

NIESR

Monthly CPI Tracker

Headline Inflation Inches Up, But The Worst Is Yet To Come

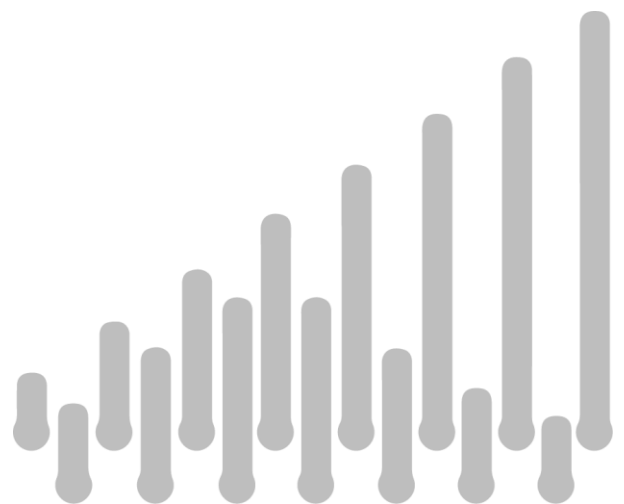
Janine Boshoff

February 2022

“Annual headline CPI inflation increased to 5.5 per cent in January from 5.4 per cent in December. Our measure of underlying inflation, which excludes extreme price movements, increased to 4.3 per cent in January 2022 from 4 per cent in December 2021. This reading of our trimmed mean measure is now broadly in line with the 4.4 per cent recorded for core inflation (CPI excluding energy, food, alcoholic beverages, and tobacco) in January 2022. Underlying inflation increased in 10 of the 12 UK regions, with the South West and Wales recording marginal decreases. Our analysis suggests annual consumer price inflation will peak at 7 per cent in the second quarter of 2022 before the effect of the interest rate hiking cycle causes headline inflation to moderate to 5 per cent by the end of the year.”

Janine Boshoff

Economist, Macroeconomic Modelling and Forecasting

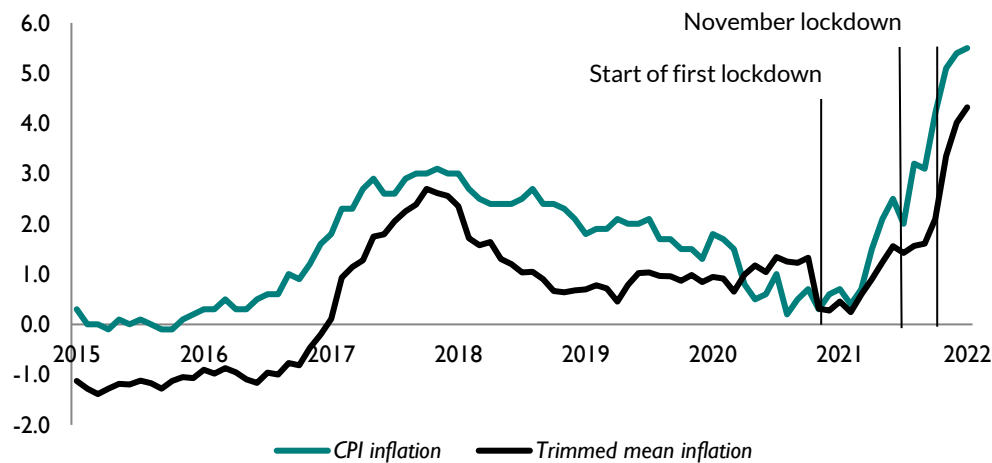


Main points

- Headline consumer price inflation increased to 5.5 per cent in January 2022 from 5.4 in December 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 4.3 per cent in January from 4 per cent recorded in December (figure 1), another record high.
- The clothing and footwear category contributed 0.2 percentage points to the headline figure. Historically, the January headline inflation number benefits from sales, but the combination of base effects due to last year's winter lockdown and the smallest moderation in clothing and footwear prices since January 1990 means that the first month of 2022 has bucked this trend.
- Looking at prices of individual items, 22.5 per cent of goods and services prices changed in January, implying an average duration of prices of 4.4 months. 5.3 per cent of prices were reduced due to sales, 4.4 per cent fell for other reasons and 12.9 per cent recorded increases.
- Our measure of underlying inflation increased in the majority of the 12 UK regions. Underlying inflation was highest in the West Midlands at 5.3 per cent and lowest in Wales at 3.4 per cent in January 2022.
- We have raised our forecast for consumer price inflation in the most recent [UK economic outlook](#) and expect headline inflation will likely peak at 7 per cent during the second quarter of 2022.
- We expect the Bank of England to continue to raise interest rates in 2022 which will bring the official headline number down close to 5 per cent by the end of the year.

Commentary

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.

Annual headline consumer price inflation increased marginally to 5.5 per cent in the year to January 2022, up from 5.4 per cent recorded in December 2021. Historically, the clothing and footwear category benefits from January sales, which has a moderating effect on inflation. This year, however, clothing and footwear contributed 0.2 percentage points to consumer price inflation. This is due to the base effects from last year, when the winter lockdown forced the closure of non-essential retail outlets, as well as the smallest January decrease in clothing and footwear prices since 1990.

Our measure of underlying inflation, which excludes the most extreme price changes among 126,666 locally collected goods and services, increased to a new record high of 4.3 per cent in January 2022, up from 4 recorded in December 2021. Underlying inflation increased in 10 of the 12 UK regions, with regional trimmed mean inflation highest in the West Midlands at 5.3 per cent, and lowest in Wales at 3.4 per cent. This reading is particularly worrisome as NIESR research suggests that cost-of-living increases affect lower-income households, [concentrated in the most economically deprived regions of the UK](#), disproportionately.

Consumers will likely feel the pinch of higher prices in the short-term as we expect headline consumer inflation to peak at 7 per cent in the second quarter of 2022. Analysis in the Winter [UK economic outlook](#) has penciled in four interest rates hikes during the year which will bring consumer inflation closer to 5 per cent by the end of the year.

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

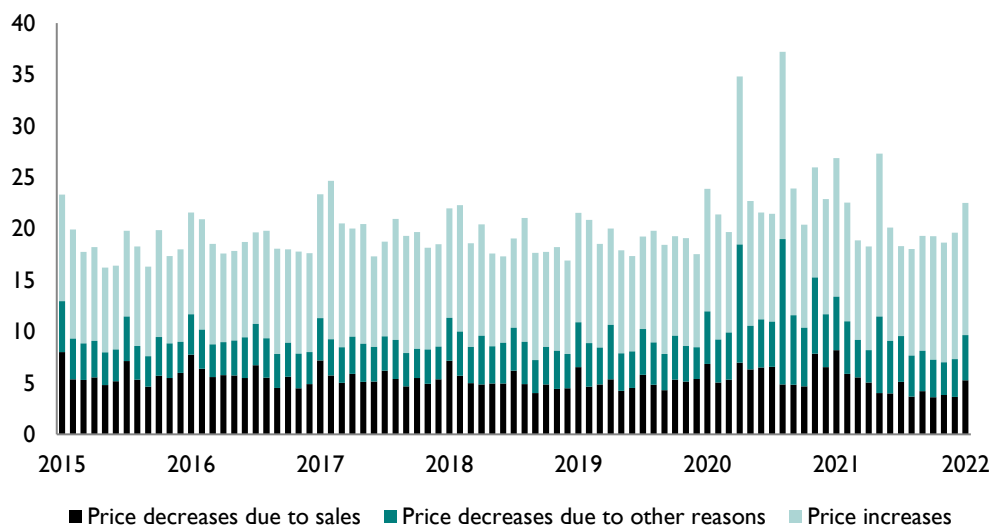


Table 1 – Regional trimmed mean inflation (per cent)

	<u>2021</u>												<u>2022</u>
Region	Jan	Feb	Mar	Apr	May	June	Jul	Aug	Sep	Oct	Nov	Dec	Jan
London	0.6	0.2	0.7	2.2	3.3	3.7	3.9	2.7	2.5	2.9	4.3	5.0	5.2
South East	-0.1	-0.3	0.2	0.7	1.2	1.6	1.5	1.7	1.3	1.8	3.2	3.8	4.1
South West	0.0	-0.1	0.2	0.9	0.9	1.6	1.3	1.8	1.5	2.1	3.4	4.3	4.3
East Anglia	-0.1	-0.4	0.0	0.2	0.4	0.9	0.6	1.4	1.3	1.8	3.5	3.9	4.3
East Midlands	1.2	0.9	1.5	0.9	0.9	1.2	0.8	2.1	1.9	2.4	3.6	4.4	4.6
West Midlands	0.2	0.2	0.5	0.8	1.4	1.7	1.6	2.2	2.2	2.6	4.0	4.6	5.3
Yorkshire and the Humber	0.9	0.7	0.8	0.9	1.0	1.1	1.0	1.4	1.4	2.1	3.1	3.8	4.0
North West	-0.1	-0.5	-0.1	0.4	0.8	0.9	0.6	1.5	1.5	1.7	2.9	3.8	4.1
North	0.7	1.3	1.2	0.7	0.6	1.3	1.1	1.8	1.8	2.4	3.4	3.8	4.4
Wales	2.2	2.2	2.2	1.3	1.2	1.7	1.8	1.8	1.7	2.3	3.0	3.4	3.4
Scotland	-0.1	-0.2	0.2	0.9	1.2	1.4	1.2	1.1	1.2	1.9	3.4	4.1	4.6
Northern Ireland	1.4	1.3	1.5	1.2	1.7	1.7	1.5	1.7	1.4	1.5	2.4	3.0	3.6
United Kingdom	0.5	0.2	0.6	0.9	1.2	1.6	1.4	1.6	1.6	2.1	3.4	4.0	4.3

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 23 March.

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