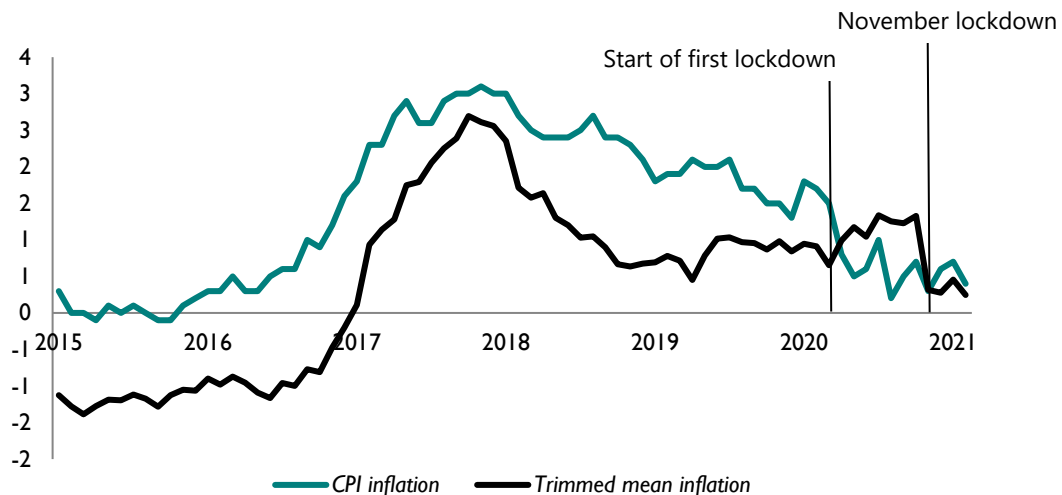


NON-ESSENTIAL RETAIL PRICES DRAG DOWN INFLATION

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

- After increasing steadily for three months, underlying inflation has moderated to the lowest level recorded in four years. Our measure of underlying inflation recorded 0.2 per cent in the year to February 2021, down from 0.5 per cent in January 2021, 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 North West where prices declined by 0.5 per cent in the year to February 2021 (table 1).
- 22.6 per cent of goods and services prices changed in February, implying an average duration of prices of 4.4 months, shorter than the long-term average of 5.1 months. 5.9 per cent of prices were reduced due to sales, 5.1 per cent fell for other reasons and 11.6 per cent recorded increases (figure 2).
- Consumer inflation will likely oscillate in the short term as prices reflect the ongoing lockdown imposed in January 2021. Historically the month of February would see an increase in headline inflation following the unwinding of January sales, but with non-essential retail still affected by lockdown, the decrease in headline inflation is more pronounced.

- 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 February 2022.

"Headline inflation decreased to 0.4 per cent in February, down from 0.7 per cent recorded in January. Our measure of underlying inflation, which excludes extreme price movements, decreased to 0.2 per cent in February. Inflation is expected to reflect some volatility in the short term as the effect of ongoing lockdown impacts consumer prices in the non-essential retail market. 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 February 2022."

Janine Boshoff

Economist, Macroeconomic Modelling and Forecasting

Commentary

Annual headline inflation decreased to 0.4 per cent in the year to February 2021, down from 0.7 per cent recorded in January. Our new analysis of 100,215 locally collected goods and services indicates that the ongoing lockdown measures continue to impact consumer prices in the non-essential retail categories, with the clothing and footwear and recreation and culture categories taking 0.24 percentage points off the headline number. February is traditionally a month that records higher consumer inflation when the unwinding of January sales becomes evident. For this reason, the decrease in headline inflation is more pronounced due to closure of non-essential retailers imposed in January 2021. Our measure of underlying inflation, which excludes the most extreme price changes, decreased to 0.2 per cent in February 2021 from 0.5 per cent in January. Regional trimmed mean inflation indicated that underlying inflation was highest in Wales at 2.2 per cent, and lowest in the North West with a contraction of 0.5 per cent.

Our analysis suggests that inflation could oscillate in the first half of 2021 as the historical impact of the first lockdown becomes evident in the data. The ongoing success of mass vaccination efforts is expected to support the recovery in economic activity, which along with the rise in producer costs will feed through to consumer prices in the latter half of the year. Our forecast is for inflation to remain below the Bank's 2 per cent target in the year to February 2022.

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

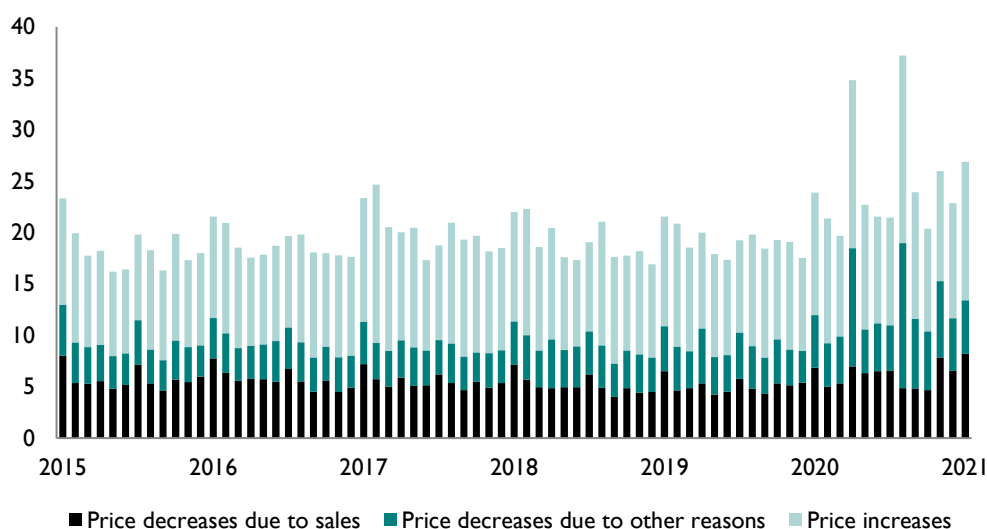


Table 1 – Regional trimmed mean inflation (per cent)

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

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 **21 April**.

For further information please contact the NIESR Press Office: press@niesr.ac.uk / 079 3054 4631 / c.ridyard@niesr.ac.uk / 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>