



UNDERLYING INFLATION PICKS UP AS CPI INFLATION FALLS

Consumer price inflation decreased by 0.3 percentage points to 0.5 per cent in the year to May 2020, as per data released by the ONS. Our new analysis of 89,142 locally collected goods and services indicates price declines in the transport, recreation and culture, and hotels and restaurants categories. By contrast, underlying inflation, which excludes the most extreme price changes, increased in 11 UK regions, with only London recording a reduction in underlying inflation. The broad-based increase in underlying inflation led to a 0.2 percentage point increase in the national figure, to 1.2 per cent in May. This is the third month of increase in underlying inflation and for that reason our forecast suggests headline CPI inflation above 2 per cent in the 12 months to May 2021.

Main points

- Underlying inflation increased by 0.2 percentage points to 1.2 per cent in the year to May 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 the Wales at 2.5 per cent and lowest in London which saw a reduction of 0.1 per cent in the year to May 2020 (table 1).
- 22.7 per cent of goods and services prices changed in May, implying an average duration of prices of 4.4 months. 6.3 per cent of prices were reduced due to sales, 4.2 per cent fell for other reasons and 12.1 per cent were increases (figure 2).
- The historical relationship between current trimmed mean inflation and future CPI inflation implies CPI inflation above 2 per cent in the year to May 2021.

“Headline CPI inflation decreased to 0.5 per cent in the year to May 2020, down from 0.8 per cent recorded in April. Our analysis of approximately 89,000 goods and services included in the basket indicates lower prices in the transport, recreation and culture, and hotels and restaurants categories. Our measure of underlying inflation, which excludes extreme price movements, increased to 1.2 per cent in May thanks to an increase in underlying inflation in 11 of the 12 UK regions. On this basis, we expect CPI inflation to settle slightly above the Bank of England’s target of 2 per cent in the coming year.”

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Measuring Real Consumption and CPI Bias under Lockdown Conditions

The coronavirus pandemic and the associated lockdown imposed on the 23rd of March meant that many goods and services were unavailable to consumers in the UK. This has undoubtedly had a drastic impact on the production of economic statistics, such as the Consumer Price Inflation (CPI). The sudden onset and unprecedented nature of the shock meant that the ONS did not have the time to develop methods to address changes to price collection methods¹ and consumption expenditure patterns.

Research conducted by [Diewert and Fox](#) (2020) indicates that using standard methodology to compute consumer inflation could result in downward bias in the CPI and upward bias in real consumption. Their paper suggests producing a special revisable analytic CPI, using information from a continuous consumer expenditure survey, that supplements the existing CPI. This month the ONS have published an [Alternative CPI](#) based on a consumer price basket that has been rescaled to remove items unavailable due to the coronavirus pandemic.

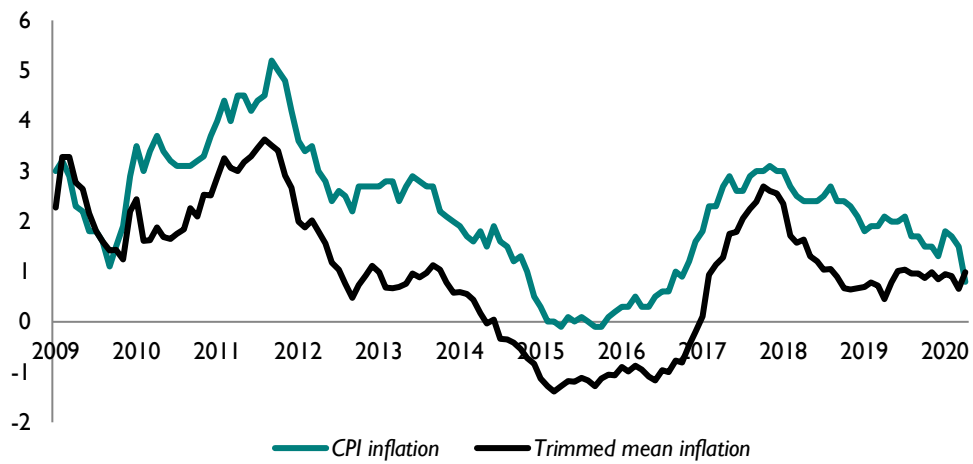
In addition to this document that analyses price quote data released by the ONS, NIESR also publishes a [Lockdown CPI](#) based on alternative expenditure weights.

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 **15 July**.

¹ The ONS have published [Coronavirus and the effects on UK prices](#) which details their plans for data collection, compilation and publication of price statistics.

Figure 2 – 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 3 – Decreases due to sales, decreases due to other reasons and increases (per cent)



Table 1 – Regional trimmed mean inflation (per cent)

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

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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