

The Impact of Respondent Characteristics on Inflation Expectations and Perceptions in the UK

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Summary and key findings

This study examines how UK households' inflation expectations and perceptions are influenced by demographic characteristics, using micro-level data from the Bank of England's *Inflation Attitudes Survey*. Key findings include:

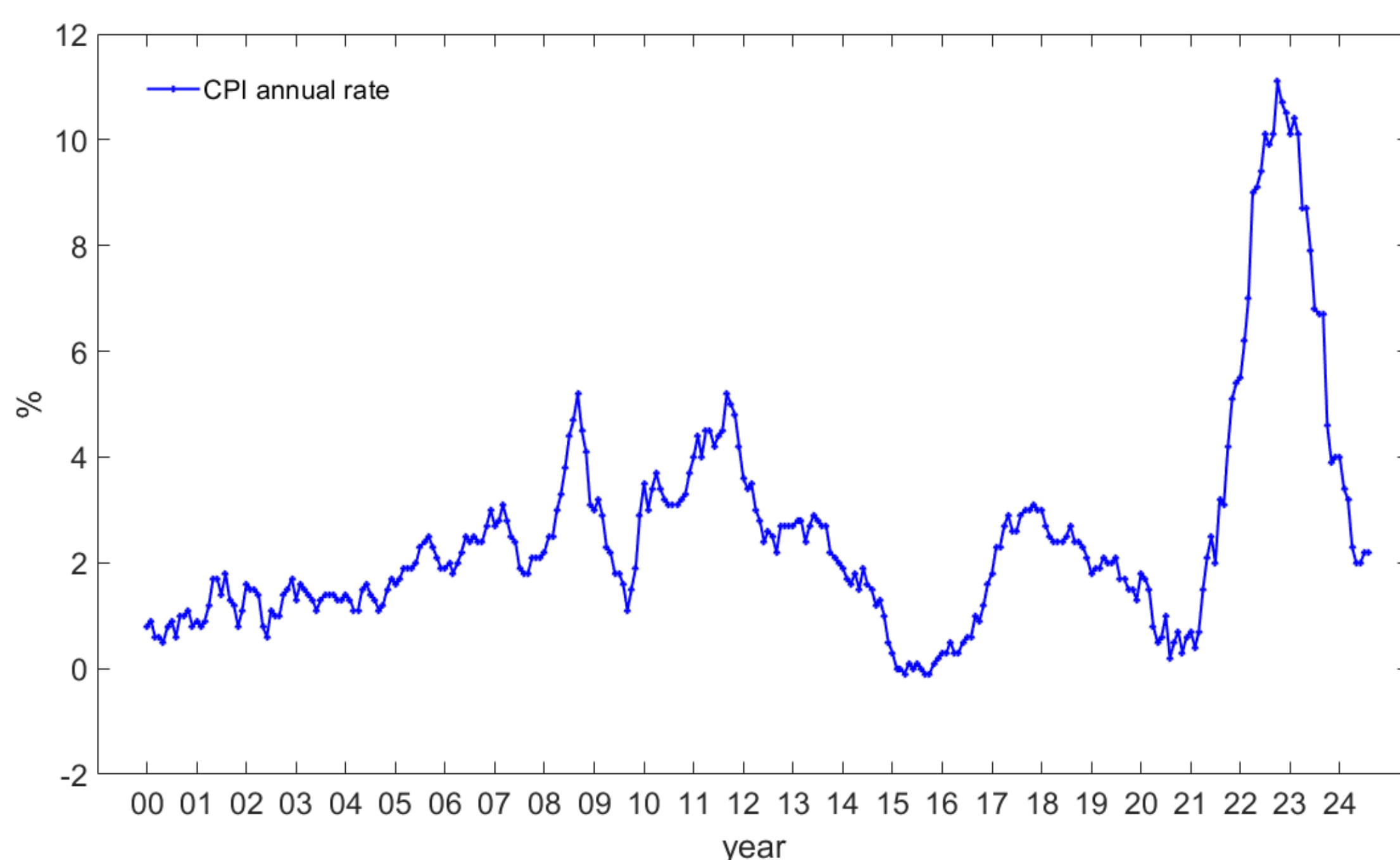
- **Age:** The strongest effect on inflation expectations and perceptions – a consistent increase with age, with the 45–54 and 55–64 age groups showing the highest positive coefficients.
- **Employment:** Being employed is associated with significantly lower inflation expectations and perceptions.
- **Education:** During the recent inflationary period (2021Q4–2024Q2), higher education (Degree+) significantly correlates with higher inflation expectations and perceptions.
- **Policy Implications:** Central banks should tailor communication strategies to address demographic differences effectively.

The Bank of England's *Inflation Attitudes Survey*

- Quarterly survey with approximately 2,000 respondents (4,000 in Q1).
- Micro-level data spanning 2001Q1 to 2024Q2 (88 quarters), comprising repeated cross-sections.
- **Question number one:** *How much would you say that prices have changed over the last twelve months?*
- **Question number two:** *How much would you expect prices in the shops generally to change over the next twelve months?*
- For both questions, respondents choose from the following nine answers:
 - 1) Gone down,
 - 2) Not changed,
 - 3) Up by 1% or less,
 - 4) Up by 1% but less than 2%,
 - 5) Up by 2% but less than 3%,
 - 6) Up by 3% but less than 4%,
 - 7) Up by 4% but less than 5%,
 - 8) Up by 5% or more,
 - 9) Don't know.

Respondents choosing answer 1) or 8) receive a follow-up question to specify the inflation changes more precisely.

CPI annual rate in the UK (2000Q1–2024Q2)



Explanatory variables (respondent characteristics)

Variable	Category in survey	Regression label
Age	15–24	Excluded
	25–34	Age 25–34
	35–44	Age 35–44
	45–54	Age 45–54
	55–64	Age 55–64
	65+	Age 65+
Employment status	Not working	Excluded
	Full or part time	Working
Sex	Female	Excluded
	Male	Male
Education	Low (GCSE)	Excluded
	Medium (A-level)	A-level
	High (Degree)	Degree+
Housing status	Owned outright	Excluded
	Mortgage	Mortgage
	Council rent	Council Rent
	Other	Other housing
Class	AB	Excluded
	C1	C1
	C2	C2
	DE	DE
Region	Scotland	Excluded
	North and NI	North
	Midlands	Midlands
	Wales and West	Wales and West
	South East	South East

Regression analysis

- Three samples are considered: *i*) full sample (2001Q1–2024Q2, 88 surveys); *ii*) first subsample (2001Q1–2021Q3, 77 surveys); and *iii*) second subsample (2021Q4–2024Q2, 11 surveys).
- The division into subsamples is driven by the aim to evaluate the impact of the recent surge in global inflation, which began during the COVID-19 pandemic. The recent inflation surge in the UK was the most pronounced throughout the studied period (see figure in the left column). The full sample is divided at the point when the inflation rate hit 5% in November 2021 for the first time since October 2011.
- Responses on question No 1 and question No 2 are converted into numerical values using midpoints of intervals.
- Responses are regressed on a set of dummy variables representing respondent characteristics. Time dummies for each survey quarter are included.
- Regression coefficient $\hat{\beta}$ represents the expected difference in inflation expectations / perceptions (in percentage points) for individuals with the specified characteristic relative to the base (excluded) category.
- Regression results are reported in the tables below. *t*-statistics based on standard errors are clustered by the survey quarter. ** and * indicate significance at the 1% and 5% levels, respectively.

Results for inflation expectations (question No 1)

Category	2001Q1–2024Q2		2001Q1–2021Q3		2021Q4–2024Q2	
	$\hat{\beta}$	<i>t</i> -stat	$\hat{\beta}$	<i>t</i> -stat	$\hat{\beta}$	<i>t</i> -stat
Age 25–34	0.151**	4.37	0.160**	4.37	0.007	0.09
Age 35–44	0.374**	8.23	0.331**	7.12	0.464**	4.02
Age 45–54	0.633**	10.80	0.551**	10.40	0.902**	5.71
Age 55–64	0.675**	9.30	0.574**	10.03	1.000**	4.12
Age 65+	0.439**	7.76	0.389**	6.63	0.585**	7.41
Working	–0.103**	–4.25	–0.056**	–3.31	–0.324**	–4.97
Male	0.011	0.58	–0.006	–0.30	0.140*	2.10
A-level	0.027	0.98	–0.024	–0.99	0.154*	2.85
Degree+	0.029	0.61	–0.061	–1.37	0.299**	3.48
Mortgage	–0.012	–0.54	–0.034	–1.54	0.054	0.85
Council rent	0.336**	10.82	0.329**	10.03	0.311**	3.60
Other housing	0.198**	7.06	0.176**	6.40	0.278*	2.72
C1	0.045*	1.98	0.027	1.18	0.092	1.72
C2	0.112**	3.86	0.120**	3.88	–0.066	–1.02
DE	0.194**	5.30	0.196**	5.06	0.055	0.52
North	0.038	0.80	0.069	1.32	–0.113	–1.16
Midlands	–0.005	–0.09	0.037	0.62	–0.209*	–3.14
Wales and West	0.013	0.23	0.043	0.71	–0.122	–0.91
South East	–0.059	–1.12	–0.007	–0.13	–0.321**	–4.32
R-squared	0.1216		0.1097		0.0719	
Observations	169,628		144,046		25,582	
Inflation rate ¹	Mean	SD	Mean	SD	Mean	SD
	2.70	2.19	2.10	1.15	6.92	3.05

¹The mean and standard deviation (SD) of the actual inflation rate for each sample.

Results for inflation perception (question No 2)

Category	2001Q1–2024Q2		2001Q1–2021Q3		2021Q4–2024Q2	
	$\hat{\beta}$	<i>t</i> -stat	$\hat{\beta}$	<i>t</i> -stat	$\hat{\beta}$	<i>t</i> -stat
Age 25–34	0.233**	4.84	0.332**	8.29	–0.267*	–2.42
Age 35–44	0.621**	10.76	0.636**	9.63	0.504**	3.74
Age 45–54	0.896**	13.87	0.822**	10.92	1.210**	12.27
Age 55–64	0.906**	12.49	0.777**	10.75	1.439**	8.83
Age 65+	0.546**	8.37	0.571**	7.88	0.098	1.05
Working	–0.142**	–3.74	–0.027	–1.51	–0.593**	–7.02
Male	–0.054*	–2.41	–0.058*	–2.41	0.018	0.28
A-level	0.069*	2.50	0.011	0.50	0.230*	2.93
Degree+	0.014	0.34	–0.085**	–2.59	0.303**	3.77
Mortgage	0.098**	3.91	0.054**	2.62	0.298**	3.43
Council rent	0.264**	7.21	0.301**	8.81	0.025	0.21
Other housing	0.072*	2.02	0.103**	3.25	–0.037	–0.37
C1	0.089**	3.99	0.055*	2.33	0.144*	2.68
C2	0.176**	6.72	0.181**	6.47	–0.109	–1.43
DE	0.202**	8.60	0.183**	7.05	0.092	1.57
North	0.032	0.63	0.083	1.46	–0.214*	–2.55
Midlands	–0.001	–0.02	0.077	1.36	–0.393**	–4.30
Wales and West	0.079	1.42	0.134*	2.19	–0.199	–1.86
South East	–0.135*	–2.27	–0.028	–0.48	–0.707**	–6.86
R-squared	0.2614		0.1834		0.1127	
Observations	169,628		144,046		25,582	