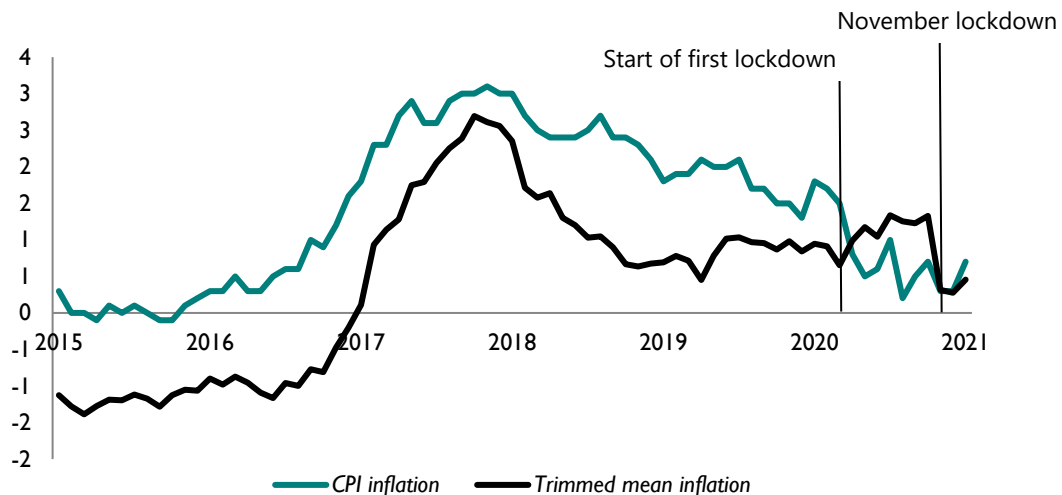


## UNDERLYING INFLATION SUGGESTS A TURNING POINT

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

- Underlying inflation increased to 0.5 per cent in the year to January 2021 from 0.3 per cent in December 2020, as measured by the trimmed mean, which excludes 5 per cent of the highest and lowest price changes (figure 1).
- At the regional level, underlying inflation was highest in Wales at 2.2 per cent and lowest in the South West, East Anglia, the North West, and Scotland which saw a 0.1 per cent decline in the year to January 2021 (table 1).
- 26.9 per cent of goods and services prices changed in January, implying an average duration of prices of 3.7 months, a much shorter duration than the long-term average of 5.1 months. 8.2 per cent of prices were reduced due to sales, 5.2 per cent fell for other reasons and 13.5 per cent recorded increases (figure 2).
- We expect that continued restrictions to stem coronavirus infections will keep consumer inflation relatively low in the short-term: NIESR has downgraded its forecast for [UK economic growth](#) in 2021 on the back of the lockdown imposed in January 2021, which is expected to have a larger effect on activity than the November lockdown.
- CPI inflation is likely to pick up in the second half of the year but stay below the Bank of England's target of 2 per cent in the year to January 2022.

*"Headline inflation increased to 0.7 per cent in January, up from 0.6 per cent recorded in December. Our measure of underlying inflation, which excludes extreme price movements, increased to 0.5 per cent in January, suggesting that inflation bottomed-out in December 2020. Inflation is expected to remain subdued in the short term as the effect of the January lockdown impacts consumer prices. We expect inflation to rise in the latter half of the year as the economic recovery gains pace on the back of a successful vaccination programme and higher producer costs are passed on to consumers, but we still expect inflation to remain below the Bank's 2 per cent target in the year to January 2022."*

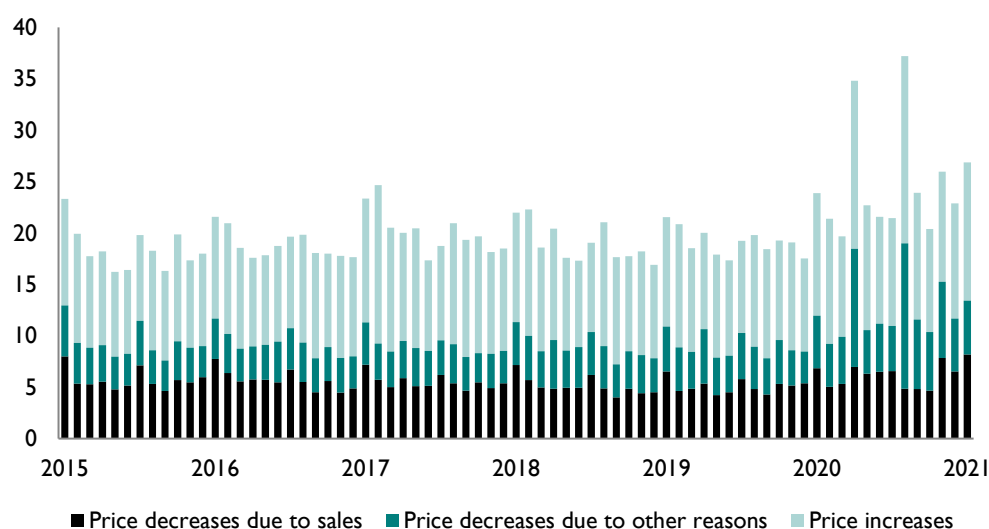
**Janine Boshoff**

**Economist, Macroeconomic Modelling and Forecasting**

## Commentary

Annual headline inflation increased to 0.7 per cent in the year to January 2021, up from 0.6 per cent recorded in December. Our new analysis of 98,721 locally collected goods and services indicates that new-year sales did not fully offset increases in the furniture and household goods, restaurants and hotels, and food and non-alcoholic beverages categories. Our measure of underlying inflation, which excludes the most extreme price changes, increased to 0.5 per cent in January 2021 from 0.3 per cent in December 2020. This represents the first increase in underlying inflation since October 2020 which suggests that inflation may have bottomed-out in December. Regional trimmed mean inflation indicated that underlying inflation was highest in Wales at 2.2 per cent, and lowest in the South West, East Anglia, the North West, and Scotland with a contraction of 0.1 per cent.

Our analysis suggests that inflation will remain low in the first half of 2021. However, there are some upside risks related to the effect of higher commodity prices, the unwinding of the government's Eat-Out to Help out scheme, and the reversal of last year's temporary VAT cut. The ongoing success of mass vaccination efforts is expected to boost economic activity and feed through to consumer prices, with inflation rising in the latter half of the year closer to the Bank of England's target of 2 per cent in December 2021.

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

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

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 **24 March**.

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