

NIESR

Monthly CPI Tracker

Although the Latest Fall in UK Inflation in August to 9.9 per cent Looks Positive, Underlying Inflation Still Remains at Record High Levels.

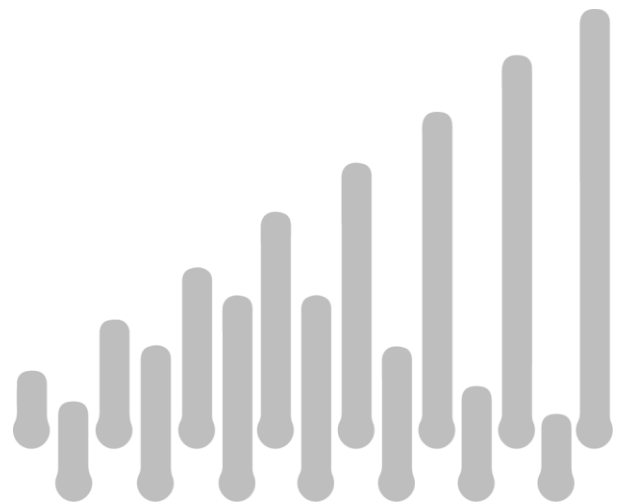
Urvish Patel

14th September 2022

“Annual headline CPI inflation decreased to 9.9 per cent in August from 10.1 per cent in July, driven by lower fuel prices. Although the latest fall in annual headline CPI inflation looks positive for the UK economy, NIESR’s measure of underlying inflation, which excludes extreme price movements, increased to a new series high of 7.8 per cent in August from 7.2 per cent in July. Underlying inflation increased in all of the 12 UK regions in August, although inflation in the East Midlands remained the highest at 8.6 per cent, compared with 7.4 per cent in the Southeast of England. Despite the latest fall in headline inflation, annual CPI inflation is expected to rise again because of the hike in the energy price cap in October 2022 and NIESR forecasts annual CPI inflation to peak around 11.5 per cent at the start of 2023.”

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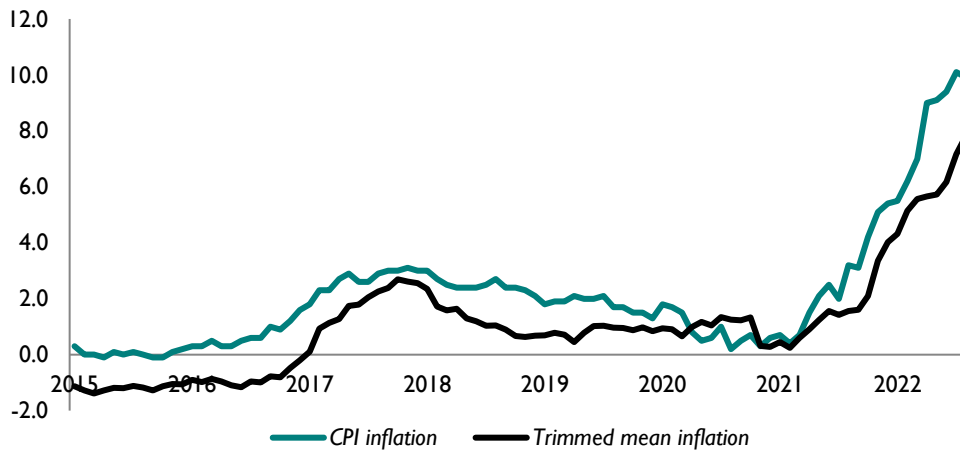


Main points

- Headline consumer price inflation decreased to 9.9 per cent in August 2022 from 10.1 per cent in July. However, NIESR's measure of underlying inflation which excludes 5 per cent of the highest and lowest price changes, increased further to a new series high of 7.8 per cent from 7.2 per cent in July.
- Between July and August, the transport sector was the main driver of lower headline inflation; this sector contributed almost 0.4 percentage points to the change in the headline figure.
- Our analysis suggests that in August, approximately 32 per cent of goods and services prices changed with almost 20,000 items recording price increases, 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 each of the 12 UK regions in August. Underlying inflation in the East Midlands remained the highest at 8.6 per cent, while Southeast of England had the lowest rate at 7.4 per cent in August.
- Despite the latest fall in headline inflation, annual CPI inflation is expected to rise again because of the hike in the energy price cap in October 2022. Elevated inflation continues to burn a hole through consumer pockets, drag on economic growth and intensify economic uncertainty.
- **NIESR forecasts annual CPI inflation to peak around 11.5 per cent in the first quarter of 2023, and not return to target until the end of 2024.** With inflation remaining above target until the end of 2024, the [labour market now experiencing a slowdown in the demand for candidates](#) and [the UK economy expected to stay in recession until the first quarter of 2023](#), the Bank of England's dilemma continues to intensify.

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) decreased by 0.2 percentage points to 9.9 per cent in the year to August 2022, from 10.1 per cent in July. The decrease in UK inflation was mainly accounted for by the transport sector, which contributed almost 0.4 percentage points to the monthly change in the headline figure. Although headline CPI inflation fell, NIESR's measure of **underlying inflation** which excludes 5 per cent of the highest and lowest price changes, **increased to a new series high of 7.8 per cent in August from 7.2 per cent in July**. In August annual trimmed mean inflation increased in all of the 12 UK regions, with inflation in the East Midlands remaining the highest in August at 8.6 per cent, compared with the Southeast of England which had the lowest rate at 7.4 per cent.

Annual CPI inflation is expected to rise again because of the hike in the energy price cap in October 2022. Despite the recent government policy announcement to freeze the energy price cap at £2,500 for a typical household which will help to reduce the peak inflation rate, [NIESR's view is that this policy is not sufficiently targeted and unnecessarily expensive](#). **The poorest households will still see an increase in their energy bills by around £400 per annum and face unsustainable bills of around £2,000 per year for as long as energy prices remain high.**

Soaring inflation continues to burn a hole through consumer pockets, drag on economic growth and intensify economic uncertainty. The latest UK earnings data covering up to the three months to July 2022, suggests [real regular pay fell by 2.8 per cent, which is one of the highest falls on record](#). NIESR forecasts annual CPI inflation to peak around 11.5 per cent in the first quarter of 2023, and not return to target until the end of 2024. With inflation remaining above target until the end of 2024, the [labour market now experiencing a slowdown in the demand for candidates](#) and [the UK economy expected to stay in recession until the first quarter of 2023](#), the Bank of England's dilemma continues to intensify.

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

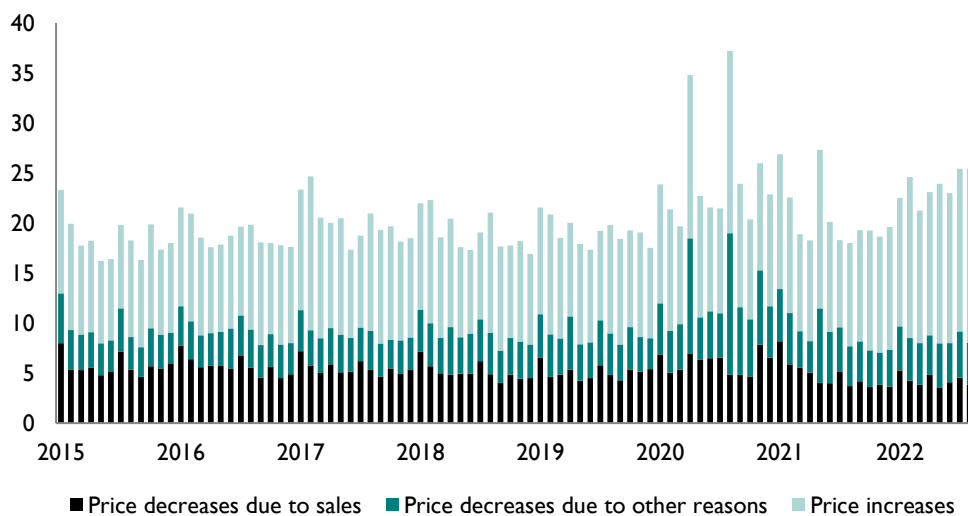


Table 1 – Regional trimmed mean inflation (per cent)

Region	2021						2022					
	Jul	Aug	Sep	Oct	Nov	Dec	Mar	Apr	May	Jun	Jul	Aug
London	3.9	2.4	2.5	2.9	4.3	5.0	6.4	6.7	5.8	6.2	7.2	7.7
South East	1.5	1.6	1.3	1.8	3.2	3.8	5.2	5.4	5.2	5.7	6.6	7.4
South West	1.3	1.4	1.5	2.1	3.4	4.3	5.7	5.7	6.1	6.2	7.4	8.0
East Anglia	0.6	1.2	1.3	1.8	3.5	3.9	5.7	5.6	5.8	6.4	7.4	8.1
East Midlands	0.8	1.8	1.9	2.4	3.6	4.4	5.7	5.9	6.3	6.7	8.0	8.6
West Midlands	1.6	2.0	2.2	2.6	4.0	4.6	6.3	6.7	6.5	6.9	8.0	8.3
Yorkshire and the Humber	1.0	1.3	1.4	2.1	3.1	3.8	5.4	5.6	5.6	6.4	7.2	7.9
North West	0.6	1.3	1.5	1.7	2.9	3.8	5.6	5.5	5.6	6.1	7.0	7.7
North	1.1	1.6	1.8	2.4	3.4	3.8	5.1	4.9	5.8	6.4	7.4	8.3
Wales	1.8	1.7	1.7	2.3	3.0	3.4	4.9	4.6	5.3	5.4	6.7	7.5
Scotland	1.2	1.1	1.2	1.9	3.4	4.1	5.7	5.7	5.8	6.6	7.4	8.0
Northern Ireland	1.5	1.4	1.4	1.5	2.4	3.0	5.1	5.0	5.5	5.5	6.4	7.5
United Kingdom	1.4	1.6	1.6	2.1	3.4	4.0	5.6	5.7	5.7	6.2	7.2	7.8

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 19 October 2022.

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