

NIESR

Monthly CPI Tracker

Difficult Challenges Ahead for MPC with Underlying inflation in the UK Hitting Record High

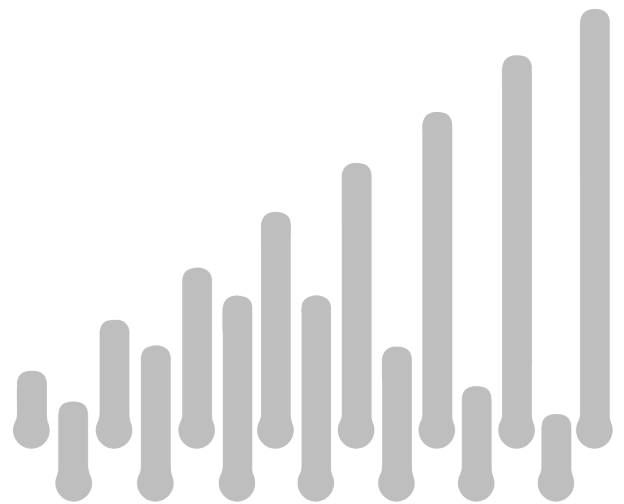
Urvish Patel and Paula Bejarano Carbo

19th October 2022

“Annual headline CPI inflation increased to 10.1 per cent in September from 9.9 per cent in August. The increase in the latest figure was mainly accounted for by higher prices in food and non-alcoholic beverages which added 0.16 percentage points to the headline figure, followed by restaurants and hotels (+0.10 percentage points). Likewise, NIESR’s measure of underlying inflation, which excludes extreme price movements, increased to a new series high of 8.3 per cent in September from 7.8 per cent in August. NIESR expects annual CPI inflation to increase further and peak at between 11 and 12 per cent in January 2023, mainly driven by higher energy prices. There will be greater pressure on the government to withdraw the triple lock on pensions, given that they would otherwise be uprated based on the September inflation number.”

Urvish Patel

Associate Economist, Macroeconomic Modelling and Forecasting

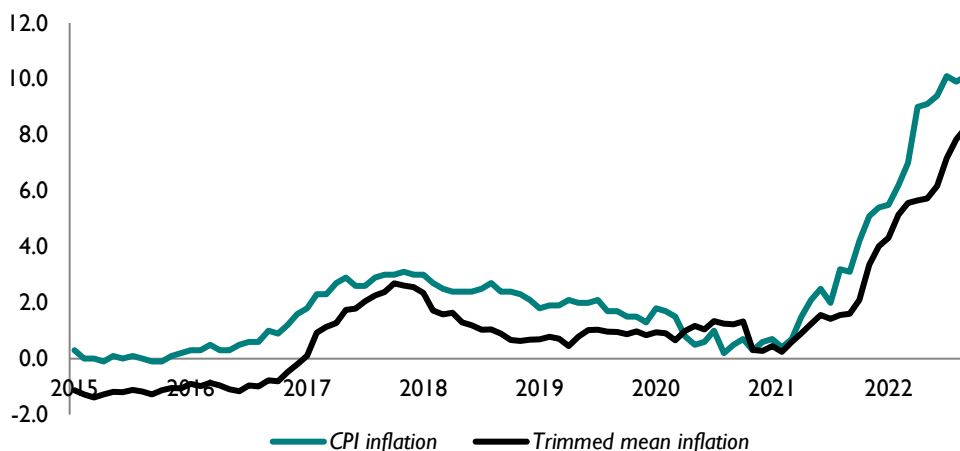


Main points

- Headline consumer price inflation increased to 10.1 per cent in September 2022 from 9.9 per cent in August. However, NIESR's measure of underlying inflation which excludes 5 per cent of the highest and lowest price changes, rose to a new series high of 8.3 per cent from 7.8 per cent in August.
- Between August and September, the food and non-alcoholic beverages, and restaurants and hotels sectors were the main drivers of higher headline inflation: these sectors contributed 0.26 percentage points to the change in the headline figure, outweighing the effects of a 0.20 percentage point reduction in transport costs, driven by fuel.
- Our analysis suggests that in September, approximately 28 per cent of goods and services prices changed with almost 17,000 items recording price increases.
- Underlying inflation increased in each of the 12 UK regions in September. Underlying inflation in North England was the highest at 8.90 per cent, while Northern Ireland had the lowest rate at 7.64 per cent in September.
- **NIESR expects annual CPI inflation to increase further and peak at between 11 and 12 per cent in January 2023**, mainly driven by higher energy prices from October onwards.
- Although the energy price guarantee will [support economic activity in the last quarter of this year](#), shortages in gas supplies, and the new Chancellor's policy change of revisiting the energy price guarantee in April 2023, increase the risk of higher inflation next year. Higher inflation will continue to drag on economic activity and intensify economic uncertainty.
- There will be **greater pressure on the government to withdraw the triple lock on pensions**, given that they would otherwise be uprated based on the September inflation number.

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 0.2 percentage points to 10.1 per cent in the year to September 2022, from 9.9 per cent in August. The latest increase in inflation was mainly accounted for by the food and non-alcoholic beverages, and restaurants and hotels sectors: these sectors contributed 0.26 percentage points to the change in the headline figure, outweighing the effects of a 0.20 percentage point reduction in transport costs, driven by fuel. Likewise, NIESR's measure of **underlying inflation** which excludes 5 per cent of the highest and lowest price changes, **increased to a new record high of 8.3 per cent in September from 7.8 per cent in August. Annual CPI inflation is expected to increase further and peak at between 11 and 12 per cent in January 2023, mainly driven by higher energy prices.**

Earlier this week, Chancellor Jeremy Hunt announced the government's decision to overturn many of the measures outlined in September's 'mini-budget', including bringing an early end to the energy price guarantee in April 2023. While this will curb the medium-term inflationary consequences of the previous Chancellor's fiscal plan, it simultaneously **generates uncertainty regarding the short-term path of inflation from the second quarter of 2023.**

Consumers' living standards continue to drop, with the latest UK earnings data covering up to the three months to August 2022 suggesting **real regular pay fell by 2.9 per cent.** We may well see inflation further embedding itself in the labour market. Additionally, state pensions would generally be uprated based on the September inflation figures. **Given the high September inflation number, there will be greater pressure on the government to withdraw the triple lock on pensions.**

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

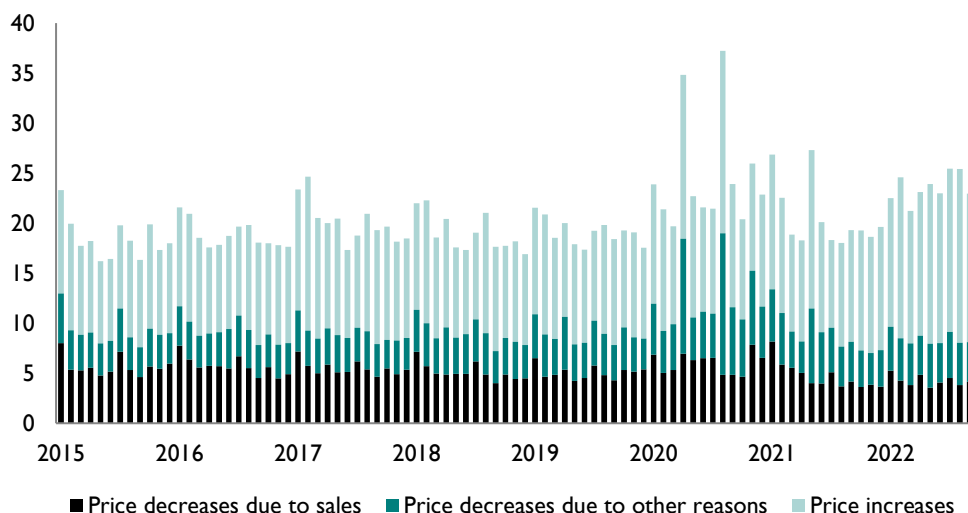


Table 1 – Regional trimmed mean inflation (per cent)

Region	2021						2022						
	Jul	Aug	Sep	Oct	Nov	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep
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	8.1
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	7.9
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	8.5
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	8.6
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	8.9
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	8.6
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	8.3
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	8.0
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	8.9
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	7.9
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	8.5
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	7.6
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	8.3

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 16 November 2022.

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