

# NIESR

## Monthly CPI Tracker

### Supply-side effects feeding through to headline inflation

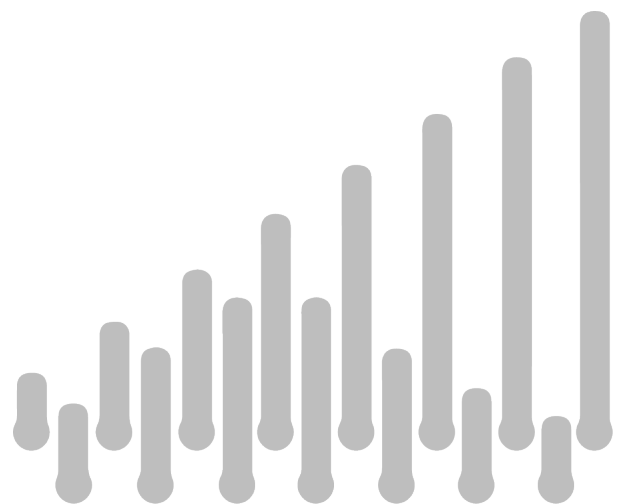
Janine Boshoff

October 2021

*“Annual headline inflation decreased to 3.1 per cent in September from 3.2 per cent in August. A broad-based increase in prices across the categories was offset by a 0.4 percentage point decrease in prices in the restaurants and hotels category. Our measure of underlying inflation, which excludes extreme price movements, remained unchanged at 1.6 per cent in September. Higher commodity prices and ongoing supply-chain disruptions have already filtered through to consumer prices which will remain elevated over the short-term. The first VAT hike in October 2021 and the scheduled increase in the OFGEM household energy price-cap in November 2021 will give further impetus to inflationary momentum. Our analysis suggests annual consumer price inflation will remain elevated in 2021 before peaking above 4 per cent in the first half of 2022, well above the Bank of England’s 2 per cent target in the short-term.”*

**Janine Boshoff**

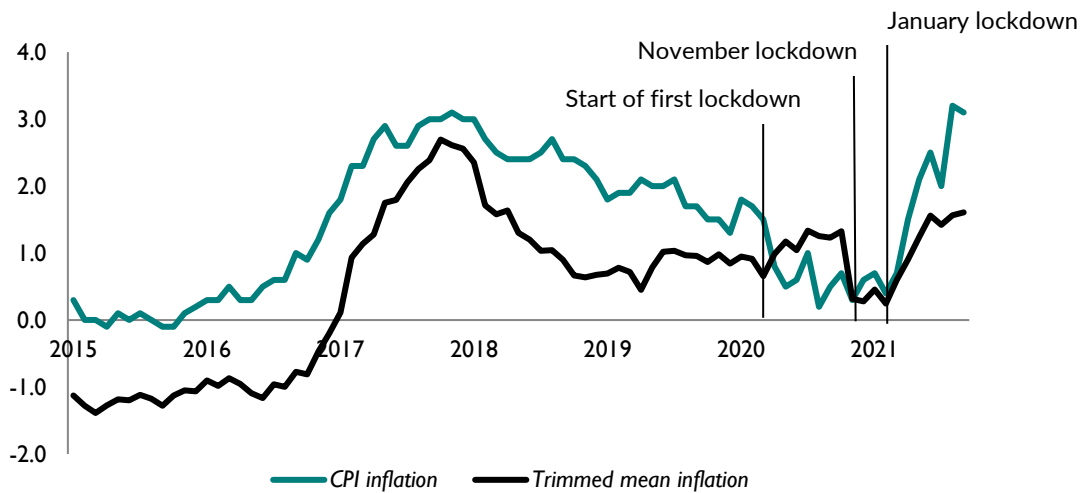
**Economist, Macroeconomic Modelling and Forecasting**



## Main points

- Headline consumer inflation decreased marginally, from 3.2 per cent in August 2021 to 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 remained unchanged at 1.6 per cent in September (figure 1).
- Most categories recorded an increase in September, reflecting the inflationary pressures associated with strong demand, higher commodity prices and ongoing supply-chain disruptions.
- 19.3 per cent of goods and services prices changed in September, implying an average duration of prices of 5.2 months. 4.2 per cent of prices were reduced due to sales, 3.9 per cent fell for other reasons and 11.2 per cent recorded increases (figure 2).
- Our measure of underlying inflation increased in most regions of the UK. Underlying inflation in London decreased to 2.5 per cent in September, down from 2.7 per cent in August. Scotland saw the lowest regional trimmed mean inflation of 1.2 per cent in September (table 1).
- We expect the first scheduled reversal of the 2020 VAT cut in October 2021 and the increase in Ofgem household energy price-cap in November 2021 will likely give further impetus to consumer prices in the coming months.
- [Shortages in intermediate inputs and ongoing disruption in supply chains](#) have filtered through to consumer goods prices, while labour shortages and the associated [increase in wages](#) could also feed through to headline inflation in the coming months.
- Short-term inflationary pressures will likely keep inflation elevated in the year to September 2022. Our analysis suggests that headline inflation will peak above 4 per cent in the first half of 2022 and that the Bank of England will consider a rate increase to prevent a wage and prices spiral from de-anchoring inflation expectations.

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

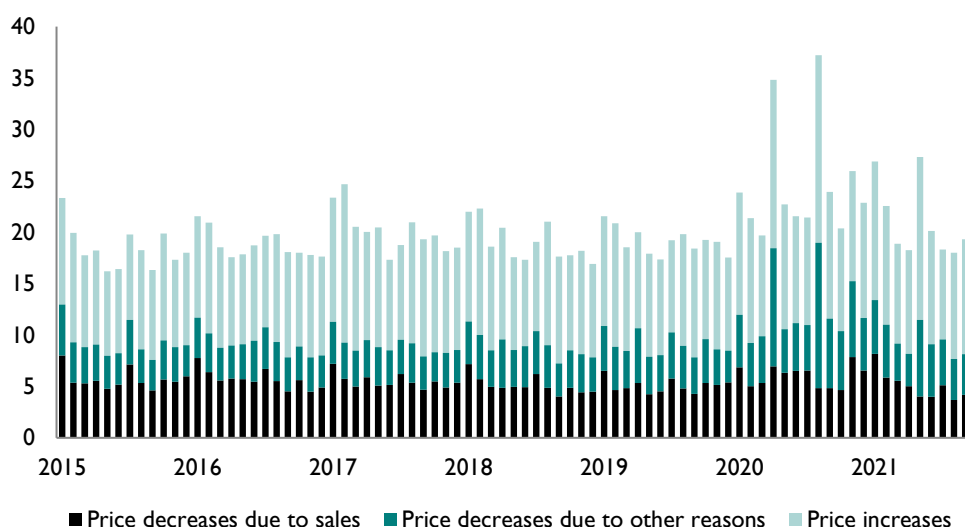
Annual headline inflation decreased to 3.1 per cent in the year to September 2021, down from 3.2 per cent recorded in August. Reductions in consumer prices in the month in restaurants and hotels, and clothing and footwear categories offset price increases across all other categories.

Our measure of underlying inflation, which excludes the most extreme price changes among 125,457 locally collected goods and services, remained unchanged at 1.6 per cent in September 2021. The trimmed mean indicator is at the highest level since April 2018 but does not reflect the surge in headline inflation recorded in June and August this year. Underlying inflation decreased in 7 UK regions, with regional trimmed mean inflation highest in London at 2.5 per cent, and lowest in Scotland at 1.2 per cent.

We expected a base effect moderation in headline inflation in September 2021 in the range of 0.2 to 0.4 percentage points. The outturn in the headline inflation figures suggests that higher commodity prices and the effect of supply chain disruptions are becoming more persistent in consumer goods prices, with both effects expected to remain elevated for the foreseeable future. The first hike to reverse the 2020 VAT cuts is due in October 2021 and the scheduled increase in the OFGEM household energy price-cap in November will also support higher consumer prices in the near-term.

Assuming cost pressures ease and inflation expectations remain well-anchored, our forecast is for inflation to peak above 4 per cent in the first half of 2022. Thereafter, we expect consumer price inflation will fall back to 2.5 per cent in the year to September 2022.

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

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 17 November.

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