

The CPILW for May 2020 is 1.1%, a slight fall from 1.2% in April. It is 0.4% above the official CPIH and indicates that the official inflation measure CPIH understates inflation.

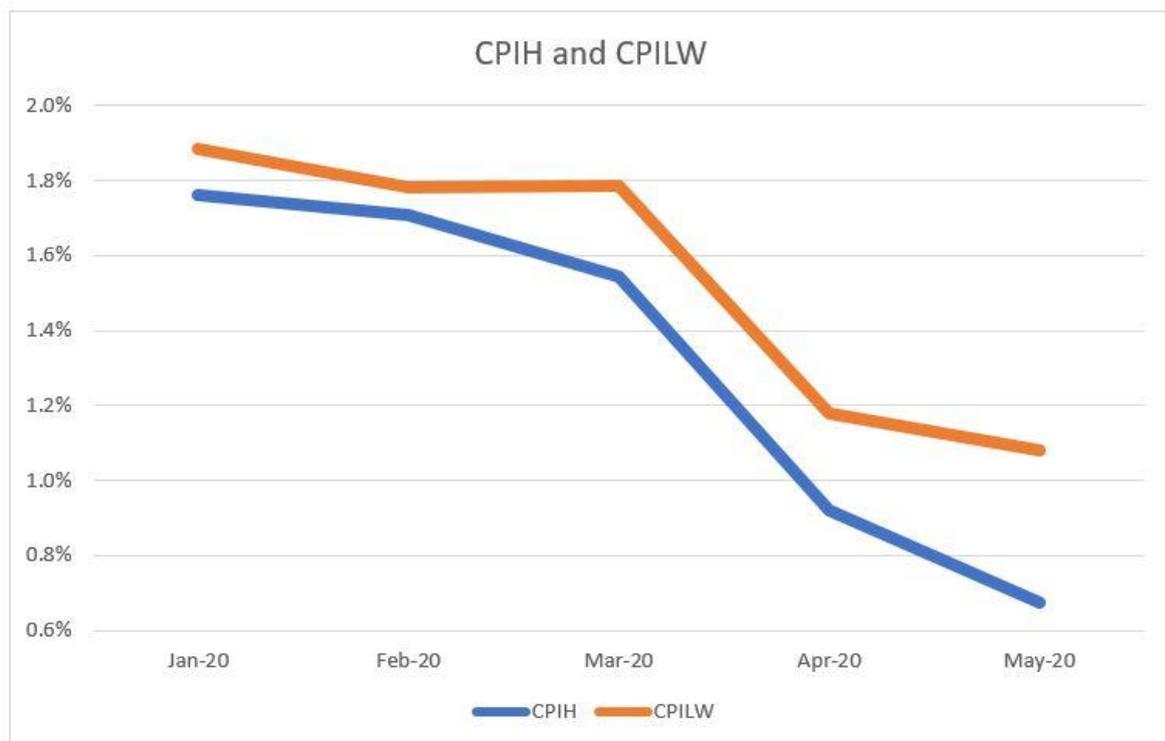
The CPIH inflation figures for April and May 2020 have been constructed using the new methodology outlined by the ONS (ONS 2020) for dealing with the effects of the Coronavirus. As discussed in Dixon's NIESR [blog](#) on 8 May, this fails to adequately take into account the changes in expenditure shares during the Lockdown. Dixon ([NIESR policy paper 16](#), April 22 2020) proposed a trial statistic CPILW to measure inflation using guesstimates of the Lockdown expenditure weights.

Using the Lockdown expenditure weights, the CPILW for May is 1.1%, a higher figure than CPIH 0.7%. The main reason for the difference is that the CPIH keeps many expenditure weights such as clothing and footwear at pre-Covid levels and these items have on average declined by more. The inclusion of these prices, despite the fact that people are not spending as much as usual, means that CPIH understates inflation.

We can take the March CPIH of 1.5% as the last month for which the pre-Covid expenditure weights underlying CPIH were reasonably accurate, and that the CPILW becomes a more accurate measure for April and May. We can see that there has been a fall in inflation since March, but that it has been less than is shown by the official figures. CPILW was 1.2% in April and 1.1% in May: a rather modest fall in inflation from its March level.

The gap between CPILH and CPILW has increased from 0.3% to 0.4%, which suggests that the extent to which the official figure understates inflation has increased slightly.

Note that the Lockdown expenditure weights are only guesstimates and more accurate estimates will become available. However, Alberto Cavallo (June 2020) has adopted a similar methodology using more accurate expenditure data and comes to much the same conclusion for both the US and UK (the official measure understates inflation).



References:

[ONS Corona Virus and the effect on UK Prices](#) (May 5th 2020)

Huw Dixon, [How can we measure consumer price inflation in a lockdown?](#) *Economics Observatory* (May 25th 2020).

Alberto Cavallo, [Inflation with Covid Consumption Baskets](#), NBER Working Paper No. 27352 (June 2020).