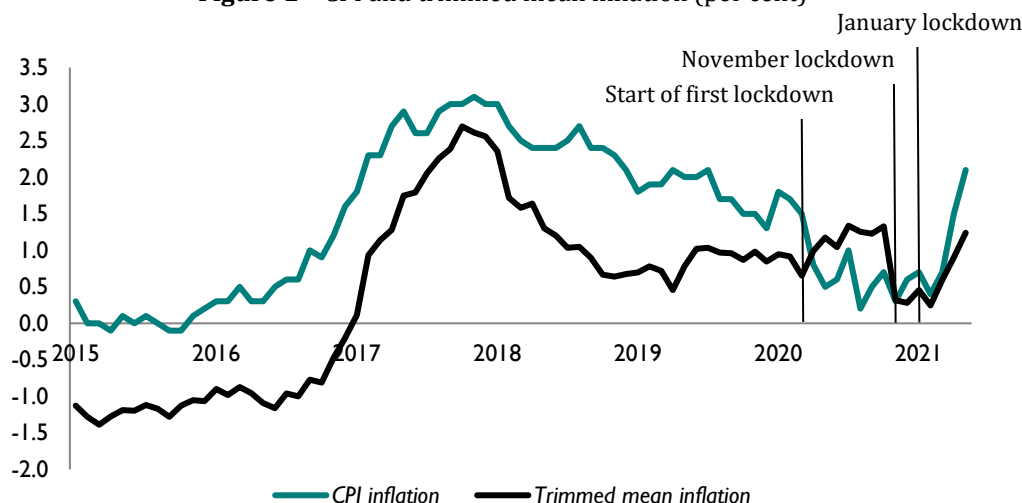


LOCKDOWN UNWINDING BOOSTS UNDERLYING INFLATION

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 from 0.9 per cent in April to 1.2 per cent in May, displaying a smaller rise than headline consumer inflation which rose by 0.6 percentage points, reaching 2.1 per cent in May. The trimmed mean, which excludes 5 per cent of the highest and lowest price changes, recorded the third consecutive rise since March and has reached its highest level since October 2020 (figure 1).
- 15.8 per cent of goods and services prices changed in May, implying an average duration of prices of 3.7 months which is lower than the long-term average of 5.1 months and suggests accelerated price turnover.
- 4.0 per cent of prices were reduced due to sales, 7.4 per cent fell for other reasons and 15.8 per cent recorded increases, implying slightly more widespread price increases compared to the recent months (figure 2).
- The upward trend in the trimmed mean measure was supported by higher underlying inflation in most of the regions. Underlying inflation in London increased significantly to 3.3 per cent in May, up from 2.2 recorded in April. East Anglia saw the lowest regional trimmed mean inflation of 0.4 per cent in May (table 1).

- Rising oil prices have filtered through to UK consumers as the transport category contributed 0.2 percentage points to headline inflation. Clothing, recreation, restaurants and hotels, which have been among the most affected sectors by the lockdowns contributed more to the rise in consumer inflation in May as the economy gradually opened up.
- Higher commodity prices, base effects, and the effects of gradual reopening in certain sectors along with a strong recovery in consumption are likely to keep the headline inflation above the Bank of England's target of 2 percent in the short-term.
- Amid increased risks of higher inflation beyond the short-term, the Bank of England should provide [guidance on the direction and instruments of monetary policy](#), making a statement regarding the need to reverse some of increase in QE announced in Spring 2020 and announcing possible paths of interest rates conditional on the most likely economic outcomes.

“Annual headline inflation rose to 2.1 per cent in May, its highest level since July 2019. Our measure of underlying inflation, which excludes extreme price movements, displayed a smaller rise to 1.2 per cent in May from 0.9 per cent in April, suggesting that consumer prices are rebounding after the lengthy winter lockdown. Increases in oil prices have filtered through to the transport category and coupled with the base effect from the large drop in oil prices last Spring, contributed significantly to the rise in annual inflation. We have seen some transitory upside effects in clothing due to the effects of lockdowns and the recent opening-up. We expect these transitory effects to continue putting upward pressure on consumer inflation in the short term and will be closely monitoring underlying inflation to gauge whether the fundamental drivers of inflation imply a more persistent upside risk amid the expected recovery in consumption.”

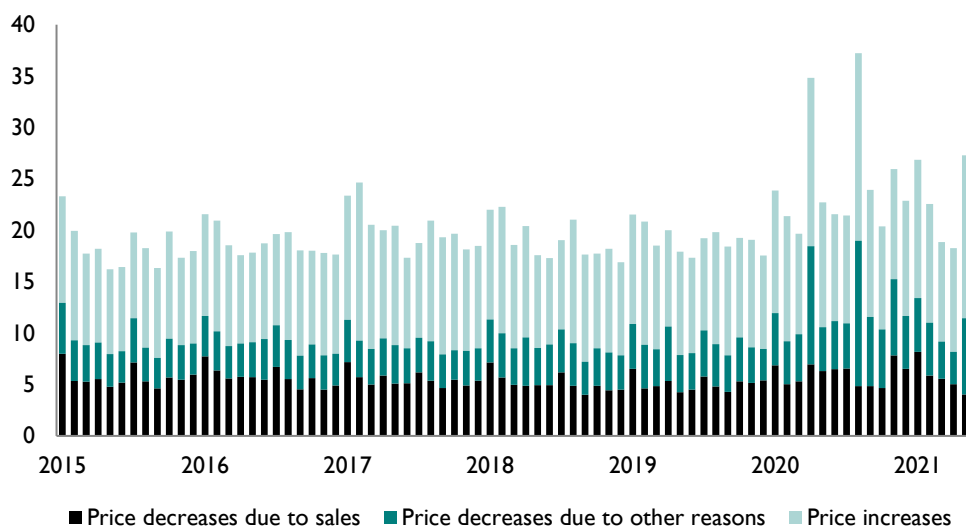
Janine Boshoff

Economist, Macroeconomic Modelling and Forecasting

Commentary

Annual headline inflation increased to 2.1 per cent in the year to May 2021, up from 1.5 per cent recorded in April. Consumer prices in the transport, clothing and footwear, and recreation and culture contributed 0.55 percentage points to the headline number. Our measure of underlying inflation, which excludes the most extreme price changes among 104,514 locally collected goods and services, increased to 1.2 per cent in May 2021 from 0.9 per cent in April. Most regions saw an increase in underlying inflation, with regional trimmed mean inflation highest in London at 3.3 per cent, and lowest in East Anglia at 0.4 per cent.

We expect higher commodity prices, including a rebound in international oil prices, will feed through to consumer prices in the latter half of the year and our forecast is for inflation to remain slightly above the Bank's 2 per cent target in the year to May 2022. There remains significant upside risk to this forecast thanks to both the successful vaccination programme and a stronger than expected recovery in consumption supported by savings accumulated during the successive lockdowns that the Bank of England should address by providing more guidance on the next steps regarding the QE programme and the interest rate path.

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	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
London	-0.1	-0.1	-0.1	1.3	1.5	1.5	0.5	0.4	0.6	0.2	0.7	2.2	3.3
South East	0.8	0.5	0.9	0.9	1.1	1.3	0.0	-0.2	-0.1	-0.3	0.2	0.7	1.2
South West	0.6	0.4	0.6	0.7	0.7	0.7	-0.3	-0.5	0.0	-0.1	0.2	0.9	0.9
East Anglia	1.3	1.0	1.4	0.9	0.8	0.9	-0.5	-0.2	-0.1	-0.4	0.0	0.2	0.4
East Midlands	2.3	2.0	2.6	1.8	1.8	1.9	0.9	1.1	1.2	0.9	1.5	0.9	0.9
West Midlands	1.0	0.9	1.1	0.9	1.0	1.2	0.2	0.1	0.2	0.2	0.5	0.8	1.4
Yorkshire and the Humber	1.5	1.4	1.8	1.6	1.4	1.3	0.5	0.4	0.9	0.7	0.8	0.9	1.0
North West	1.2	1.3	1.7	0.9	0.7	1.1	0.3	0.1	-0.1	-0.5	-0.1	0.4	0.8
North	2.4	1.9	2.2	2.0	1.4	1.4	0.5	0.7	0.7	1.3	1.2	0.7	0.6
Wales	2.5	2.2	2.2	2.4	2.4	2.4	1.8	1.7	2.2	2.2	2.2	1.3	1.2
Scotland	1.0	0.9	1.2	1.5	1.1	1.1	-0.1	-0.2	-0.1	-0.2	0.2	0.9	1.2
Northern Ireland	1.6	2.0	2.2	2.1	2.1	2.5	1.6	1.8	1.4	1.3	1.5	1.2	1.7
United Kingdom	1.2	1.0	1.3	1.3	1.2	1.3	0.3	0.3	0.5	0.2	0.6	0.9	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

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 **14 July**.

For further information please contact the NIESR Press Office: press@niesr.ac.uk or Luca Pieri on 074 054 96121/ 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>