Consumer Fears Fuelling Inflation

A new countrywide consumer poll from Lloyds TSB has indicated that worries about food, fuel and energy costs are forcing expectations of high inflation in the forthcoming year.

June 1, 2008 (FPRC) -- The consumer barometer identified that average expectations for inflation over the next year were going to be nearing four per cent, and not the official three per cent set out by the Bank of England's monetary policy committee's (MPC's) quarterly retail price index (RPI) report. Conducted early in april, the barometer questioned 2,000 adults all over the UK and discovered that 90 per cent felt that average prices had gone up in the past 12 months, as opposed to the 63 per cent seen in May last year. An additional 89 per cent said they expected prices to increase again over the next year. Both of these results were at their highest level since 2004.

All of those questioned in the study predicted that by may 2009, inflation would stand at 3.8 per cent, up from 3.6 per cent estimated in last year's survey. Lloyds TSB also indicated that consumer confidence in employment and their own job security was also slipping. Nearly a quarter (23 per cent) of respondents said they felt less secure about their job than a year ago, while 48 per cent of the people said that overall, employment prospects in the UK had got worse in the past 12 months.

For those who have found themselves struggling with general living costs, taking out a cheap loan may be of assistance in meeting the costs of food and energy. However, consumers who have become increasingly indebted as a result of rising living costs, taking out a debt consolidation loan may prove to be helpful.

Trevor Williams, chief economist at Lloyds TSB Corporate Markets, said: "Currently at three per cent, there is no denying that the immediate outlook for inflation remains high. But the Bank of England's latest report projected that inflationary pressures would ease in the long term as food and fuel prices start to fall next year. In stark contrast to this, our latest barometer shows that consumers do not believe prices will ease and so inflation expectations for the next 12 months are tipping four per cent. The MPC continues to highlight the need to anchor inflation expectations as key to bringing actual inflation under control."

He added that any future cut in the interest rate would send the wrong message to consumers. If consumer expectations of inflation continue to rise, the UK will be in for a period of flat or rising interest rates in order to bring inflation back under control, Mr Williams summed up.

In a press conference following the MPC's May RPI publication, Bank of England governor Mervyn King attributed the current rise in inflation to rising global costs of food and fuel. He added that people will continue to feel the effect of these inflated prices over the course of the next 12 to 18 months and as such, he asserted that it "doesn't make sense" to focus on bringing inflation down to the Bank's target level of two per cent within this timeframe. However, Mr King said that "we should certainly" look to bring inflation back down to this level in two years' time.

Although it held the base rate of interest in its last decision, the MPC has made two cuts so far this year. In April, the base rate was cut by a quarter of a percentage point to stand at its current level of 5 per cent.

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