

# NIESR

## Monthly CPI Tracker

### No respite for consumers before Christmas

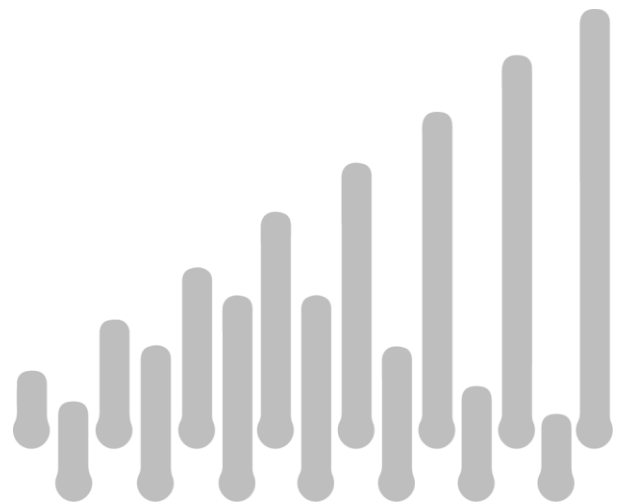
Janine Boshoff

December 2021

*“Annual headline CPI inflation increased to 5.1 per cent in November from 4.2 per cent in October. Higher oil prices are becoming more evident in the transport category, which contributed more than a third to the 0.9 percentage point increase in headline inflation in November 2021. Price increases in clothing and footwear, food and non-alcoholic beverages, and alcoholic beverages and tobacco added a further 0.5 percentage points to consumer inflation in the month. Our measure of underlying inflation, which excludes extreme price movements, increased to 3.4 per cent in November from 2.1 per cent in October. Underlying inflation increased in all 12 UK regions, with consumers in London and the West Midlands feeling the pinch as the trimmed mean inflation rose to 4.3 and 4 per cent respectively. Our analysis suggests annual consumer price inflation will remain close to 5 per cent in the first half of 2022, well above the Bank of England’s 2 per cent target.”*

**Janine Boshoff**

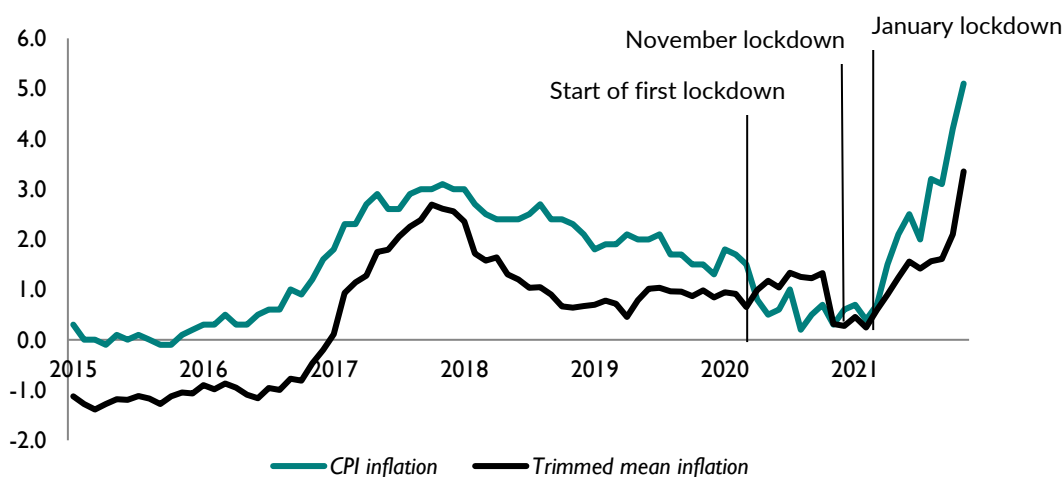
**Economist, Macroeconomic Modelling and Forecasting**



## Main points

- Headline consumer inflation recorded another sizeable increase in November 2021, rising to 5.1 from 4.2 per cent in October. 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 3.4 per cent in November from 2.1 per cent recorded in October (figure 1).
- The transport category made the most significant contribution (0.3 percentage points) to the headline figure, while price increases in clothing and footwear, food and non-alcoholic beverages, and alcoholic beverages and tobacco added a combined 0.5 percentage points to the annual figure.
- Looking at prices of individual items, 18.6 per cent of goods and services prices changed in November, implying an average duration of prices of 5.4 months. 3.8 per cent of prices were reduced due to sales, 3.2 per cent fell for other reasons and 11.6 per cent recorded increases.
- Our measure of underlying inflation increased in all 12 UK regions. Underlying inflation was highest in London at 4.3 per cent and lowest in Northern Ireland at 2.4 per cent in November 2021.
- In our Autumn review, we forecast that [headline inflation will peak around 5 per cent](#) in the second quarter of 2022. This month's reading suggests that the UK will see a more prolonged period of high inflation until the third quarter of 2022. Higher commodity prices, supply chain disruption, an additional VAT hike scheduled for April 2022 and the continuation of the pandemic means consumer prices are likely to remain above the Bank of England's target until 2024.
- Although we expect that the Bank of England will raise interest rates in the near future in response to the inflationary pressure, monetary policy affects consumer inflation with a lag of a year to a year and a half, which means above-target inflation is likely to be with us for an extended period of time if the factors pushing up inflations do not dissipate quickly.

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 5.1 per cent in the year to November 2021, up from 4.2 per cent recorded in October, and the highest rate since September 2011. While price increases were broad-based, the transport, clothing and footwear, food and non-alcoholic beverages, and alcoholic beverages and tobacco contributed a combined 0.8 percentage points to the headline figure. In our [Autumn Economic Outlook](#) we forecast a peak in inflation to occur during the second quarter of 2022, but November's outturn suggest consumers will already be feeling the pinch going into the festive season.

Our measure of underlying inflation, which excludes the most extreme price changes among 126,088 locally collected goods and services, increased to 3.4 per cent in November 2021, up from 2.1 recorded in October. The trimmed mean indicator is at the highest level since October 2011. Underlying inflation increased in all 12 UK regions, with regional trimmed mean inflation highest in London at 4.3 per cent, and lowest in Northern Ireland at 2.4 per cent.

The short-term inflation outlook remains worrisome: higher [wage growth](#) related to labour market shortages, 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](#). The emergence of the Omicron variant could also add to inflationary pressures if it creates shortages and further disruptions to supply-chains, as the OECD warned recently. We expect that the Bank of England will likely raise the policy rate in the near term, but since monetary policy only takes effect with a lag of a year to a year and a half, UK consumers will face a prolonged period of elevated headline inflation.

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

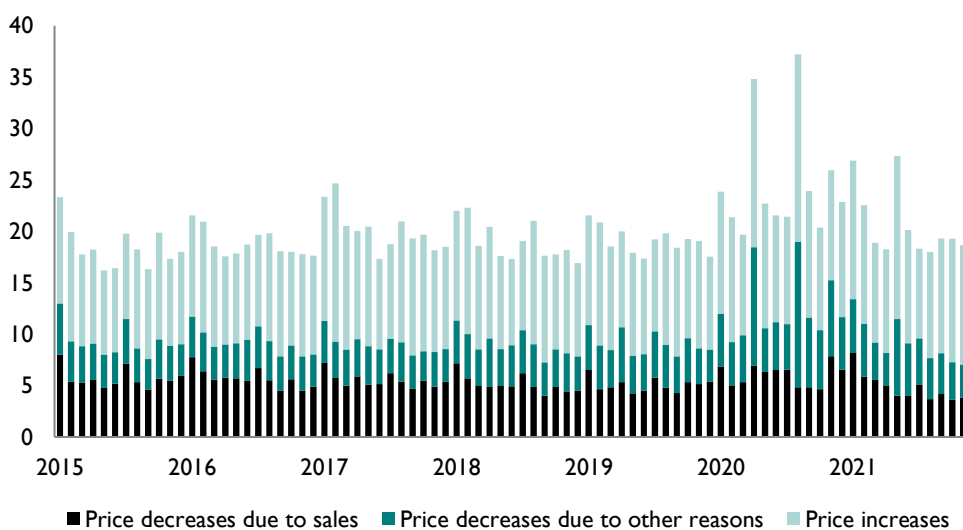


Table 1 – Regional trimmed mean inflation (per cent)

Region	2020		2021										
	Nov	Dec	Jan	Feb	Mar	Apr	May	June	Jul	Aug	Sep	Oct	Nov
London	0.5	0.4	0.6	0.2	0.7	2.2	3.3	3.7	3.9	2.7	2.5	2.9	4.3
South East	0.0	-0.2	-0.1	-0.3	0.2	0.7	1.2	1.6	1.5	1.7	1.3	1.8	3.2
South West	-0.3	-0.5	0.0	-0.1	0.2	0.9	0.9	1.6	1.3	1.8	1.5	2.1	3.4
East Anglia	-0.5	-0.2	-0.1	-0.4	0.0	0.2	0.4	0.9	0.6	1.4	1.3	1.8	3.5
East Midlands	0.9	1.1	1.2	0.9	1.5	0.9	0.9	1.2	0.8	2.1	1.9	2.4	3.6
West Midlands	0.2	0.1	0.2	0.2	0.5	0.8	1.4	1.7	1.6	2.2	2.2	2.6	4.0
Yorkshire and the Humber	0.5	0.4	0.9	0.7	0.8	0.9	1.0	1.1	1.0	1.4	1.4	2.1	3.1
North West	0.3	0.1	-0.1	-0.5	-0.1	0.4	0.8	0.9	0.6	1.5	1.5	1.7	2.9
North	0.5	0.7	0.7	1.3	1.2	0.7	0.6	1.3	1.1	1.8	1.8	2.4	3.4
Wales	1.8	1.7	2.2	2.2	2.2	1.3	1.2	1.7	1.8	1.8	1.7	2.3	3.0
Scotland	-0.1	-0.2	-0.1	-0.2	0.2	0.9	1.2	1.4	1.2	1.1	1.2	1.9	3.4
Northern Ireland	1.6	1.8	1.4	1.3	1.5	1.2	1.7	1.7	1.5	1.7	1.4	1.5	2.4
United Kingdom	0.3	0.3	0.5	0.2	0.6	0.9	1.2	1.6	1.4	1.6	1.6	2.1	3.4

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 19 January.

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