



## **Higher inflation in the luxury goods sector!**

Stonhage published in June 2011 this year's Stonehage Affluent Luxury Living Index (SALLI) London. It shows that prices of typical luxury goods and services for UHNWs based in London increased by an average of 6.0% in the 12 months until the end of April 2011. This shows a significant jump in price inflation, following a 0.6% rise the previous year. This large increase compares to an average inflation rate of 4.5%, measured by the UK Consumer Price Index (CPI) over the same period.

Stonhage is a multi-family office based in Switzerland and its SALLI methodology independently verified by Professor Geoffrey Wood of the Cass Business School. The index measures a basket which consists of approximately 50 goods and services on a "per use" weighted average basis.

SALLI 2011 states that UHNW inflation is much more volatile than CPI, tending to exceed standard inflation in good times and significantly fall short in times of downturn. Among the biggest drivers of inflation this year is the increase in rental prices of high-end property in London, where costs jumped by 6.7%. This trend is cause of a higher demand as recent price rises and has the consequence that people rather rent than buy in London's most prestigious areas. The difficulty in obtaining mortgage finance has also contributed to the demand for rentals. The rise in the costs of rented property contributed to a total increase of 5.7% in the housing and family category.

In the consumable sector SALLI shows a strong rise of 18%. Especially the wine index increased. Prices were 27.6% higher than last year. Champagne was also impacted with prices rising by more than 8%. The culture and entertainment category increased 10.3%. Of particular note was the art index, which showed a 10.5% rise driven by high auction prices. The category for investments of passion, which included luxury car brands, was 4.7% higher than 2010.

Price increases in US dollar-priced goods such as yacht hire went up 5.1% which had influence on the sports and recreation category which went up 5.4%. Travel costs were 3.1% higher.

The increase in VAT had a small, 0.6%, impact on the inflation figure. On a static currency basis, inflation would be 7.5%, reflecting the relative strength of Sterling against the US Dollar for dollar priced items. The large rise in SALLI shows that confidence about blooming times is growing introducing a return to spending.

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