which the Bank would re-assess its policy of forward guidance. The first of these “knockouts” refers to a scenario where CPI inflation, in the Bank’s view, is likely to be 2.5% or higher over an 18 month to two-year horizon.

Medium-term (5-year) inflation expectations in the UK remain stable at 3.0%, with respondents expecting inflation to be higher than currently (2.7%) and 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.

“The latest results from the M&G YouGov Inflation Expectations Survey show that although the UK consumer is expecting inflation to remain at 3.0% over five years, it is still stubbornly in excess of the Bank of England’s target. Whilst consumer inflation expectations typically run higher than central bank targets, it is the increase in expectations that we are interested in this quarter. With the UK showing signs of recovery, policymakers must remain vigilant to ensure that inflation expectations remain well anchored” Jim Leaviss, Head of Retail Fixed Interest at M&G said.

“In spite of the recent upturn in the economy, respondents in Austria (71%), France (70%), Hong Kong (76%), Italy (68%), Spain (77%) and the UK (44%) still do not believe that their central banks are following the right economic policies. Whilst the Bank of England has recorded an uptick since our last report following the announcement of forward guidance, fewer than half of UK respondents recorded confidence in its policies."

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
Aug 13	3.0	2.0	2.3	5.0	3.0	3.7	2.8	1.4	3.0

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
Aug 13	3.5	3.0	3.3	5.0	3.3	5.0	3.1	2.8	3.0

Most recent HICP/CPI* (y/y %)	Austria	France	Germany	Hong Kong	Italy	Singapore	Spain	Switzerland	UK
	2.0	1.0	1.6	6.9	1.2	1.9	1.6	0.0	2.7

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.

In total, five countries expect inflation to be 3.0% or higher in one year: UK, Austria, Italy, Hong Kong and Singapore. However, short term inflation expectations in Singapore and Spain have continued their downward trend in the latest results, registering their third straight quarter of lower expectations.

Over a five-year horizon, the inflation expectations of consumers in Austria, Germany, Italy, Spain and Switzerland have risen since the last survey. Inflation expectations in Switzerland remain at the lowest level in the survey at 2.8% although this represents a rise from 2.5% in February. Consumers in Hong Kong and Singapore have the highest expectations at 5.0%, although the Hong Kong figure shows a decline from 5.8% three months ago.

Other highlights show that rising inflation was a concern for most respondents and their families in the UK (61%), as well as France (75%), Hong Kong (78%), Italy (79%), Singapore (79%) and Spain (75%). France (49%) was the only country surveyed where the most popular response of respondents expect their net income to be lower in 12 months' time, whilst the prevailing sentiment in other countries was for income to be about the same. This is an improvement on the last quarter where respondents in three countries, France (47%), Italy (43%) and Spain (43%), expected lower net income over the same time period.

The majority of respondents in all regions except Singapore (46%) and Switzerland (29%) are not confident that their respective central bank/monetary authority is currently pursuing the correct policies to achieve price stability over the medium term.

Finally, the most popular response regarding government economic policy in the UK (44%), Austria (48%), France (62%), Hong Kong (45%), Italy (60%) and Spain (68%) was that the survey participants do not believe that their government is following the right economic policies.

The survey, which launched in June, polls the views of consumers from the UK, Austria, France, Germany, Hong Kong, Italy, Singapore, Spain and Switzerland[1] and is the first of its kind reviewing a broad range of people's inflation expectations in Europe and Asia.

- Ends -

[1] YouGov interviewed the below samples in the following countries between 23rd – 28th August 2013. All surveys were carried out online and the figures were weighted to be representative of each population:

	Sample Size
Austria	502
France	1,003
Germany	1,009
Hong Kong	527
Italy	1,030
Singapore	516
Spain	1,028
Switzerland	726
UK	2,063

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

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Notes to editors:

M&G Investments

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

YouGov

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