

M&G YouGov Inflation Expectations Survey

Q3 2014

Executive summary

The latest edition of the M&G YouGov Inflation Expectations Survey finds that consumers' short- (one year ahead) and long-term (five years ahead) inflation expectations have moderated in a number of countries, although they remain well above current inflation levels. UK consumers' short-term inflation expectations have fallen back after a small bounce in the previous survey and now stand at 2.2%. In the longer term, expectations remain unchanged at 3.0%, a sign that consumers still lack confidence in the Bank of England's ability to achieve long-term price stability. Similarly, in Europe, inflation expectations remain well anchored despite the current low inflation environment.

Inflation expectations

1 year ahead (%)

	Austria	France	Germany	Hong Kong	Italy	Singapore	Spain	Switzerland	UK
Aug 13	3.0	2.0	2.3	5.0	3.0	3.7	2.8	1.4	3.0
Nov 13	2.3	2.0	2.1	5.0	2.5	4.0	2.0	1.2	2.8
Feb 14	2.0	2.0	2.3	4.6	2.0	3.4	2.0	1.2	2.0
May 14	2.3	2.0	2.0	4.6	2.0	3.6	2.0	1.1	2.3
Aug 14	2.3	1.0	2.0	4.0	2.0	3.5	2.0	1.3	2.2

5 years ahead (%)

	Austria	France	Germany	Hong Kong	Italy	Singapore	Spain	Switzerland	UK
Aug 13	3.5	3.0	3.3	5.0	3.3	5.0	3.1	2.8	3.0
Nov 13	3.0	3.0	3.0	5.5	3.0	5.0	2.5	2.5	3.0
Feb 14	3.0	2.5	3.0	5.0	2.5	5.0	2.5	2.5	3.0
May 14	3.2	3.0	3.0	5.4	3.0	5.0	3.0	2.5	3.0
Aug 14	3.0	2.0	3.0	5.0	2.5	4.6	3.0	2.2	3.0

Most recent HICP/CPI* (y/y %)

	Austria	France	Germany	Hong Kong	Italy	Singapore	Spain	Switzerland	UK
	1.7	0.6	0.8	4.0	0.0	1.2	-0.4	-0.1	1.6

The results of the August 2014 M&G YouGov Inflation Expectations Survey suggest that inflation expectations have moderated across the UK, most European countries and Asia. Short-term inflation expectations in the UK have fallen from 2.3% to 2.2% after an upwards bounce in

the May survey. However, over a five year period, expectations remain unchanged at 3.0% for the 7th consecutive quarter. UK consumers have modestly raised their confidence in the Bank of England, with 49% of respondents now expecting Mark Carney to deliver on price stability.

M&G's Retail Fixed Interest team conducted the analysis of the first and second questions.

*Harmonised Index of Consumer Prices/Consumer Prices Index. Source: Bloomberg, latest figures as at 12th September 2014.



M&G YouGov Inflation Expectations Survey



In Europe, short-term inflation expectations remain unchanged at 2.0% in Spain, Italy and Germany. However, in France, the expected rate of inflation for the next 12 months has dropped a full percentage point over the quarter and is now just 1.0%, the lowest level in the history of the survey. Notably, a larger proportion (48%) of French respondents believe their net income will decrease over the next 12 months, despite the fall in inflation expectations.

Over the long term, inflation expectations in all eurozone countries surveyed except France remain above the European Central Bank (ECB) target, although there are signs of moderation in some countries. Compared to last quarter, inflation expectations have fallen across Austria, France and Italy, although not in Germany and Spain, where they have held steady at 3.0%. The downward pressure is most evident in Italy and France where long-term expectations have fallen to 2.5% and 2.0% respectively, amid an increasingly challenging political environment. The number of Italians in disagreement with their government's current economic policy has increased notably over the quarter from 44% to 53%.

Switzerland stands out as being the only country to report a rise in short-term inflation expectations (from 1.1% to 1.3%) and also for the high level of confidence that Swiss consumers continue to place on their central bank (54%).

Other highlights include:

- Rising inflation has become less of a concern for French, Spanish and Italian consumers in the last 12 months, although it still remains a concern for over 65% of respondents in those countries.
- Most consumers expect their net income to remain the same or lower in twelve months' time. The French appear particularly pessimistic with 48% of respondents expecting their income to fall.
- Eurozone countries responded that there is low confidence in the ECB pursuing the correct policies to achieve price stability over the

In Asia, the gauge for inflation over the short term has fallen to the lowest level since the inception of the survey (Singapore 3.4% and Hong Kong 4.0%). Interestingly, despite reporting a reasonably high level (45%) of confidence in their central bank's ability to achieve its inflation target, consumers in Singapore nevertheless expect inflation to more than triple to 4.6% over the next five years.

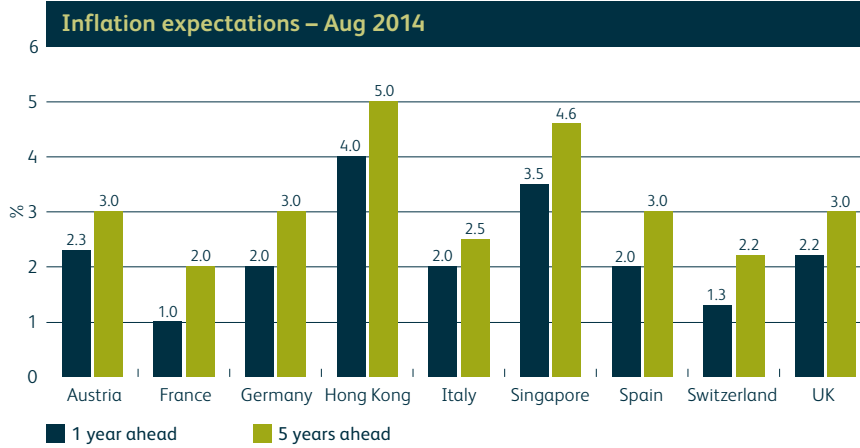
Comparing the survey results to those from one year ago (August 2013) produces some interesting trends. Inflation expectations over the next one and five years have fallen progressively in most of the surveyed EMU countries. This may not be surprising given that much of Europe is experiencing low and falling inflation, although inflation expectations still remain well above current inflation levels. The eurozone has seen particularly sharp inflation declines, primarily driven by a combination of high unemployment, austerity, weak wage growth and a relatively strong currency. However, the recent fall in the value of the euro could put upward pressure on inflation in the medium term.

Survey respondents in Singapore have also shown signs of moderating their inflation expectations over the last 12 months. Long-run expectations, however, remain at a high level of 4.6%. Notably, despite the downward trend in short-term inflation expectations, there is greater concern amongst Singaporeans on net income expectations, with 23% of respondents expecting a decrease over the next 12 months.

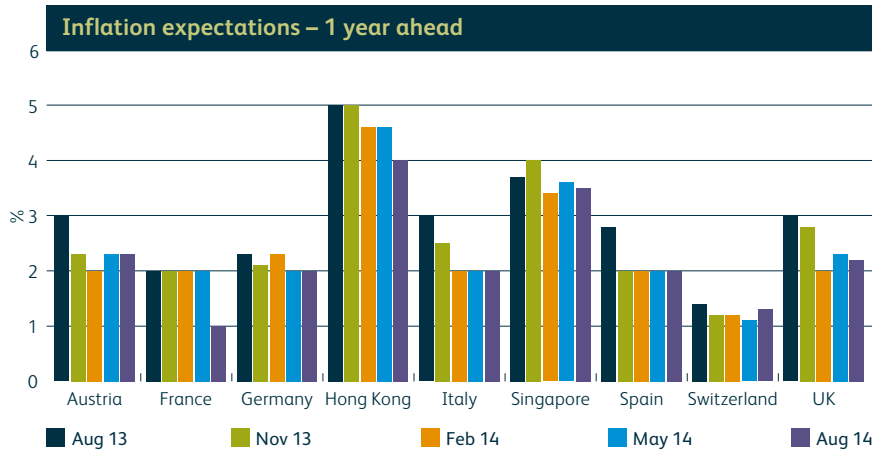
- medium term. In the UK, however, 49% of respondents are either very or fairly confident that the Bank of England will achieve its inflation target, an increase of 4% relative to the previous quarter and 12% relative to a year ago.
- The majority of French (68%) Spanish (60%) and Austrian (58%) consumers do not believe that their respective government is following the right economic policies. Support for government economic policy was strongest in Singapore (41%), followed by the UK (37%) and Switzerland (29%).



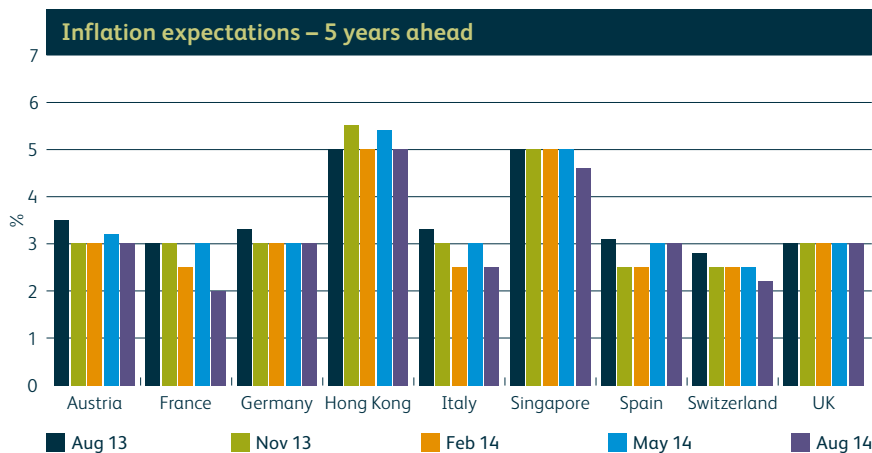
Inflation expectations



Five year inflation expectations remain at or above central bank targets in most countries.



Consumers in France, the UK and Asia reported a lowering of inflation expectations in the short term.



In the UK and most of Europe, long-term inflation expectations remain above central bank targets.

8 Statistical Appendix

Surveys conducted during 21 August – 9 September 2014

1. What annual rate of inflation do you expect 12 months from now?

	Sample size	Median	25th percentile	75th percentile	Interquartile range (75th-25th)	Don't know responses
Austria	511	2.3	2.0	3.2	1.2	35.4%
France	1,016	1.0	0.5	3.0	2.5	56.8%
Germany	1,037	2.0	1.5	3.5	2.0	30.6%
Hong Kong	500	4.0	3.5	5.0	1.5	17.4%
Italy	1,005	2.0	1.0	4.0	3.0	35.4%
Singapore	503	3.5	2.7	5.0	2.3	19.3%
Spain	1,000	2.0	1.0	4.3	3.3	39.9%
Switzerland	506	1.3	0.8	2.3	1.5	36.2%
UK	2,090	2.2	1.9	3.0	1.1	34.1%

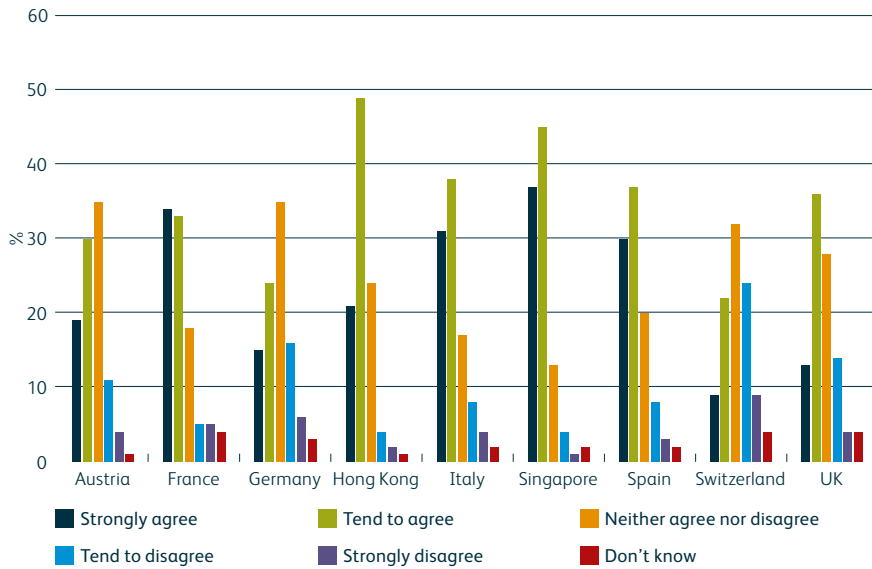
2. What annual rate of inflation do you expect five years from now?

	Sample size	Median	25th percentile	75th percentile	Interquartile range (75th-25th)	Don't know responses
Austria	511	3.0	2.1	5.0	2.9	39.9%
France	1,016	2.0	1.0	5.0	4.0	63.4%
Germany	1,037	3.0	2.0	6.0	4.0	35.0%
Hong Kong	500	5.0	4.0	7.9	3.9	17.6%
Italy	1,005	2.5	1.5	5.0	3.5	38.2%
Singapore	503	4.6	3.0	7.0	4.0	19.5%
Spain	1,000	3.0	1.2	6.0	4.8	43.0%
Switzerland	506	2.2	1.0	5.1	4.1	40.1%
UK	2,090	3.0	2.0	5.0	3.0	41.4%



3. To what extent do you agree or disagree with the following statement?

“Rising inflation is giving me and my family cause for concern at the moment.”



Rising inflation has become less of a concern for French, Spanish and Italian consumers in the last 12 months, although it still remains a concern for over 65% of respondents in those countries.

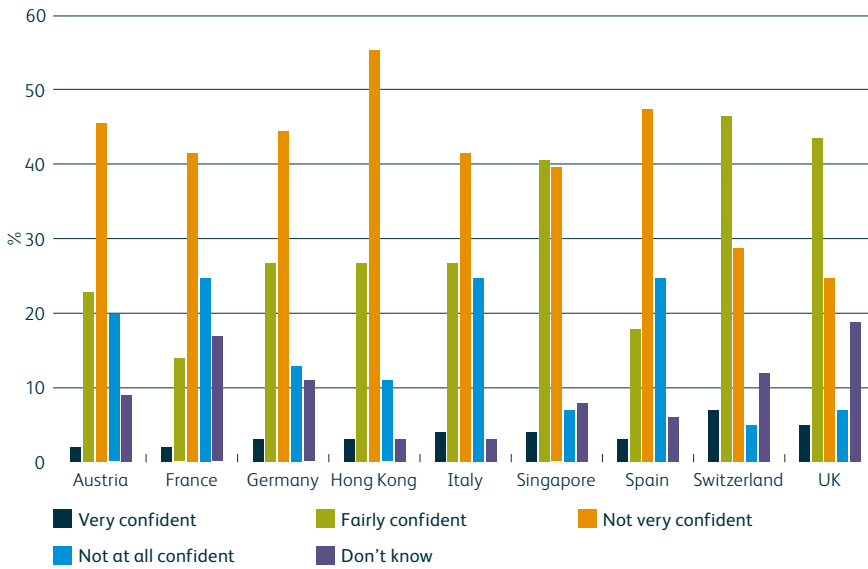
4. Thinking about the next 12 months – do you expect your net income to increase, decrease or be about the same in 12 months’ time?



Most consumers expect their net income to remain the same or to be lower in twelve months’ time. The French appear particularly pessimistic with 48% of respondents expecting their income to fall.

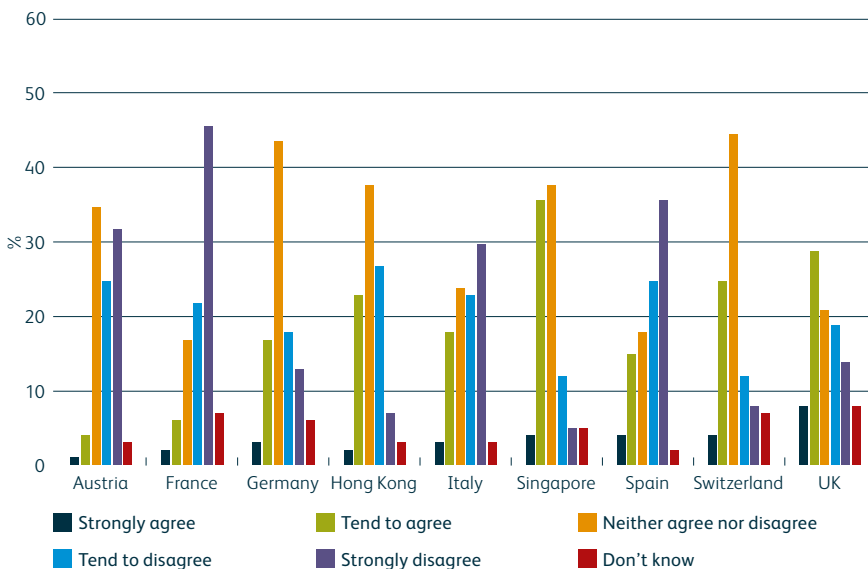


5. How confident, if at all, are you that your central bank is currently pursuing the correct policies in order to meet its target of price stability (ie inflation around 2%) over the medium term (ie the next 3-5 years)?



Eurozone countries responded that there is low confidence in the ECB pursuing the correct policies to achieve price stability over the medium term. In the UK, however, 49% of respondents are either very or fairly confident that the BoE will achieve its inflation target.

6. To what extent do you agree or disagree with the following statement: "I think that my government is currently following the right economic policies."



The majority of French (68%), Spanish (60%) and Austrian (58%) consumers do not believe that their respective government is following the right economic policies. Support for government economic policy was strongest in Singapore (41%), followed by the UK (37%) and Switzerland (29%).

All figures, unless otherwise stated, are from YouGov Plc. Total sample size for each country was Austria (511), France (1,016), Germany (1,037), Hong Kong (500), Italy (1,005), Singapore (503), Spain (1,000), Switzerland (506), UK (2,090) adults. Fieldwork was undertaken between 21 August – 9 September 2014. The survey was carried out online. The figures have been weighted and are representative of all adults in each country (aged 18+).



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.

The content of this report should not be regarded as a recommendation, advice or forecast regarding inflation expectations.



Who is YouGov?

YouGov is an international market research agency with sector specialist teams serving the financial, media, technology and telecom industries. They are considered a pioneer of online market research and are the most quoted market research agency in the UK. In August 2012, they were named as one of the world's top 25 research companies by the Honomichi Top 25 Global Firms.

For quantitative research, YouGov uses an online panel of adults, who are profiled across a range of demographic, attitudinal, lifestyle and marketing characteristics. The emphasis is put on quality rather than quantity and restrictions are put in place to ensure that only those selected from this panel are able to take part in the survey.

Incentives are used to encourage participation and prevent an overwhelming influence from those with a particular interest or 'axe to grind'. In the UK, France and Germany, the panels are constructed by YouGov and consist of 442,100, 83,300 and 140,500 adults respectively. In the other countries, a panel partner of YouGov conducts the survey using an online interview. The panel sizes for these countries are as follows: Austria (21,662), Hong Kong (21,501), Italy (106,251), Singapore (22,074), Spain (92,785) and Switzerland (24,937).

For qualitative research, they use online forums, face to face focus groups and cognitive interviews. This information is then either used stand alone or is fully integrated with their quantitative research.

Once collected, the data is weighted using either each country's census, if available, or industry accepted data, to help make the sample as reflective of the general population as possible.

