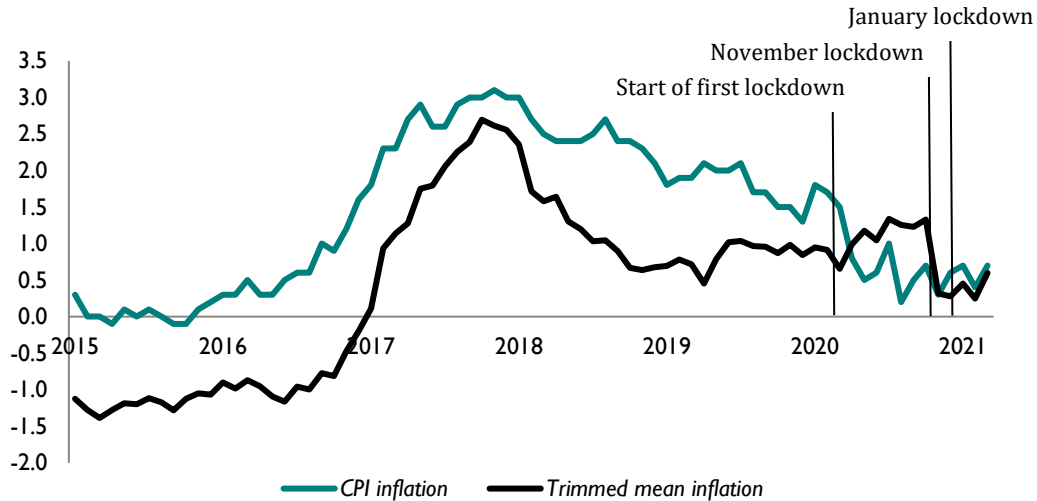


HIGHEST UNDERLYING INFLATION SINCE OCTOBER

Figure 1 – CPI and trimmed mean inflation (per cent)



Note: Our measure of trimmed mean inflation excludes 5 per cent of the highest and lowest price changes. The level of trimmed mean inflation is typically lower than CPI inflation due to differences in how the largest price changes are treated and to how the prices are weighted. Source: ONS, NIESR calculations.

Main points

- Following the multi-year low point in February, underlying inflation increased to its highest level since October 2020. Our measure of underlying inflation recorded 0.6 per cent in the year to March 2021, up from 0.2 per cent in February 2021, as measured by the trimmed mean, which excludes 5 per cent of the highest and lowest price changes (figure 1).
- Regional dispersion in underlying inflation continues, with Wales recording the highest rate at 2.2 per cent and North West recording the lowest at -0.1 per cent. Since the start of the pandemic last year, underlying inflation has been persistently above the UK average in Wales, Northern Ireland, East Midlands, Yorkshire and the Humber and the North (table 1).
- 18.9 per cent of goods and services prices changed in March, implying an average duration of prices of 5.3 months, which when compared to the long-term average of 5.1 months suggests a return to a lower frequency of price changes. 5.6 per cent of prices were reduced due to sales, 3.6 per cent fell for other reasons and 9.7 per cent recorded increases (figure 2).
- Base effects stemming from the effect of the first lockdown on prices last year, as well as the gradual easing of the winter lockdown, could introduce some volatility to official statistics in the short term as goods in the non-essential retail and restaurant and hotel categories are re-introduced into the calculation of consumer inflation.
- CPI inflation is likely to pick up in the coming months but stay below the Bank of England's target of 2 per cent in the year to March 2022.

“Annual headline inflation increased to 0.7 per cent in March, up from 0.4 per cent recorded in February, due largely to price increases in the transport category. Base effects and the gradual easing of the January lockdown could introduce some volatility over the short term as items in the non-essential retail, restaurant and hotels categories are re-introduced in the calculation of consumer inflation. Our measure of underlying inflation, which excludes extreme price movements, increased to 0.6 per cent in March from 0.2 per cent in February. We expect inflation to rise in the coming months as the economic recovery gains pace on the back of opening-up and the success of the vaccination programme, but we still expect inflation to remain below the Bank’s 2 per cent target in the year to March 2022.”

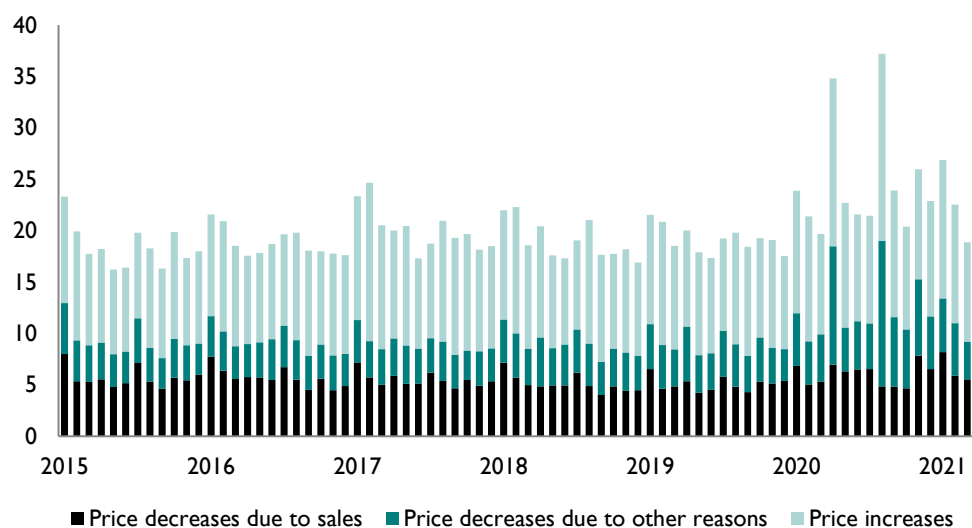
Janine Boshoff

Economist, Macroeconomic Modelling and Forecasting

Commentary

Annual headline inflation increased to 0.7 per cent in the year to March 2021, up from 0.4 per cent recorded in February. Consumer prices in the transport category contributed 0.18 percentage points to the headline number, with smaller contributions coming from the clothing and footwear, furniture, household equipment and maintenance categories. Our measure of underlying inflation, which excludes the most extreme price changes among 102,473 locally collected goods and services, increased to 0.6 per cent in March 2021 from 0.2 per cent in February. Regional trimmed mean inflation indicated that underlying inflation was highest in Wales at 2.2 per cent, and lowest in the North West with a contraction of 0.1 per cent.

Our analysis suggests that the gradual easing of the winter lockdown could introduce some volatility to inflation in the short-term. Each step of the lockdown easing re-introduces a raft of goods and services that will be included in the calculation of consumer inflation. The impact of re-opening non-essential retail and restaurant and hospitality services at a limited capacity on the 26th of March, are likely to push April inflation up. The easing of lockdown restrictions and higher consumer confidence on the back of ongoing success of mass vaccination efforts is expected to support a consumption-led recovery in economic activity, which will feed through to consumer prices in the latter half of the year. Our forecast is for inflation to remain below the Bank’s 2 per cent target in the year to March 2022, as the economy is expected to still be operating below capacity by this time next year.

Figure 2 – Decreases due to sales, decreases due to other reasons, and increases (per cent)**Table 1** – Regional trimmed mean inflation (per cent)

	2020										2021		
Region	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
London	0.7	-0.2	-0.1	-0.1	-0.1	1.3	1.5	1.5	0.5	0.4	0.6	0.2	0.7
South East	0.6	0.3	0.8	0.5	0.9	0.9	1.1	1.3	0.0	-0.2	-0.1	-0.3	0.2
South West	0.4	0.3	0.6	0.4	0.6	0.7	0.7	0.7	-0.3	-0.5	0.0	-0.1	0.2
East Anglia	0.4	1.0	1.3	1.0	1.4	0.9	0.8	0.9	-0.5	-0.2	-0.1	-0.4	0.0
East Midlands	0.8	1.9	2.3	2.0	2.6	1.8	1.8	1.9	0.9	1.1	1.2	0.9	1.5
West Midlands	0.7	0.9	1.0	0.9	1.1	0.9	1.0	1.2	0.2	0.1	0.2	0.2	0.5
Yorkshire and the Humber	0.8	1.3	1.5	1.4	1.8	1.6	1.4	1.3	0.5	0.4	0.9	0.7	0.8
North West	0.7	1.1	1.2	1.3	1.7	0.9	0.7	1.1	0.3	0.1	-0.1	-0.5	-0.1
North	0.9	2.7	2.4	1.9	2.2	2.0	1.4	1.4	0.5	0.7	0.7	1.3	1.2
Wales	0.7	2.3	2.5	2.2	2.2	2.4	2.4	2.4	1.8	1.7	2.2	2.2	2.2
Scotland	0.6	0.7	1.0	0.9	1.2	1.5	1.1	1.1	-0.1	-0.2	-0.1	-0.2	0.2
Northern Ireland	1.0	2.1	1.6	2.0	2.2	2.1	2.1	2.5	1.6	1.8	1.4	1.3	1.5
United Kingdom	0.7	1.0	1.2	1.0	1.3	1.3	1.2	1.3	0.3	0.3	0.5	0.2	0.6

Note: Our measure of trimmed mean inflation excludes 5 per cent of the highest and lowest price changes. The level of trimmed mean inflation is typically lower than CPI inflation due to differences in how the largest price changes are treated and to how the prices are weighted. Source: ONS, NIESR calculations.

Notes for editors

This analysis builds on the work presented in the [National Institute Economic Review](#), which constructs a measure of trimmed mean inflation based on the goods and services prices that underlie the consumer price index.

Our next analysis of consumer prices will be published on **19 May**.

For further information please contact the NIESR Press Office: press@niesr.ac.uk / 079 3054 4631 / c.ridyard@niesr.ac.uk / l.pieri@niesr.ac.uk

National Institute of Economic and Social Research

2 Dean Trench Street
Smith Square
London, SW1P 3HE
United Kingdom

Switchboard Telephone Number: 020 7222 7665

Website: <http://www.niesr.ac.uk>