

# NIESR

## Monthly CPI Tracker

### No Respite For UK Consumers As UK Inflation Surges To 10.1 Per Cent

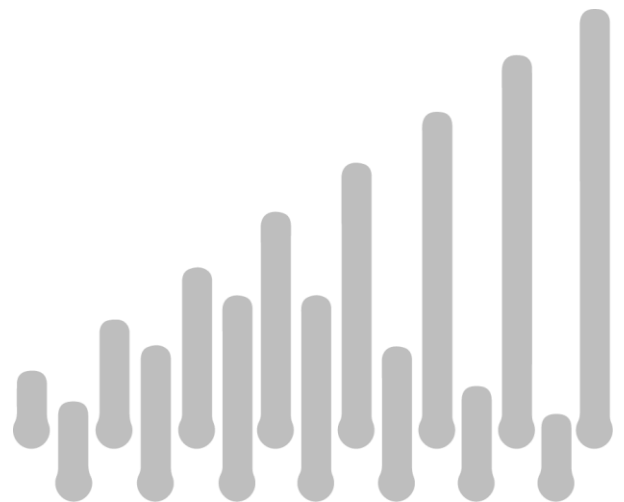
Urvish Patel

17<sup>th</sup> August 2022

*“Annual headline CPI inflation increased to 10.1 per cent in July from 9.4 per cent in June. NIESR’s measure of underlying inflation, which excludes extreme price movements, rose by 1.0 percentage points to 7.2 per cent in July: the highest since the start of this series in January 1992! The surge in UK inflation was mainly accounted for by food and non-alcoholic beverages which contributed 0.32 percentage points to the monthly change in the headline figure. Underlying inflation increased in all of the 12 UK regions in July, although inflation in the East Midlands is now the highest at 8 per cent. Considering the ongoing surge in food prices and the expected hike in the energy price cap in October 2022, we now expect annual CPI inflation to peak close to 13 per cent at the end of 2022 and start of 2023.”*

**Urvish Patel**

Associate Economist, Macroeconomic Modelling and Forecasting

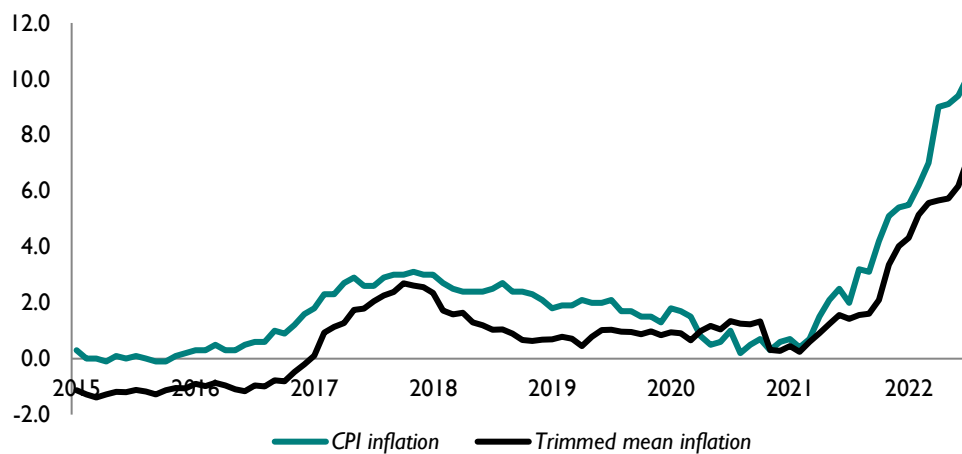


## Main points

- Headline consumer price inflation increased to 10.1 per cent in July 2022 from 9.4 per cent in June. Our measure of underlying inflation which excludes 5 per cent of the highest and lowest price changes, increased further to 7.2 per cent: the highest since the start of this series in January 1992!
- Between June and July, the food and non-alcoholic beverages contributed almost half or 0.32 percentage points to the change in the headline figure.
- Our analysis suggests that in July, approximately 32 per cent of goods and services prices changed with almost 19,000 items recording price increases, while 4.5 per cent of prices were reduced due to sales and 4.6 per cent fell for other reasons.
- Underlying inflation increased in each of the 12 UK regions in July. Underlying inflation in the East Midlands was the highest at 8.0 per cent, while Northern Ireland had the lowest rate at 6.4 per cent in July.
- Considering the elevated food prices and the expected rise in the energy price cap in October 2022, **we now expect annual CPI inflation to accelerate to a peak of around 13 per cent in January 2023.**
- Consumer purchasing power continues to be eroded by soaring inflation, with the latest earnings data, covering the three months to June 2022, [suggesting that real regular pay fell by 2.5 per cent on the year.](#)
- **With the UK expected to remain in recession until the first quarter of 2023 and real incomes forecast to decline by 2.5 per cent this year, the Bank of England continues to face a challenging economic environment, with risks of both a deeper and longer recession and of inflation becoming persistent.**

## 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.

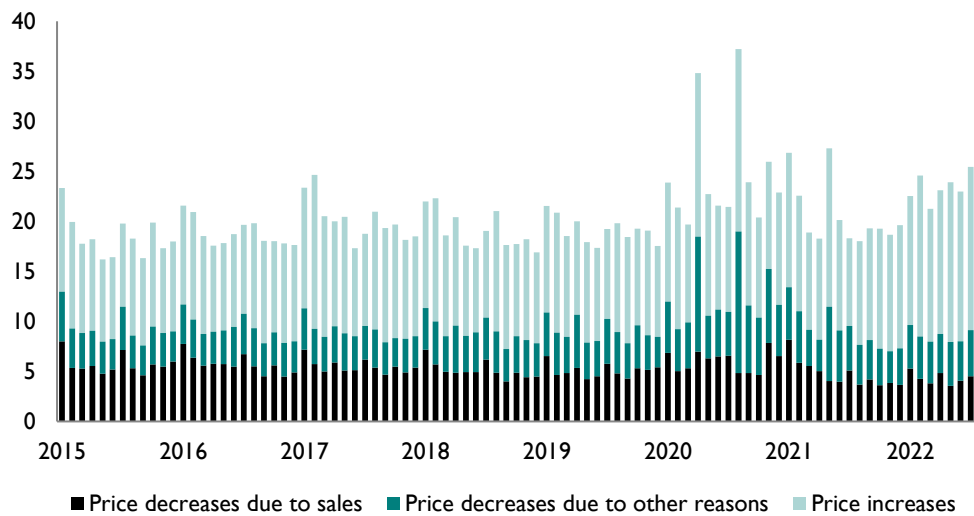
Annual headline consumer price inflation (CPI) increased by 0.7 percentage points to 10.1 per cent in the year to July 2022, from 9.4 per cent in June. The latest increase in UK inflation was mainly accounted for by food and non-alcoholic beverages which contributed 0.32 percentage points to the monthly change in the headline figure.

NIESR's measure of **underlying inflation** which excludes 5 per cent of the highest and lowest price changes, increased by 1.0 percentage points to **7.2 per cent in July – the highest since the start of this series in January 1992!** In July annual trimmed mean inflation increased in each of the 12 UK regions, although inflation in the East Midlands is now the highest at 8.0 per cent, while Northern Ireland had the lowest at 6.4 per cent.

Considering the ongoing surge in food prices and the expected rise in the energy price cap in October 2022, **we now expect annual CPI inflation to peak at around 13 per cent in January 2023.** It is worth noting that the ONS are still reviewing how to treat the 'Energy Bills Support Scheme' so we will not know how that might affect measured inflation until they announce their conclusions on August 31<sup>st</sup>, 2022. Purchasing power continues to be eroded by soaring inflation, with [real regular pay in the three months to June 2022 falling by 2.5 per cent relative to the three months to June in 2021](#). As incomes fail to keep up with prices, we forecast that the number of households with no savings will double by 2024, alongside a doubling in the number of [households living 'pay cheque to pay cheque' to approximately 6.8 million by 2024](#).

**With the UK expected to remain in recession until the first quarter of 2023 and real incomes forecast to decline by 2.5 per cent this year, the Bank of England continues to face a challenging economic environment with risks of both a deeper and longer recession and of 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						
	June	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July
London	3.7	3.9	2.4	2.5	2.9	4.3	5.0	5.2	6.1	6.4	6.7	5.8	6.2	7.2
South East	1.6	1.5	1.6	1.3	1.8	3.2	3.8	4.1	5.0	5.2	5.4	5.2	5.7	6.6
South West	1.6	1.3	1.4	1.5	2.1	3.4	4.3	4.3	5.1	5.7	5.7	6.1	6.2	7.4
East Anglia	0.9	0.6	1.2	1.3	1.8	3.5	3.9	4.3	5.3	5.7	5.6	5.8	6.4	7.4
East Midlands	1.2	0.8	1.8	1.9	2.4	3.6	4.4	4.6	5.3	5.7	5.9	6.3	6.7	8.0
West Midlands	1.7	1.6	2.0	2.2	2.6	4.0	4.6	5.3	6.0	6.3	6.7	6.5	6.9	8.0
Yorkshire and the Humber	1.1	1.0	1.3	1.4	2.1	3.1	3.8	4.0	5.0	5.4	5.6	5.6	6.4	7.2
North West	0.9	0.6	1.3	1.5	1.7	2.9	3.8	4.1	5.0	5.6	5.5	5.6	6.1	7.0
North	1.3	1.1	1.6	1.8	2.4	3.4	3.8	4.4	4.6	5.1	4.9	5.8	6.4	7.4
Wales	1.7	1.8	1.7	1.7	2.3	3.0	3.4	3.4	4.2	4.9	4.6	5.3	5.4	6.7
Scotland	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	7.4
Northern Ireland	1.7	1.5	1.4	1.4	1.5	2.4	3.0	3.6	4.4	5.1	5.0	5.5	5.5	6.4
United Kingdom	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	7.2

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 14 September 2022.

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