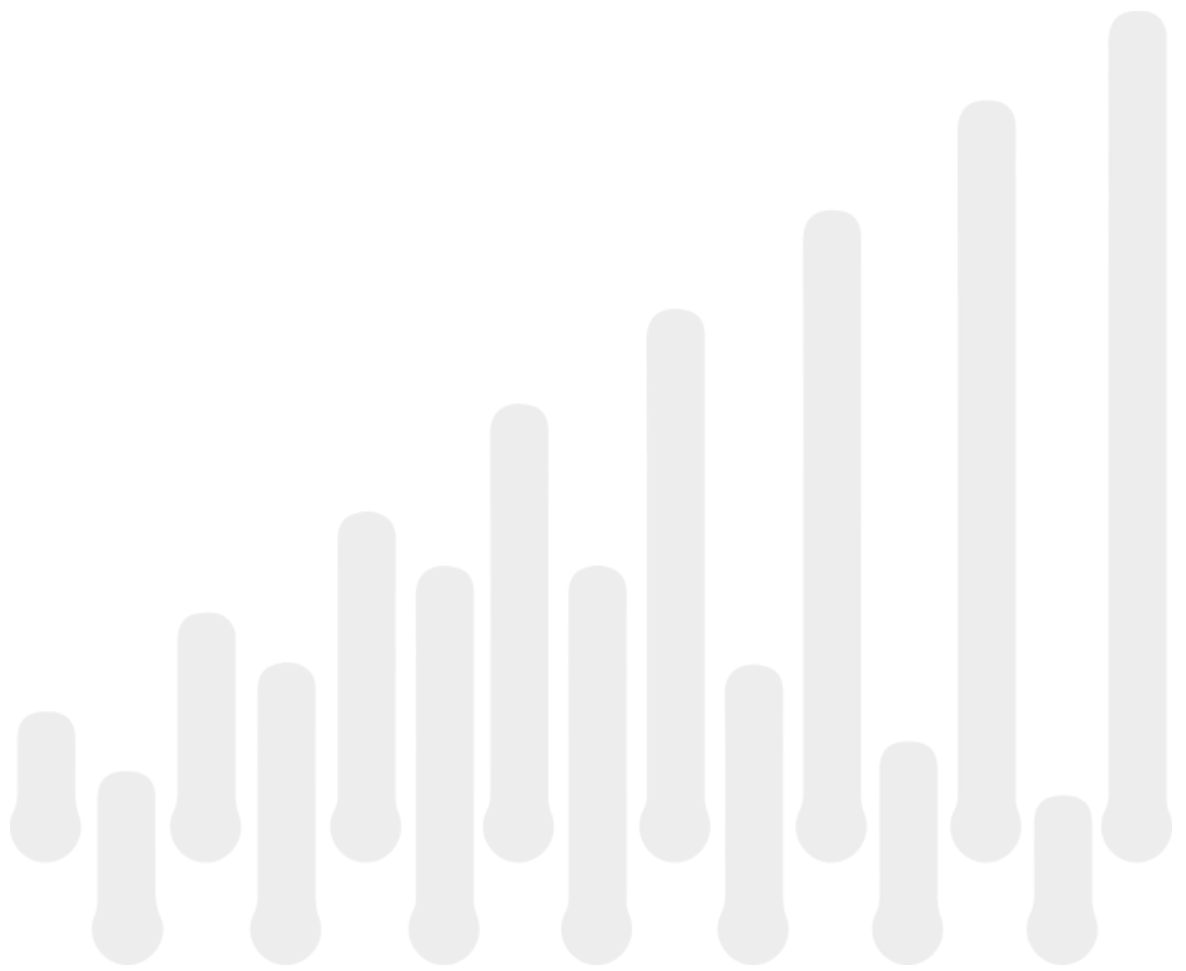


NIESR

Monthly CPI Tracker

No respite for UK consumers and the Bank of England as inflation hits 7 per cent

Urvish Patel
April 2022



Main points

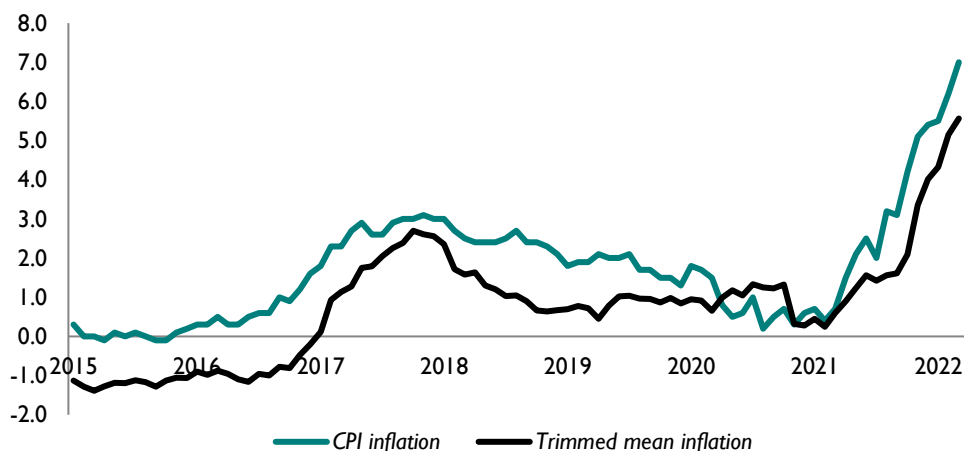
- Headline consumer price inflation increased to 7.0 per cent in March 2022 from 6.2 in February. Our measure of underlying inflation which excludes 5 per cent of the highest and lowest price changes, increased to 5.6 per cent in March from 5.1 per cent in February.
- Between February and March, the transport and restaurants and hotels sectors contributed almost 0.5 percentage points to the headline figure.
- In March, 25.7 per cent of goods and services prices changed, with approximately 15,000 items recording price rises, while 3.8 per cent of prices were reduced due to sales and 4.2 per cent fell for other reasons.
- Underlying inflation increased in all 12 UK regions in March. Yet again, London's underlying annual inflation rate remained the highest at 6.4 per cent, compared to Wales which had the lowest rate again at 4.9 per cent in March.
- The Russia-Ukraine war continues to impact price inflation. **NIESR's forecast for inflation paints a dire picture for consumers, as declining real wages and increased payroll taxes erode household finances.**
- **There is no respite for consumers, and the Bank of England especially, as inflation is forecast to average 7 per cent this year and will likely remain above target until 2024.** We expect the Monetary Policy Committee will continue to raise interest rates through 2022, which could further dampen consumer confidence.

“Annual headline CPI inflation increased to 7.0 per cent in March from 6.2 per cent in February. Our measure of underlying inflation, which excludes extreme price movements, increased to 5.6 per cent in March from 5.1 per cent in February. NIESR forecasts annual consumer price inflation will peak in 2022 Q3 above 8 per cent as the direct impact of the war in Ukraine, as well as second-round effects, feeds through to consumer prices. The Bank of England's dilemma is becoming increasingly difficult as more frequent rate hikes risk tipping the UK into a recession whilst a more gradual approach could cause macroeconomic instability.”

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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 consumer price inflation (CPI) increased to 7.0 per cent in the year to March 2022, up from 6.2 per cent in February. Between February and March, the transport and restaurants and hotels sectors contributed almost 0.5 percentage points to the headline annual figure. Meanwhile, food and non-alcoholic beverages added approximately 0.1 percentage points and housing, water, electricity, gas, and other fuels contributed a further 0.1 percentage points to the headline annual figure. The effects of the Russia-Ukraine war continue to feed through to headline CPI, and are likely to raise inflation further in the future. Furthermore, our analysis shows that 25.7 per cent of goods and services prices changed with some 15,000 items recording price increases.

Our measure of underlying inflation increased to a new high of 5.6 per cent in March from 5.1 per cent in February. At the regional level, annual trimmed mean inflation increased further in all the 12 UK regions. Yet again, London recorded the highest annual inflation rate of 6.4 per cent, compared to Wales which had the lowest at 4.9 per cent.

The outlook for UK inflation remains abysmal. The ongoing impacts from the war in Ukraine on consumer prices and their second-round effects, through [higher nominal wages](#), will likely keep inflation above target until 2024. NIESR's current forecast suggests that annual consumer price inflation will average 7 per cent this year but peak in the third quarter at above 8 per cent. The inflationary dynamics following the war will intensify the cost-of-living crisis which we estimated before the war [would render the average household £1,000 per annum worse off](#), with the regional effects concentrated in the North and West Midlands. The Bank of England's dilemma is becoming increasingly difficult as more frequent rate hikes risk tipping the UK into a recession as [growth is already stalling](#), whilst a gradualist approach could cause macroeconomic instability and de-anchor inflation expectations.

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

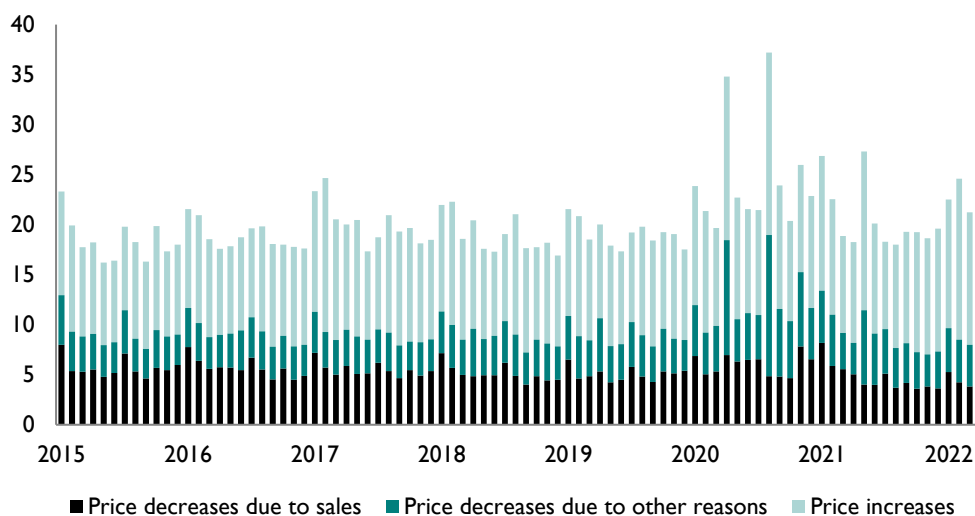


Table 1 – Regional trimmed mean inflation (per cent)

	2021												2022		
Region	Jan	Mar	Apr	May	June	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	
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	6.4	
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	5.2	
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	5.7	
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	5.7	
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	5.7	
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	6.3	
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	5.4	
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	5.6	
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	5.1	
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	4.9	
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	5.7	
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	5.1	
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	5.6	

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 18 May.

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