

NIESR

Monthly CPI Tracker

Consumers forced to tighten their belts further as underlying inflation exceeds 5 per cent

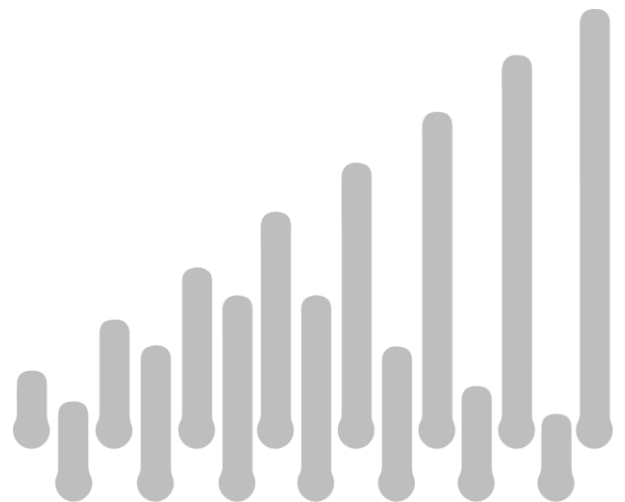
Urvish Patel

23rd March 2022

“Annual headline CPI inflation increased to 6.2 per cent in February from 5.5 per cent in January. Our measure of underlying inflation, which excludes extreme price movements, increased to 5.1 per cent in February from 4.3 per cent in January, the largest month-on-month increase since November 2021. Our analysis suggests annual consumer price inflation will likely peak in 2022 Q3 above 8 per cent because of the impacts from the Russia-Ukraine war, despite the Bank of England’s most recent policy hikes.”

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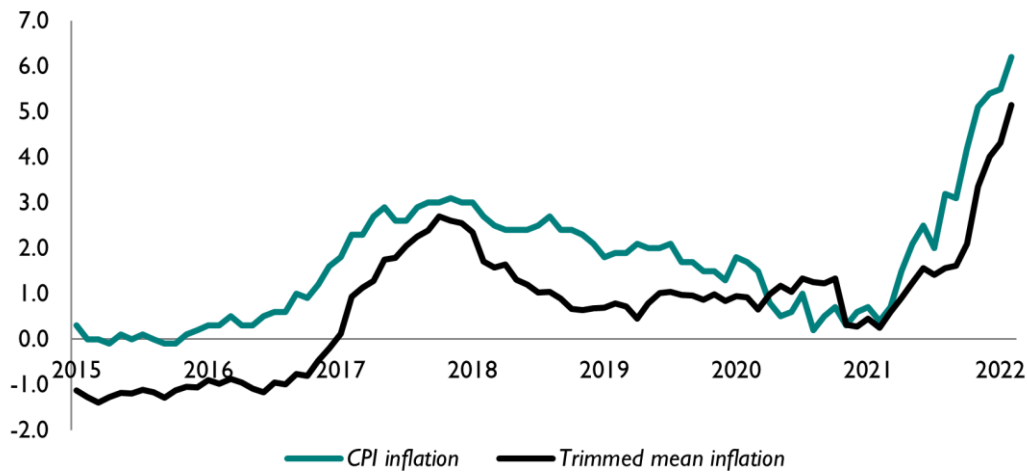
Economist, Macroeconomic Modelling and Forecasting



Main points

- Headline consumer price inflation increased to 6.2 per cent in February 2022 from 5.5 in January. Our measure of underlying inflation which excludes 5 per cent of the highest and lowest price changes, increased to 5.1 per cent in February from 4.3 per cent in January.
- The largest contributions to the upwards change in inflation came from the recreation and culture and clothing and footwear sectors, which contributed 0.4 percentage points to the change in the headline figure. The largest contributions to the annual figure remain the household services (predominantly electricity, gas, and other fuels) and the transport (predominantly motor fuel) sectors.
- In February, 30.9 per cent of goods and services prices changed, which is the highest since August 2020. Approximately 17,000 items recorded price rises, which is the highest since January 2011. Meanwhile, 4.3 per cent of prices were reduced due to sales and 4.2 per cent fell for other reasons.
- Underlying inflation increased in all of the 12 UK regions. London's annual inflation rate in February was the highest at 6.1 per cent, compared to Wales which had the lowest at 4.2 per cent.
- The latest inflation figures for February will not have the impact from the Russia-Ukraine war, **but the expected rise in inflation in the short term following the war will likely force consumers to tighten their belts further and dent economic growth.** Higher energy prices alongside rising VAT next month and second-round effects will mean consumer prices are likely to remain above the Bank of England's target until 2024.
- We expect the Bank of England will continue to raise interest rates in 2022. Our analysis indicates that annual consumer price inflation will average 7 per cent in 2022.

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 6.2 per cent in the year to February 2022, up from 5.5 per cent recorded in January. Price increases in recreation and culture and clothing and footwear sectors contributed 0.4 percentage points to the change in the headline figure. Household services (predominantly, electricity, gas, and other fuels) and transport (predominantly motor fuels) remain the largest contributors to the annual inflation rate (2.6 percentage points of the 6.2 per cent annual rate). In February, our analysis indicates that approximately 17,000 items recorded price increases, which is the highest since January 2011.

Our measure of underlying inflation, which excludes extreme price movements, increased to a new high of 5.1 per cent in February from 4.3 per cent in January. This also marks the largest month-on-month increase since November 2021. At the regional level, annual trimmed mean inflation increased further in February in all of the 12 UK regions, with London recording the highest annual inflation rate of 6.1 per cent, compared to Wales which had the lowest rate of 4.2 per cent.

The short-term inflation outlook remains bleak. The Russia-Ukraine war has further aggravated shortages of energy supply and driven up the prices of wholesale natural gas and oil, increasing the probability that the energy price cap will rise again in October 2022. This will intensify the cost of living crisis and add to the existing pressures on household budgets at a time when real incomes are being significantly eroded by higher inflation, which is [forecast to exceed 8 per cent in 2022 Q3](#). The second-round effects from [higher nominal wages particularly in the private sector](#) will fuel further inflation, and thus intensify the pressures on the Bank of England's Monetary Policy Committee at a time when UK economic

growth is forecast to slow markedly to 4 per cent in 2022. Our analysis suggests that headline inflation will average 7 per cent in 2022.

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

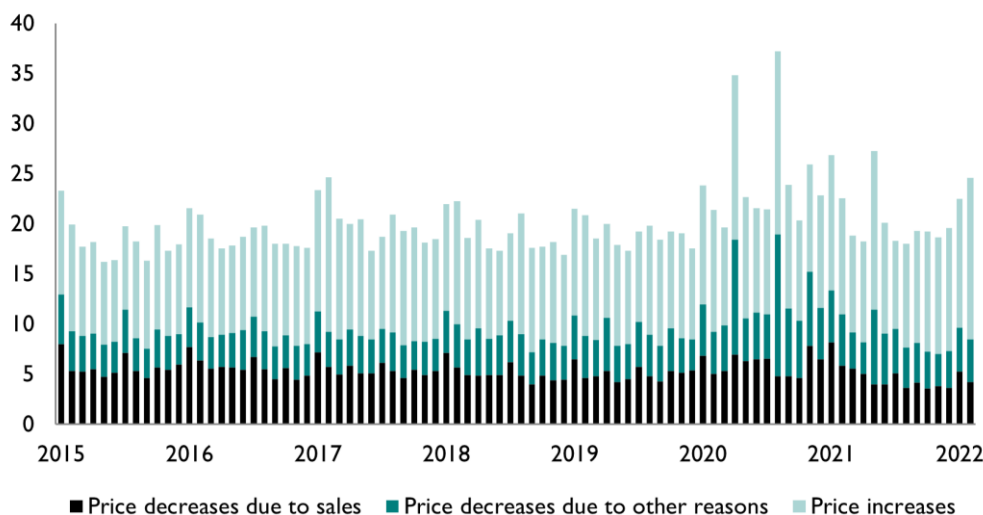


Table 1 – Regional trimmed mean inflation (per cent)

	2021											2022	
Region	Feb	Mar	Apr	May	June	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
London	0.2	0.7	2.2	3.3	3.7	3.9	2.7	2.5	2.9	4.3	5.0	5.2	6.1
South East	-0.3	0.2	0.7	1.2	1.6	1.5	1.7	1.3	1.8	3.2	3.8	4.1	5.0
South West	-0.1	0.2	0.9	0.9	1.6	1.3	1.8	1.5	2.1	3.4	4.3	4.3	5.1
East Anglia	-0.4	0.0	0.2	0.4	0.9	0.6	1.4	1.3	1.8	3.5	3.9	4.3	5.3
East Midlands	0.9	1.5	0.9	0.9	1.2	0.8	2.1	1.9	2.4	3.6	4.4	4.6	5.3
West Midlands	0.2	0.5	0.8	1.4	1.7	1.6	2.2	2.2	2.6	4.0	4.6	5.3	6.0
Yorkshire and the Humber	0.7	0.8	0.9	1.0	1.1	1.0	1.4	1.4	2.1	3.1	3.8	4.0	5.0
North West	-0.5	-0.1	0.4	0.8	0.9	0.6	1.5	1.5	1.7	2.9	3.8	4.1	5.0
North	1.3	1.2	0.7	0.6	1.3	1.1	1.8	1.8	2.4	3.4	3.8	4.4	4.6
Wales	2.2	2.2	1.3	1.2	1.7	1.8	1.8	1.7	2.3	3.0	3.4	3.4	4.2
Scotland	-0.2	0.2	0.9	1.2	1.4	1.2	1.1	1.2	1.9	3.4	4.1	4.6	5.3
Northern Ireland	1.3	1.5	1.2	1.7	1.7	1.5	1.7	1.4	1.5	2.4	3.0	3.6	4.4
United Kingdom	0.2	0.6	0.9	1.2	1.6	1.4	1.6	1.6	2.1	3.4	4.0	4.3	5.1

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 13 April.

For further information please contact the NIESR Press Office: press@niesr.ac.uk or Luca Pieri on 020 7654 1954 / 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>