

# NIESR

## Monthly CPI Tracker

### Customers feel the bite of VAT hike

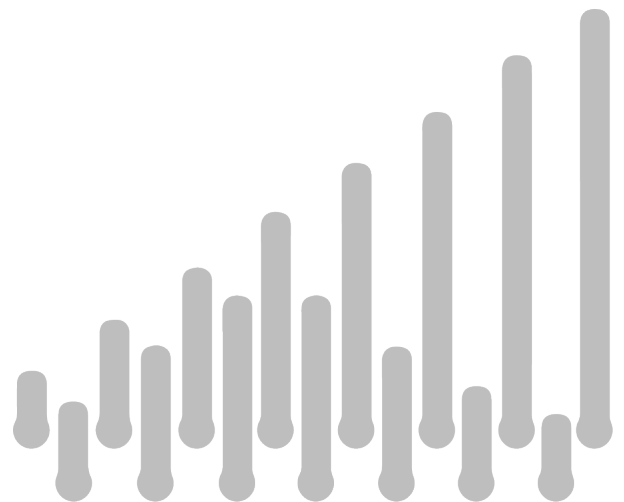
Janine Boshoff

November 2021

*“Annual headline CPI inflation increased to 4.2 per cent in October from 3.1 per cent in September, the highest annual rate of inflation since late 2011. Large price increases in housing and household services contributed 0.7 percentage points to the increase in the headline number. The effect of the first reversal of the 2020 VAT hike was also evident in the restaurant and hotels category, which contributed a further 0.1 percentage points to inflation. Our measure of underlying inflation, which excludes extreme price movements, increased to 2.1 per cent in October from 1.6 per cent in September. The scheduled increase in the OFGEM household energy price-cap next month means consumer inflation will remain above 4 per cent until the end of the year. Our analysis suggests annual consumer price inflation will peak at around 5 per cent in the first half of 2022, well above the Bank of England’s 2 per cent target.”*

**Janine Boshoff**

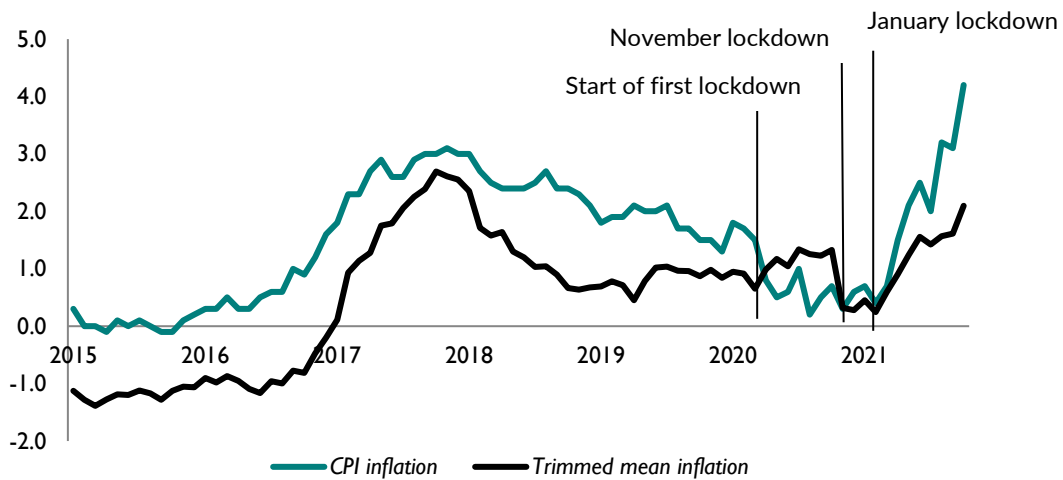
Economist, Macroeconomic Modelling and Forecasting



## Main points

- Headline consumer inflation increased significantly to 4.2 in October 2021 from 3.1 per cent in September. Our measure of underlying inflation as measured by the trimmed mean, which excludes 5 per cent of the highest and lowest price changes increased to 2.1 per cent in October (figure 1).
- Within the CPI, all but two major categories recorded price increases, reflecting the broad-based nature of the inflationary pressure.
- Looking at prices of individual items, 19.3 per cent of goods and services prices changed in October, implying an average duration of prices of 5.2 months. 3.6 per cent of prices were reduced due to sales, 3.7 per cent fell for other reasons and 12 per cent recorded increases (figure 2).
- Our measure of underlying inflation increased in all 12 UK regions. Underlying inflation in London increased to 2.9 per cent in October, up from 2.5 per cent in September. Northern Ireland saw the lowest regional trimmed mean inflation of 1.5 per cent in October (table 1).
- The increase in the OFGEM household energy price-cap in November 2021 will ensure that consumer price inflation remains elevated until at least the end of the year, while the second VAT hike scheduled for April 2022 means there is little respite for consumers for the foreseeable future.
- Our analysis suggests that [headline inflation will peak around 5 per cent](#) in the second quarter of 2022 and we expect that the Bank of England will raise interest rates in the near future in response to the inflationary pressure.

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.

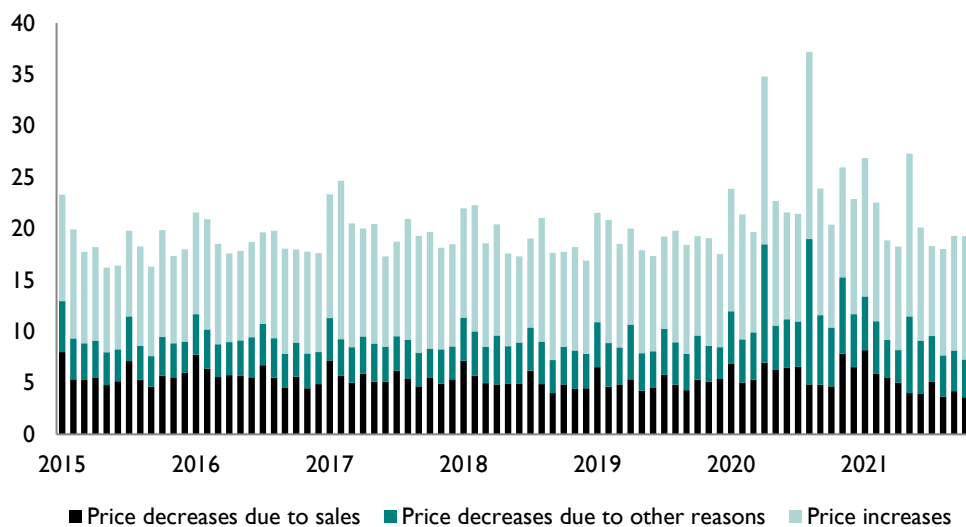
### Commentary

Annual headline inflation increased to 4.2 per cent in the year to October 2021, up from 3.1 per cent recorded in September. While price increases were broad-based, the housing and household services, transport, and restaurants and hotels categories contributed 1 percentage point to the annual inflation number. The increase in the housing services and transport categories likely reflect recent increases in commodity prices and supply-chain disruption, while the first scheduled VAT hike in October is reflected in the restaurant and hotels category. We expect inflation in the housing and household services category to remain elevated in the short term as the scheduled increase in the OFGEM household energy price-cap in November comes into effect.

Our measure of underlying inflation, which excludes the most extreme price changes among 125,670 locally collected goods and services, increased to 2.1 per cent in October 2021. The trimmed mean indicator is at the highest level since January 2018. Underlying inflation increased in all 12 UK regions, with regional trimmed mean inflation highest in London at 2.9 per cent, and lowest in Northern Ireland at 1.2 per cent.

The short-term inflation outlook remains worrisome: the increase in the energy price-cap, the potential for supply disruptions over the festive season and another scheduled VAT hike in April 2022 mean that consumers face a squeeze on their financial positions as [UK economic growth slows markedly](#). Our forecast is for inflation to peak around 5 per cent in the second quarter of 2022 before moderating to 3.7 per cent in the final quarter of next year.

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



**Table 1 – Regional trimmed mean inflation (per cent)**

| Region                   | 2020 |      |      | 2021 |      |      |     |     |      |     |     |     |     |
|--------------------------|------|------|------|------|------|------|-----|-----|------|-----|-----|-----|-----|
|                          | Oct  | Nov  | Dec  | Jan  | Feb  | Mar  | Apr | May | June | Jul | Aug | Sep | Oct |
| London                   | 1.5  | 0.5  | 0.4  | 0.6  | 0.2  | 0.7  | 2.2 | 3.3 | 3.7  | 3.9 | 2.7 | 2.5 | 2.9 |
| South East               | 1.3  | 0.0  | -0.2 | -0.1 | -0.3 | 0.2  | 0.7 | 1.2 | 1.6  | 1.5 | 1.7 | 1.3 | 1.8 |
| South West               | 0.7  | -0.3 | -0.5 | 0.0  | -0.1 | 0.2  | 0.9 | 0.9 | 1.6  | 1.3 | 1.8 | 1.5 | 2.1 |
| East Anglia              | 0.9  | -0.5 | -0.2 | -0.1 | -0.4 | 0.0  | 0.2 | 0.4 | 0.9  | 0.6 | 1.4 | 1.3 | 1.8 |
| East Midlands            | 1.9  | 0.9  | 1.1  | 1.2  | 0.9  | 1.5  | 0.9 | 0.9 | 1.2  | 0.8 | 2.1 | 1.9 | 2.4 |
| West Midlands            | 1.2  | 0.2  | 0.1  | 0.2  | 0.2  | 0.5  | 0.8 | 1.4 | 1.7  | 1.6 | 2.2 | 2.2 | 2.6 |
| Yorkshire and the Humber | 1.3  | 0.5  | 0.4  | 0.9  | 0.7  | 0.8  | 0.9 | 1.0 | 1.1  | 1.0 | 1.4 | 1.4 | 2.1 |
| North West               | 1.1  | 0.3  | 0.1  | -0.1 | -0.5 | -0.1 | 0.4 | 0.8 | 0.9  | 0.6 | 1.5 | 1.5 | 1.7 |
| North                    | 1.4  | 0.5  | 0.7  | 0.7  | 1.3  | 1.2  | 0.7 | 0.6 | 1.3  | 1.1 | 1.8 | 1.8 | 2.4 |
| Wales                    | 2.4  | 1.8  | 1.7  | 2.2  | 2.2  | 2.2  | 1.3 | 1.2 | 1.7  | 1.8 | 1.8 | 1.7 | 2.3 |
| Scotland                 | 1.1  | -0.1 | -0.2 | -0.1 | -0.2 | 0.2  | 0.9 | 1.2 | 1.4  | 1.2 | 1.1 | 1.2 | 1.9 |
| Northern Ireland         | 2.5  | 1.6  | 1.8  | 1.4  | 1.3  | 1.5  | 1.2 | 1.7 | 1.7  | 1.5 | 1.7 | 1.4 | 1.5 |
| United Kingdom           | 1.3  | 0.3  | 0.3  | 0.5  | 0.2  | 0.6  | 0.9 | 1.2 | 1.6  | 1.4 | 1.6 | 1.6 | 2.1 |

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 15 December.

For further information please contact the NIESR Press Office: [press@niesr.ac.uk](mailto:press@niesr.ac.uk) or Luca Pieri on 020 7654 1954 / [l.pieri@niesr.ac.uk](mailto: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>