

NIESR

Monthly CPI Tracker

Underlying inflation in the UK rises to 6.2 per cent, the highest since January 1992!

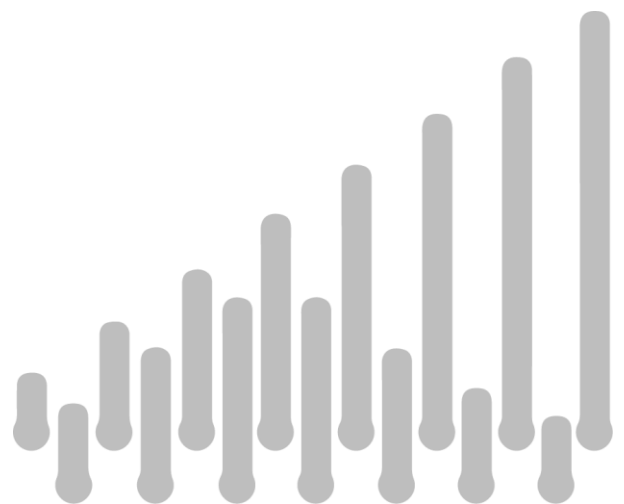
Urvish Patel

20th July 2022

“Annual headline CPI inflation increased by 0.3 percentage points to 9.4 per cent in June from 9.1 per cent in May. Meanwhile, our measure of underlying inflation, which excludes extreme price movements rose by 0.4 percentage points to 6.2 per cent in June – which is the highest since January 1992! The latest surge in UK inflation was mainly due to the transport sector which added 0.16 percentage points to the change in the headline figure, closely followed by food and non-alcoholic beverages. NIESR forecasts annual CPI inflation will peak close to 11 per cent at the end of 2022/beginning of 2023, driven by the hike in the energy price cap in October 2022, and remain above target through 2023. The Bank of England’s decision to wind down their balance sheet will to some extent help control the speed at which they raise interest rates as they navigate uncharted territories, with risks of both a recession and inflation becoming persistent.”

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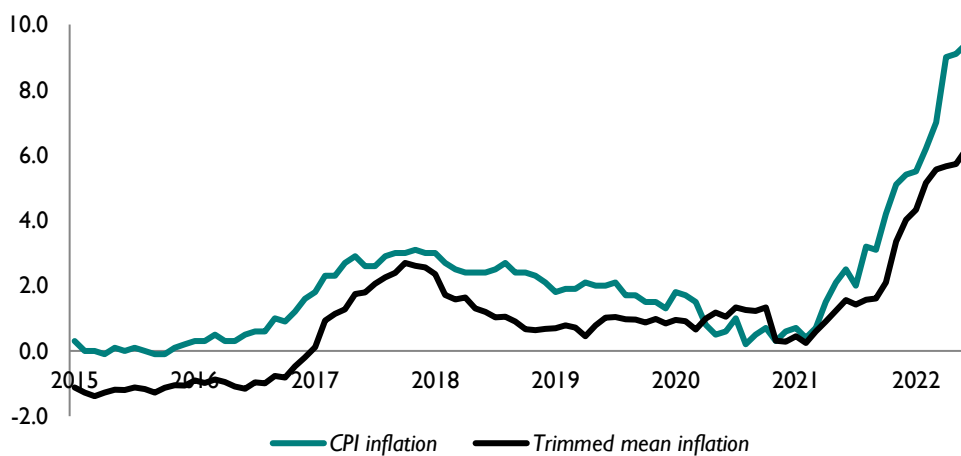
Associate Economist, Macroeconomic Modelling and Forecasting



Main points

- Headline consumer price inflation increased to 9.4 per cent in June 2022 from 9.1 per cent in May. Our measure of underlying inflation which excludes 5 per cent of the highest and lowest price changes, increased to 6.2 per cent – which is the highest since January 1992!
- Between May and June, the transport sector contributed 0.16 percentage points to the change in the headline figure, closely followed by food and non-alcoholic beverages and restaurants and hotels.
- Our analysis suggests that in June, slightly above 28 per cent of goods and services prices changed with approximately 17,200 items (15 per cent) recording price increases, while 4.1 per cent of prices were reduced due to sales and 3.9 per cent fell for other reasons.
- Underlying inflation increased in all of the 12 UK regions in June. Underlying inflation was again the highest in the West Midlands at 6.9 per cent, whereas Wales had the lowest rate at 5.4 per cent in June.
- NIESR forecasts annual CPI inflation will peak close to 11 per cent towards the end of 2022/beginning of 2023, because of the hike in the energy price cap, and remain above target through 2023.
- Latest earnings data covering the three months to May 2022 suggests that surging prices are burning a hole through household pockets. In the three months to May, [regular real pay fell at a record rate of 2.8 per cent on the year](#).
- The Bank of England's decision to wind down their balance sheet will to some extent help control the speed at which they raise interest rates as they navigate uncharted territories, with risks of both a recession and inflation becoming persistent.

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 by 0.3 percentage points to 9.4 per cent in the year to June 2022, from 9.1 per cent in May. The latest surge in the headline figure was driven predominately by the transport sector which contributed 0.16 percentage points to the change in the headline figure between May and June, with motor fuels contributing 0.29 percentage points. The other main contributors were food and non-alcoholic beverages and restaurants and hotels which added 0.13 and 0.12 percentage points to the change in the headline figure, respectively.

Meanwhile, NIESR's measure of underlying inflation which excludes 5 per cent of the highest and lowest price changes, increased by 0.4 percentage points to 6.2 per cent in June – which is the highest since January 1992! At the regional level, in June annual trimmed mean inflation increased in all of the 12 UK regions. Annual trimmed mean inflation was the highest in the West Midlands at 6.9 per cent, compared to Wales which had the lowest at 5.4 per cent.

NIESR forecasts annual CPI inflation will peak close to 11 per cent towards the end of 2022/beginning of 2023, mainly because of the next hike in the energy price cap in October 2022, and remain above target through 2023. Latest earnings data covering the three months to May 2022 suggests that surging prices are burning a hole through household pockets. In the three months to May, [regular real pay fell at a record rate of 2.8 per cent on the year](#). Even when accounting for bonuses, total real pay declined by 0.9 per cent in the three months to May 2022 relative to the same three months in 2021. With this fall in real income expected to significantly erode consumer demand in the months ahead, NIESR forecasts GDP growth to [decline by 0.1 per cent in the third quarter of 2022 following growth of 0.2 per cent in the second quarter](#). The Bank of England's decision to wind down their balance sheet will to some extent help control the speed at which they raise interest rates as they navigate uncharted territories, with risks of both a recession and inflation becoming persistent.

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

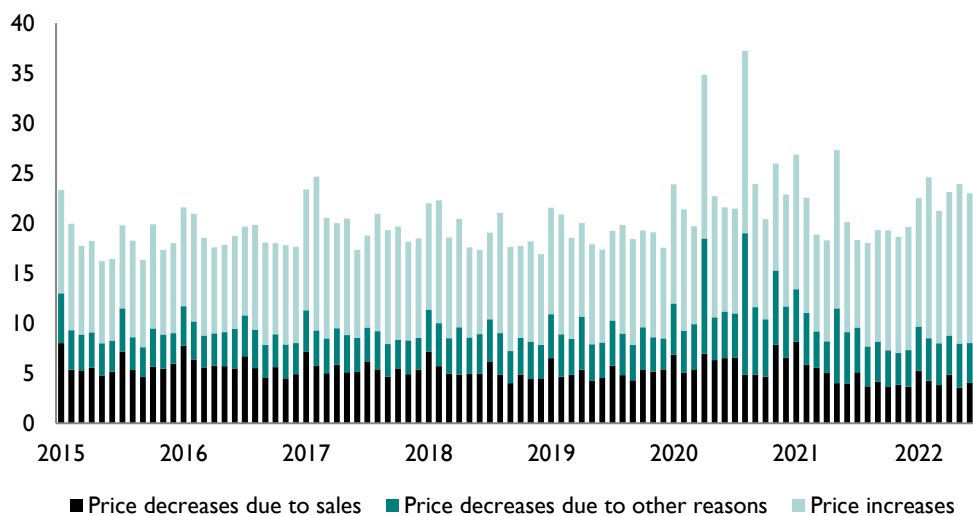


Table 1 – Regional trimmed mean inflation (per cent)

Region	2021									2022					
	Apr	June	June	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June
London	2.2	3.3	3.7	3.9	2.7	2.5	2.9	4.3	5.0	5.2	6.1	6.4	6.7	5.8	6.2
South East	0.7	1.2	1.6	1.5	1.7	1.3	1.8	3.2	3.8	4.1	5.0	5.2	5.4	5.2	5.7
South West	0.9	0.9	1.6	1.3	1.8	1.5	2.1	3.4	4.3	4.3	5.1	5.7	5.7	6.1	6.2
East Anglia	0.2	0.4	0.9	0.6	1.4	1.3	1.8	3.5	3.9	4.3	5.3	5.7	5.6	5.8	6.4
East Midlands	0.9	0.9	1.2	0.8	2.1	1.9	2.4	3.6	4.4	4.6	5.3	5.7	5.9	6.3	6.7
West Midlands	0.8	1.4	1.7	1.6	2.2	2.2	2.6	4.0	4.6	5.3	6.0	6.3	6.7	6.5	6.9
Yorkshire and the Humber	0.9	1.0	1.1	1.0	1.4	1.4	2.1	3.1	3.8	4.0	5.0	5.4	5.6	5.6	6.4
North West	0.4	0.8	0.9	0.6	1.5	1.5	1.7	2.9	3.8	4.1	5.0	5.6	5.5	5.6	6.1
North	0.7	0.6	1.3	1.1	1.8	1.8	2.4	3.4	3.8	4.4	4.6	5.1	4.9	5.8	6.4
Wales	1.3	1.2	1.7	1.8	1.8	1.7	2.3	3.0	3.4	3.4	4.2	4.9	4.6	5.3	5.4
Scotland	0.9	1.2	1.4	1.2	1.1	1.2	1.9	3.4	4.1	4.6	5.3	5.7	5.7	5.8	6.6
Northern Ireland	1.2	1.7	1.7	1.5	1.7	1.4	1.5	2.4	3.0	3.6	4.4	5.1	5.0	5.5	5.5
United Kingdom	0.9	1.2	1.6	1.4	1.6	1.6	2.1	3.4	4.0	4.3	5.1	5.6	5.7	5.7	6.2

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 17 August 2022.

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