

## Value of money falls by two-thirds over the past 30 years

- £1 million in 1982 would provide the same spending power as £3 million today.
- The average price of a detached house is now six times higher compared with 1982, while the average price for a troy ounce of gold has risen by 439%.
- Retail prices rose most rapidly between 1982 and 1992, increasing at an average annual rate of 5.5%.

The value of money has fallen by 67% over the past 30 years, according to new research from Lloyds TSB Private Banking using data from sources including the Office for National Statistics (ONS).

A three-fold increase in retail prices means that someone today would need £299 to have the equivalent purchasing power of £100 in 1982 (*Table 1*). Conversely, £33.46 in 1982 would provide the same spending power as £100 today. This means that someone would need £3 million today to enjoy the equivalent lifestyle of a person with £1 million in 1982.

The purchasing power of money has eroded at an average rate of 3.7% a year over the past 30 years. This is reflected in the changing cost of everyday items during this period. Based on calculations by Lloyds TSB Private Banking<sup>1</sup>, the prices of essential household items have risen substantially since 1982 with, for example, the average price for a loaf of bread increasing from 37p in 1982 to £1.24 in 2012; a more than three-fold rise (*Table 2*).

The average price for a detached property has risen approximately six-fold over the same period from £45,211 to £273,700<sup>2</sup>, while a troy ounce of gold has risen by 439% from £203 in 1982 to £1,096 today. Similarly, fuel costs have also risen substantially with diesel prices now 294% higher than in 1982, while the price of coffee has risen by 176% from an average price of 97p to £2.68 (*Table 2*).

By decade, retail prices rose most rapidly between 1982 and 1992, increasing at an average annual rate of 5.5%. In contrast, the lowest inflation occurred between 1992 and 2002, with retail prices increasing at an average annual rate of 2.4% during the decade. Between 2002 and 2012, retail prices rose at an average of 3.3% a year.

Looking to the future, if retail prices were to rise by 2.8% annually<sup>3</sup>, the value of money would decline by a further 56% over the next 30 years. In this event, someone would need £229 in 2042 to have the same spending power as an individual with £100 today – or nearly £2.3 million to enjoy the equivalent lifestyle of a person with £1 million today.

**Nitesh Patel, economist at Lloyds TSB Private Banking, commented:**

*"The value of money has fallen substantially over the past 30 years as retail prices and the cost of many everyday items has soared. Someone today would need nearly £300 to have the same spending power of £100 in 1982, meaning someone breaking the million pound mark 30 years ago would have the equivalent of £3 million today.*

*"Looking to the future, even if inflation is kept firmly under control and rises only in line with the Government's target, it is likely that the value of money will continue to reduce significantly and decline by more than half its value by 2042."*

**Table 1: Today's equivalent to £100 in the past**

£100 in...	Equivalent spending power in 2012
1982	£299
1987	£238
1992	£175
1997	£154
2002	£138
2007	£117
2012	£100

Source: Lloyds TSB Private Banking calculations based on ONS figures, February 2013

**Table 2: The changing cost of everyday items, 1982 - 2012**

	<b>Estimated Average price 1982 (£)</b>	<b>Average price 2012 (£)</b>	<b>% change 1982-2012</b>
Draught lager, per pint	£0.73	£3.18	336%
Bread: white loaf, sliced, 800g	£0.37	£1.24	235%
Apples, dessert, per Kg	£0.68	£1.75	157%
Milk: pasteurised, per pint	£0.20	£0.46	130%
Sausages: pork, per Kg	£1.59	£4.40	177%
Butter: home produced, per 250g	£0.50	£1.38	176%
Carrots, per Kg	£0.35	£0.86	146%
Sugar: granulated, per Kg	£0.44	£0.98	123%
Coffee: pure, instant, per 100g	£0.97	£2.68	176%
Eggs: size 4 (55-60g), per dozen	£0.73	£2.82	286%
Vehicle fuel: ultra low sulphur diesel, per Litre	£0.36	£1.42	294%
Detached house, UK average	£45,211	£273,700	505%
Gold: Troy Ounce	£203	£1,096	439%

Sources: ONS (all items except detached house and gold); Detached house - Halifax; Gold - Thomson Reuters Datastream with LTSB calculation to convert from US\$ to sterling. (February 2013)

#### **Editors' Notes**

Most of the calculations in this release are based on ONS inflation figures. Source: ONS, February 2013 Long term indicator of prices of consumer goods and services (code: CDKO). Gold prices are from Thomson Reuters Datastream. Detached house prices are from Halifax.

<sup>1</sup>The changing cost of everyday items have been sourced from the ONS 'RPI average retail prices of selected items' data (1914:2004) and February 2013 (for 2012 data). Future estimates have been calculated on the basis of a 2% per year increase in prices.

<sup>2</sup> Calculation based on the average price of a detached property in the UK was £45,211 in 1983 Quarter 1 and £273,700 in 2012 Quarter 4. Source: Halifax, February 2013.

<sup>3</sup> Annual rate of retail price inflation (RPI) of 2.8% is estimated to be consistent with the Government's target for consumer price inflation (CPI) of 2%. This is based on the historical data between January 1992 and December 2007 (i.e. outside recession periods) when CPI inflation averaged 2% and RPI inflation 2.8%, a spread of 0.8%.

Any views expressed within this report are our current in house views as at 13 February 2013 and could be proved wrong and should not be relied upon as fact.

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