

UNDERLYING INFLATION REFLECTS INFLATIONARY PRESSURE

Consumer price inflation decreased by 0.7 percentage points to 0.8 per cent in the year to April 2020, as per data released by the ONS. Our new analysis of 84,990 locally collected goods and services indicates consumers benefitted from lower prices in the clothing and footwear, household services and transport categories, reflecting seasonal sales in the clothing industry and lower fuel prices due to developments in the oil price. 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 0.3 percentage point increase in the national figure, to 1 per cent in April. This is consistent with headline CPI inflation of around 2 per cent in the 12 months to April 2021.

Main points

- Underlying inflation increased by 0.3 percentage points to 1 per cent in the year to April 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 North at 2.7 per cent and lowest in London which saw a reduction of 0.2 per cent in the year to April 2020 (table 1).
- 34.8 per cent of goods and services prices changed in April, implying an average duration of prices of 2.9 months. 7 per cent of prices were reduced due to sales, 11.5 per cent fell for other reasons and 16.4 per cent were increases (figure 2).
- The historical relationship between current trimmed mean inflation and future CPI inflation implies CPI inflation of 2.1 per cent in the year to April 2021.

“Headline CPI inflation decreased to 0.8 per cent in the year to April 2020, down from 1.5 per cent recorded in March. Our analysis of approximately 85,000 goods and services included in the basket indicates that lower prices in clothing and footwear, household services and transport categories contributed meaningfully to the moderation in inflation recorded in April. Our measure of underlying inflation, which excludes extreme price movements, increased to 1 per cent in April thanks to an increase in underlying inflation in 11 of the 12 UK regions. On this basis, we expect CPI inflation to settle around the Bank of England’s target of 2 per cent in the coming year.”

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Economist, Macroeconomic Modelling and Forecasting

How the coronavirus pandemic is affecting data collection

Approximately 45 per cent of the prices recorded in the CPIH (CPI including owner occupiers' housing costs) is collected manually every month, with the remaining observations gathered from online sources and admin data.

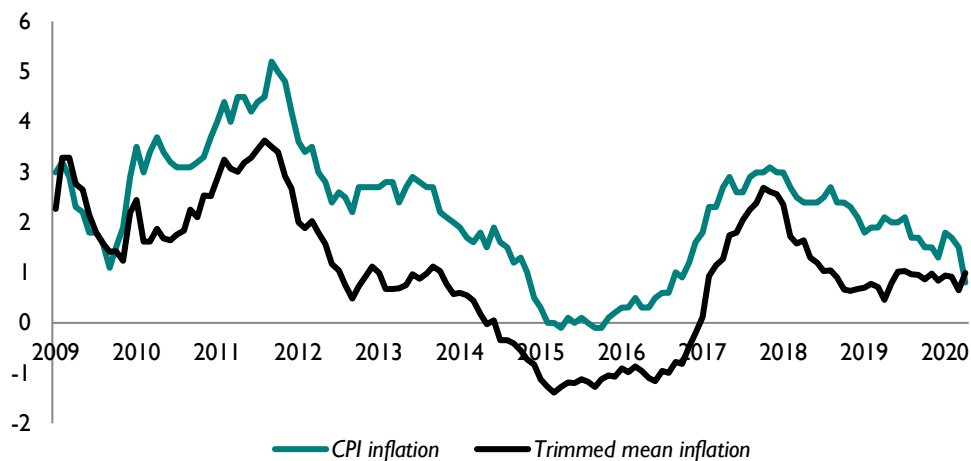
April 2020 is the first month to be affected by a disruption to the manual price collection process as ONS staff adhere to social distancing guidelines. The ONS have published [Coronavirus and the effects on UK prices](#) which details their plans for data collection, compilation and publication of price statistics. Price quotes will be collected online from retailer websites, making comparable and non-comparable replacements where necessary in order to maintain the sample size. For this reason, ONS have extended the collection period by an additional week to allow as many price quotes to be collected. If retailers do not have a website, price collectors will contact the retailers via telephone or email to collect additional price quotes.

Most importantly, the agency makes a distinction between "available" and "unavailable" prices. "Unavailable" prices include any items that consumers can no longer access such as leisure centres, hairdressers or a drink at a pub. These observations are treated as missing prices and will be subject to ONS procedure for that item. "Available" prices relate to goods and services that can still be purchased but for which the price quotes were not available due to the item being out of stock. In that case, ONS will impute the missing price and include the observation in their dataset subject to sample thresholds. Finally, it is important to note that the disruption to manual price collection and the use of these alternative methods will be evident in the CPI inflation numbers for as long as social distancing is in place.

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 June**.

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.

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

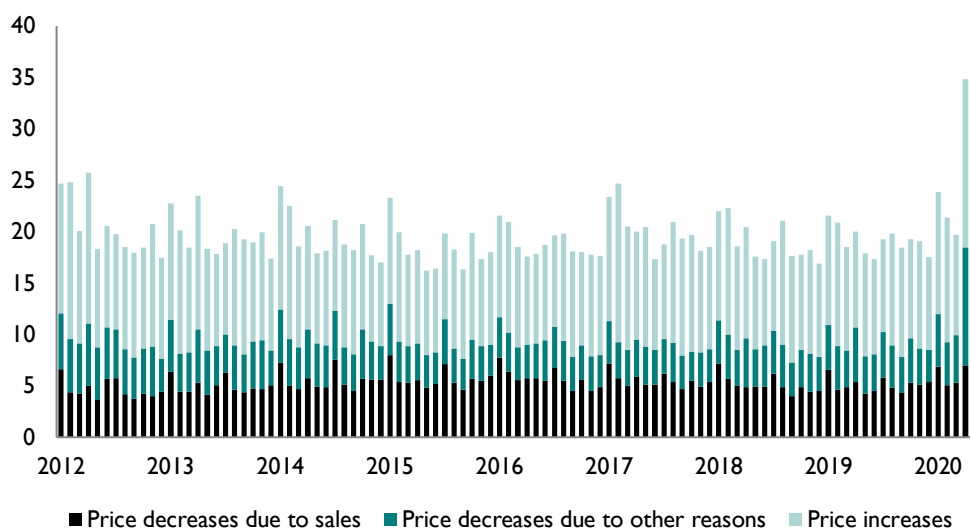


Table 1 – Regional trimmed mean inflation (per cent)

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

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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