

# NIESR

## Monthly CPI Tracker

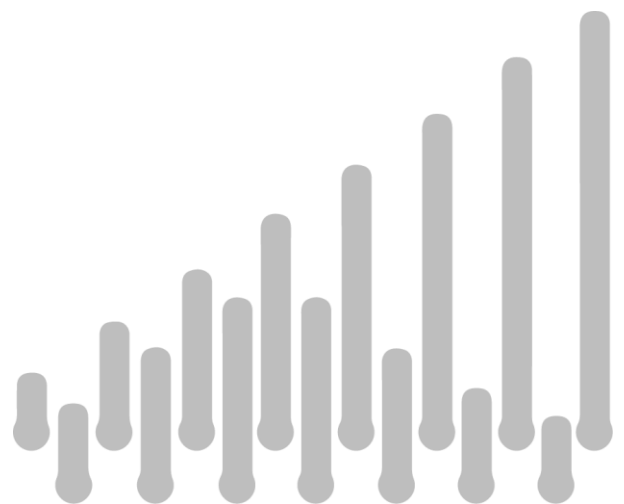
Underlying inflation at record level high  
Janine Boshoff

19<sup>th</sup> January 2022

*“Annual headline CPI inflation increased to 5.4 per cent in December from 5.1 per cent in November. High demand during the festive season was reflected in the food and non-alcoholic beverages category which contributed 0.2 percentage points to the headline figure. Our measure of underlying inflation, which excludes extreme price movements, increased to 4 per cent in December from 3.4 per cent in November. Underlying inflation increased in all 12 UK regions, indicating the broad-based nature of increasing living costs. 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**

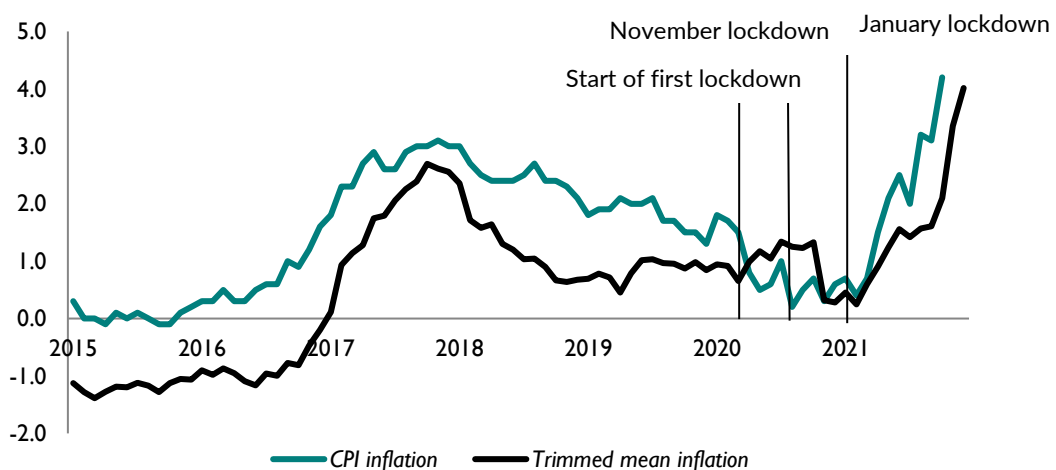
**Economist, Macroeconomic Modelling and Forecasting**



## Main points

- Headline consumer inflation increased to 5.4 per cent in December from 5.1 per cent in November 2021. 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 4 per cent in December from 3.4 per cent recorded in November (figure 1) - its highest level since the start of the series in 1.
- Food and non-alcoholic beverages contributed 0.2 percentage points to the headline figure, with a smaller increase in restaurants and hotels almost completely offset by price reductions in the transport category.
- Looking at prices of individual items, 19.6 per cent of goods and services prices changed in November, implying an average duration of prices of 5.1 months. 3.6 per cent of prices were reduced due to sales, 3.7 per cent fell for other reasons and 12.3 per cent recorded increases.
- Our measure of underlying inflation increased in all 12 UK regions. Underlying inflation was highest in London at 5 per cent and lowest in Northern Ireland at 3 per cent in December 2021.
- Higher inflation in the medium term will likely wipe out [pay increases](#) negotiated in the last three months. Higher commodity prices and an additional VAT hike scheduled for April 2022 means consumer prices are likely to remain above the Bank of England’s target until 2024.
- We expect that the Bank of England will continue to raise interest rates in 2022 but the change in the policy rate will only have an effect some 12 to 18 months later. Our analysis indicates that annual consumer inflation will remain close to 5 per cent in the first half of the year.

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.

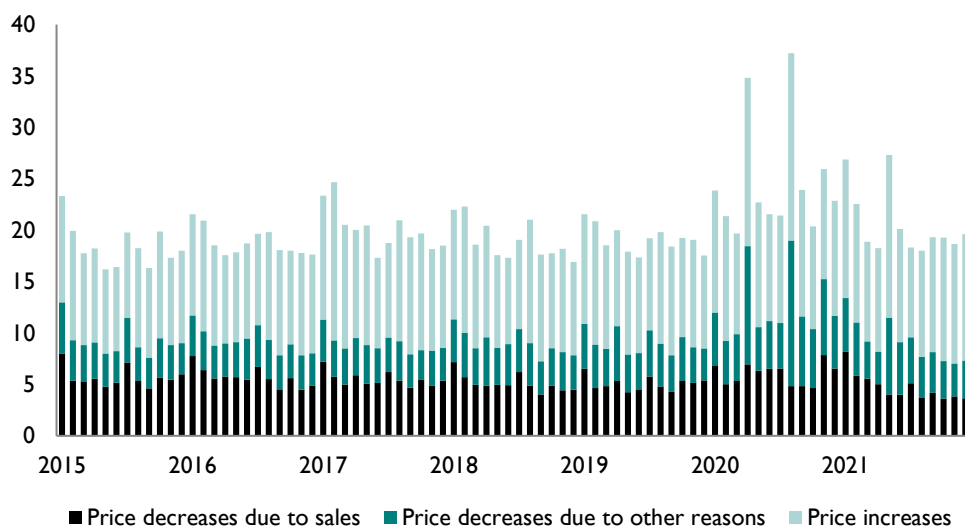
## Commentary

Annual headline inflation increased to 5.4 per cent in the year to December 2021, up from 5.1 per cent recorded in November. While price increases were broad-based, the food and non-alcoholic beverages reflected the largest price increases, adding 0.2 percentage points to the headline figure.

Our measure of underlying inflation, which excludes the most extreme price changes among 125,380 locally collected goods and services, increased to 4 per cent in December 2021, up from 3.4 per cent recorded in November. Trimmed mean inflation is at its highest level on record, a series that has been calculated as far back as January 1997. Underlying inflation increased in all 12 UK regions, with regional trimmed mean inflation highest in London at 5 per cent, and lowest in Northern Ireland at 3 per cent.

The short-term inflation outlook remains worrying: [wage growth](#) below the rate of inflation, and another scheduled VAT hike in April 2022 means that consumers face a squeeze on their financial positions as [UK economic growth slows markedly](#). Despite the Bank of England raising the policy rate in December, our analysis suggests that headline inflation will remain close to 5 per cent in the first half of the year and 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										
	Dec	Jan	Feb	Mar	Apr	May	June	Jul	Aug	Sep	Oct	Nov	Dec
London	0.4	0.6	0.2	0.7	2.2	3.3	3.7	3.9	2.7	2.5	2.9	4.3	5.0
South East	-0.2	-0.1	-0.3	0.2	0.7	1.2	1.6	1.5	1.7	1.3	1.8	3.2	3.8
South West	-0.5	0.0	-0.1	0.2	0.9	0.9	1.6	1.3	1.8	1.5	2.1	3.4	4.3
East Anglia	-0.2	-0.1	-0.4	0.0	0.2	0.4	0.9	0.6	1.4	1.3	1.8	3.5	3.9
East Midlands	1.1	1.2	0.9	1.5	0.9	0.9	1.2	0.8	2.1	1.9	2.4	3.6	4.4
West Midlands	0.1	0.2	0.2	0.5	0.8	1.4	1.7	1.6	2.2	2.2	2.6	4.0	4.6
Yorkshire and the Humber	0.4	0.9	0.7	0.8	0.9	1.0	1.1	1.0	1.4	1.4	2.1	3.1	3.8
North West	0.1	-0.1	-0.5	-0.1	0.4	0.8	0.9	0.6	1.5	1.5	1.7	2.9	3.8
North	0.7	0.7	1.3	1.2	0.7	0.6	1.3	1.1	1.8	1.8	2.4	3.4	3.8
Wales	1.7	2.2	2.2	2.2	1.3	1.2	1.7	1.8	1.8	1.7	2.3	3.0	3.4
Scotland	-0.2	-0.1	-0.2	0.2	0.9	1.2	1.4	1.2	1.1	1.2	1.9	3.4	4.1
Northern Ireland	1.8	1.4	1.3	1.5	1.2	1.7	1.7	1.5	1.7	1.4	1.5	2.4	3.0
United Kingdom	0.3	0.5	0.2	0.6	0.9	1.2	1.6	1.4	1.6	1.6	2.1	3.4	4.0

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

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 February.

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