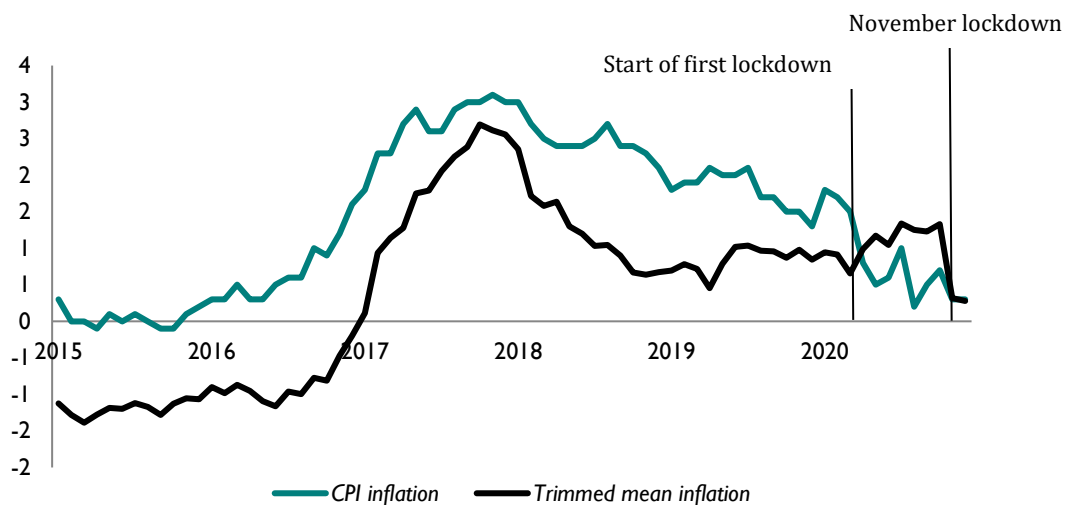


CONTINUED LOCKDOWN MEASURES KEEP UNDERLYING INFLATION LOW

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 remained unchanged at 0.3 per cent in the year to 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 Northern Ireland at 1.8 per cent and lowest in the South West which saw a 0.5 per cent decline in the year to December 2020 (table 1).
- 22.9 per cent of goods and services prices changed in December, implying an average duration of prices of 4.4 months. 6.5 per cent of prices were reduced due to sales, 5.1 per cent fell for other reasons and 11.2 per cent recorded increases (figure 2).
- We expect the downward pressure on inflation to continue in the short-term as we forecast the [UK economy to contract in the first quarter](#) of the year due to the effects of the January 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 December 2021.

“Headline inflation increased to 0.6 per cent in December, up from the 0.3 per cent recorded in November. Our measure of underlying inflation, which excludes extreme price movements, remained unchanged at 0.3 per cent in December. Our analysis at regional level indicates that regions that entered higher tiers of restrictions in December experienced marked decreases in consumer prices during the month. Inflation is likely to remain subdued in the short-term due the effects of continued lockdown measures.”

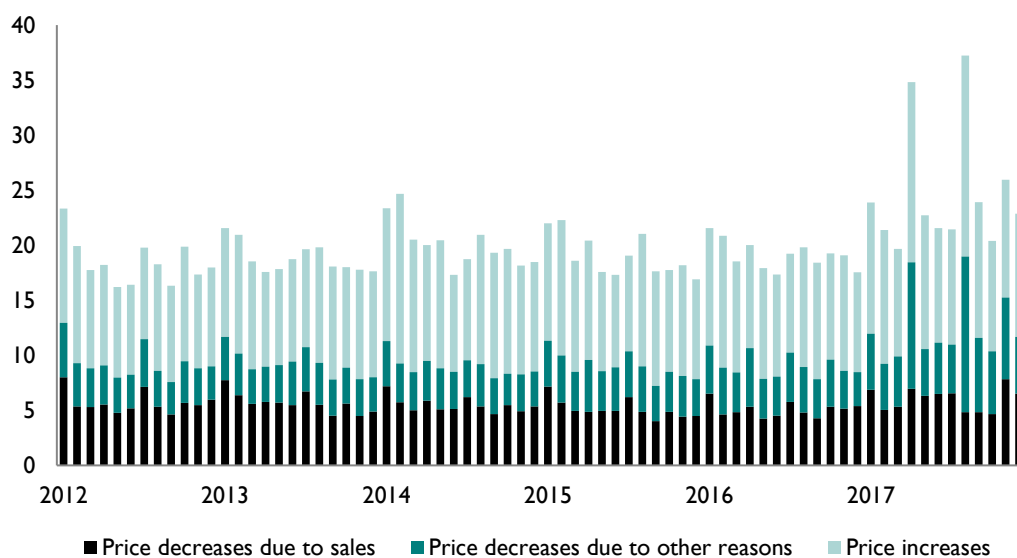
Janine Boshoff

Economist, Macroeconomic Modelling and Forecasting

Commentary

Annual headline inflation increased to 0.6 per cent in the year to December 2020, 0.3 percentage points up from the number recorded in November. Our new analysis of 104,280 locally collected goods and services indicates that price increases in the clothing and footwear and transport categories were only partially offset by decreases in the food and non-alcoholic beverages, household services and communication categories. Our measure of underlying inflation, which excludes the most extreme price changes, remained unchanged at 0.3 per cent in December 2020. Regional trimmed mean inflation indicated that underlying inflation was highest in Northern Ireland at 1.8 per cent, and lowest in the South West with a contraction of 0.5 per cent. Prices also decreased markedly in the South East and East Anglia, reflecting their status as the first regions to enter stricter regional lockdowns in December. We expect that January consumer prices are likely to moderate further due to scheduled sales and the imposition of the third national lockdown.

Despite the roll-out of vaccines, our analysis suggests that weak domestic demand will continue to weigh on consumer prices and that inflation will remain low in the first half of 2021. Thereafter, additional Brexit-related administrative costs and higher commodity prices will 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)

	2019		2020										
Region	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
London	0.9	1.0	0.9	0.7	-0.2	-0.1	-0.1	-0.1	1.3	1.5	1.5	0.5	0.4
South East	0.8	0.9	0.7	0.6	0.3	0.8	0.5	0.9	0.9	1.1	1.3	0.0	-0.2
South West	0.6	0.8	0.7	0.4	0.3	0.6	0.4	0.6	0.7	0.7	0.7	-0.3	-0.5
East Anglia	0.9	0.7	0.8	0.4	1.0	1.3	1.0	1.4	0.9	0.8	0.9	-0.5	-0.2
East Midlands	0.7	1.1	1.2	0.8	1.9	2.3	2.0	2.6	1.8	1.8	1.9	0.9	1.1
West Midlands	0.9	0.9	0.9	0.7	0.9	1.0	0.9	1.1	0.9	1.0	1.2	0.2	0.1
Yorkshire and the Humber	0.9	1.0	0.9	0.8	1.3	1.5	1.4	1.8	1.6	1.4	1.3	0.5	0.4
North West	0.9	1.0	1.1	0.7	1.1	1.2	1.3	1.7	0.9	0.7	1.1	0.3	0.1
North	1.3	1.2	1.1	0.9	2.7	2.4	1.9	2.2	2.0	1.4	1.4	0.5	0.7
Wales	1.0	1.0	1.0	0.7	2.3	2.5	2.2	2.2	2.4	2.4	2.4	1.8	1.7
Scotland	0.7	0.8	1.0	0.6	0.7	1.0	0.9	1.2	1.5	1.1	1.1	-0.1	-0.2
Northern Ireland	0.9	1.3	1.2	1.0	2.1	1.6	2.0	2.2	2.1	2.1	2.5	1.6	1.8
United Kingdom	0.8	0.9	0.9	0.7	1.0	1.2	1.0	1.3	1.3	1.2	1.3	0.3	0.3

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 **17 February**.

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