

DROP IN CPI INFLATION EXPECTED TO BE TEMPORARY

The consumer price index inflation rate declined to 1.3 per cent in the year to December 2019, as per data released by the ONS. Our new analysis of 129,516 locally-collected goods and services indicate that inflation in the restaurants and hotels and clothing and footwear categories decreased in the twelve months to December 2019. Consumers have also benefitted from lower inflation on food and non-alcoholic beverages during the festive season. Underlying inflation, which excludes the most extreme price changes, grew at 0.8 per cent in December, down from 1 per cent in November. This is consistent with the Bank of England's target of 2 per cent in the 12 months to December.

Main points

- Underlying inflation decreased by 0.2 percentage points to 0.8 per cent in the year to December 2019, 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 the North at 1.3 per cent and lowest in the South West at 0.6 per cent in the year to December 2019 (table 1).
- 17.5 per cent of goods and services prices changed in December, implying an average duration of prices of 5.7 months. 5.4 per cent of prices were reduced due to sales, 3.1 per cent fell for other reasons and 9.1 per cent were increases (figure 2).
- The historical relationship between current trimmed mean inflation and future CPI inflation implies CPI inflation of 2 per cent in the year to December 2020.

"Headline CPI inflation declined to 1.3 per cent in the year to December 2019, down from 1.5 per cent recorded in November. Our analysis of approximately 130,000 goods and services included in the basket, indicates that consumers benefitted from lower inflation in clothing and footwear, and restaurants and hotels. Our measure of underlying inflation, which excludes extreme price movements, decreased by 0.2 percentage point to 0.8 per cent in December. Underlying inflation decreased in 11 regions of the UK. On this basis, we expect CPI inflation to settle around the Bank of England's target of 2 per cent in the coming year."

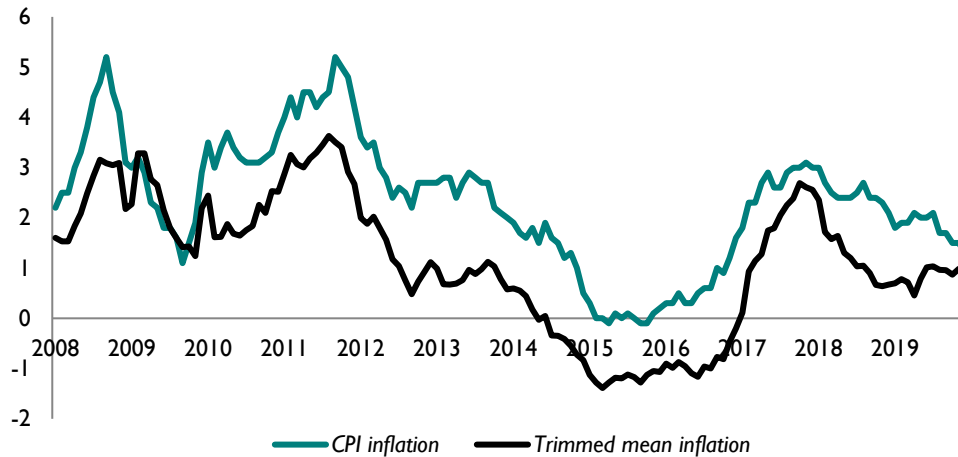
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This analysis builds on the work presented in the [National Institute Economic Review](#), which constructs a measure of trimmed mean inflation based on the goods and services prices that underlie the consumer price index.

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

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.

Figure 2 – Decreases due to sales, decreases due to other reasons and increases (per cent)

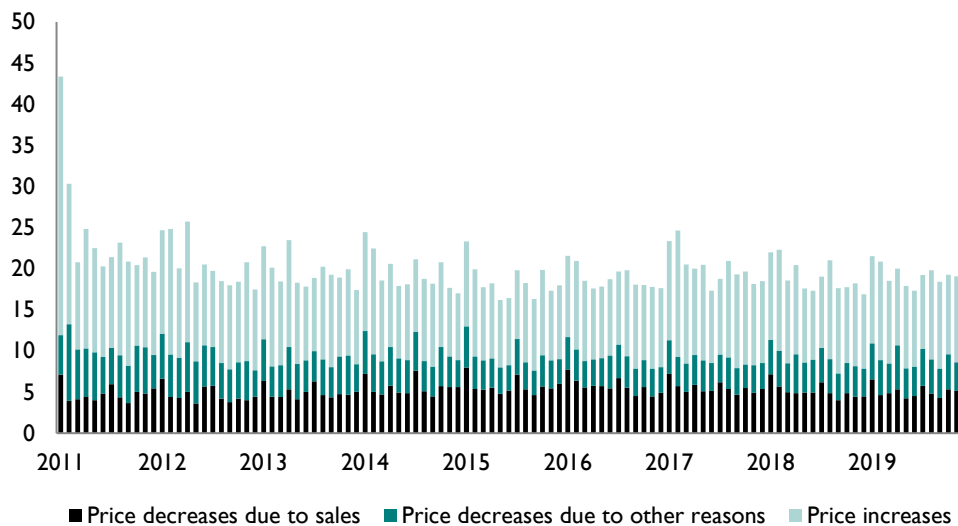


Table 1 – Regional trimmed mean inflation (per cent)

Region	2018	2019											
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
London	1.0	0.9	1.1	1.0	0.7	1.1	1.2	1.1	1.1	1.0	1.1	1.2	0.9
South East	0.4	0.6	0.8	0.5	0.4	0.7	1.0	0.9	0.8	0.8	0.6	0.8	0.8
South West	0.5	0.6	0.7	0.7	0.4	0.7	0.9	1.0	0.8	0.8	0.8	0.7	0.6
East Anglia	0.7	0.8	0.8	0.8	0.5	0.7	1.0	1.1	1.0	1.1	0.9	1.0	0.9
East Midlands	0.8	0.8	0.8	0.7	0.5	0.7	1.0	1.0	0.9	0.8	0.8	1.0	0.7
West Midlands	0.8	0.6	0.7	0.7	0.2	0.7	0.8	1.0	1.0	1.0	0.8	1.0	0.9
Yorkshire and the Humber	0.5	0.4	0.6	0.6	0.3	0.7	1.3	1.1	1.0	1.2	1.0	1.1	0.9
North West	0.6	0.8	0.9	0.9	0.6	0.8	1.1	1.1	1.3	1.0	0.9	1.0	0.9
North	0.8	0.8	0.7	0.8	0.4	0.9	1.2	1.4	1.2	1.2	1.2	1.5	1.3
Wales	0.8	0.9	0.6	0.7	0.6	0.9	1.0	1.0	0.7	0.9	0.9	1.0	1.0
Scotland	0.8	0.9	0.8	0.7	0.4	0.7	0.9	0.9	0.8	1.0	0.7	0.9	0.7
Northern Ireland	0.7	0.8	0.9	0.7	0.4	1.0	1.0	1.3	1.0	1.1	1.0	1.1	0.9
United Kingdom	0.7	0.7	0.8	0.7	0.5	0.8	1.0	1.0	1.0	1.0	0.9	1.0	0.8

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

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