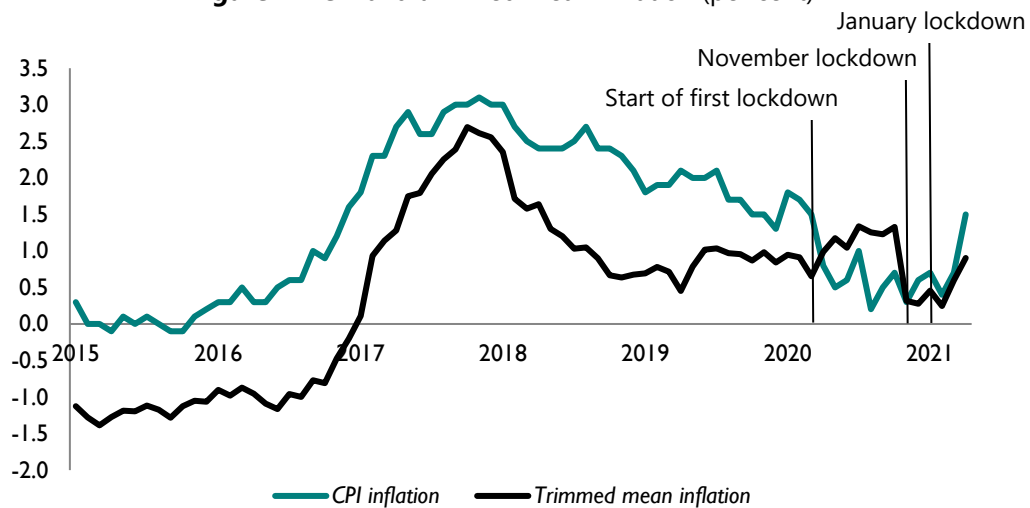


## UNDERLYING INFLATION AT 6-MONTH HIGH

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 to a six-month high in April. The trimmed mean, which excludes 5 per cent of the highest and lowest price changes, recorded 0.9 per cent in April, up from 0.6 per cent in March 2021 (figure 1).
- 18.3 per cent of goods and services prices changed in April, implying an average duration of prices of 5.5 months which is slightly higher than the long-term average of 5.1 months.
- 5.0 per cent of prices were reduced due to sales, 3.1 per cent fell for other reasons and 10.1 per cent recorded increases. Despite the pickup in underlying inflation, there has not been a significant rise in the share of prices that recorded increases (figure 2).
- At the regional level, underlying inflation in London more than tripled in April, increasing from 0.7 per cent in March to 2.2 per cent in April. But significant declines were recorded in Wales, Northern Ireland, East Midlands, and the North which had seen persistently higher underlying inflation since the start of the pandemic last year (table 1).
- The gradual easing of the lockdown has re-introduced goods and services in the non-essential retail and hospitality categories to the calculation of consumer price inflation. We

expect that the rise in energy prices and pent-up demand will be reflected in higher headline inflation going forward.

- CPI inflation is likely to pick up in the second half of the year, finishing the year to April 2022 closer to the Bank of England's target of 2 per cent but there are upside risks on this forecast driven by the possibility of a stronger than expected recovery in consumption as we emerge from the pandemic on the back of a successful vaccination programme as described in more detail in our recent [UK Economic Outlook](#).

*"While annual headline inflation rose to 1.5 per cent in April, more than doubling the 0.7 per cent recorded in March, our measure of underlying inflation, which excludes extreme price movements, increased to a six-month high of 0.9 per cent in April from 0.6 per cent in March. The rise in international oil prices and the consumption-driven recovery in conjunction with the gradual easing of the lockdown will lead to higher consumer price inflation in the coming months, with base effects also contributing to higher inflation in the short-term, but we expect that annual headline inflation will end the year close to the Bank of England's target of 2 per cent with upside risks due to the possibility of a stronger than expected recovery in consumption."*

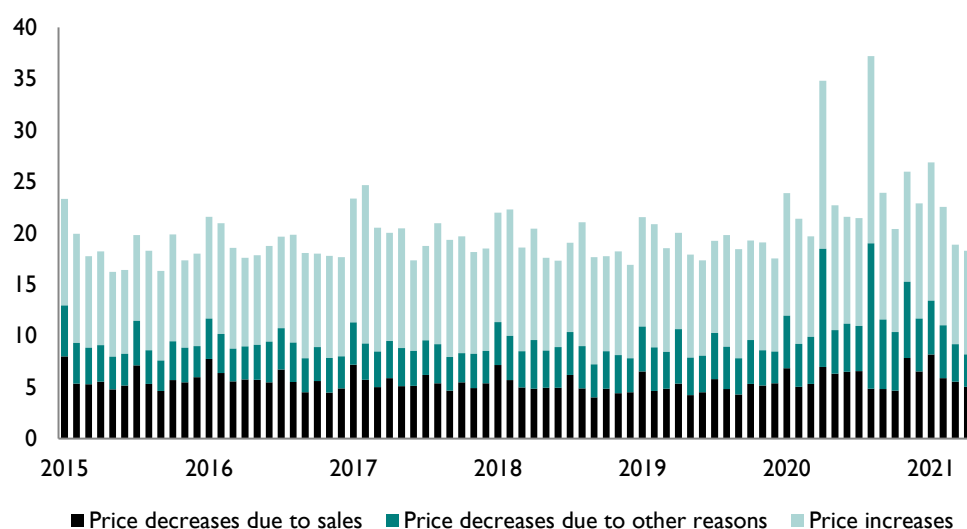
**Janine Boshoff**

**Economist, Macroeconomic Modelling and Forecasting**

## Commentary

Annual headline inflation increased to 1.5 per cent in the year to April 2021, up from 0.7 per cent recorded in March. Consumer prices in the household goods and services, clothing and footwear, and food and non-alcoholic beverages contributed 0.77 percentage points to the headline number. Our measure of underlying inflation, which excludes the most extreme price changes among 202,104 locally collected goods and services, increased to 0.9 per cent in April 2021 from 0.6 per cent in March. All 12 regions saw an increase in underlying inflation, with regional trimmed mean inflation highest in London at 2.2 per cent, and lowest in East Anglia at 0.2 per cent.

The gradual easing of the winter lockdown, in conjunction with the ongoing success of the vaccination programme, will provide a much-needed boost to consumer confidence. The consumption-led recovery in economic activity, together with an increase in international oil prices, will feed through to consumer prices in the latter half of the year. Our forecast is for inflation to increase closer the Bank's 2 per cent target in the year to April 2022, as the economy is expected to still be operating below capacity by this time next year despite the recovery. However, there are upside risks on this forecast driven by the possibility of a stronger than expected recovery in consumption led by a faster unwinding of accumulated savings as we emerge from the pandemic on the back of a successful vaccination programme.

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

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 **16 June**.

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