

NIESR

Monthly CPI Tracker

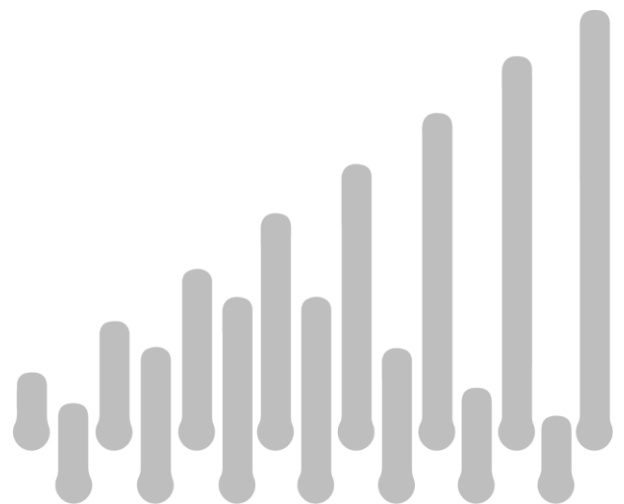
Concern for UK Households Rises as Inflation Soars

Paula Bejarano Carbo and Urvish Patel

16th November 2022

“Annual CPI inflation increased to 11.1 per cent in October from 10.1 per cent in September. This contribution to the headline figure was almost entirely driven by energy, which saw high price increases despite the government’s Energy Price Guarantee. Food prices have also seen a steep increase - this is particularly worrying as there is no support for households to deal with this surging cost. Our measure of underlying inflation increased to a new series high of 8.8 per cent in October from 8.3 per cent in September, suggesting that inflation continues to be more persistent and broad-based. We expect annual CPI inflation to remain around 11 per cent into the first quarter of 2023.”

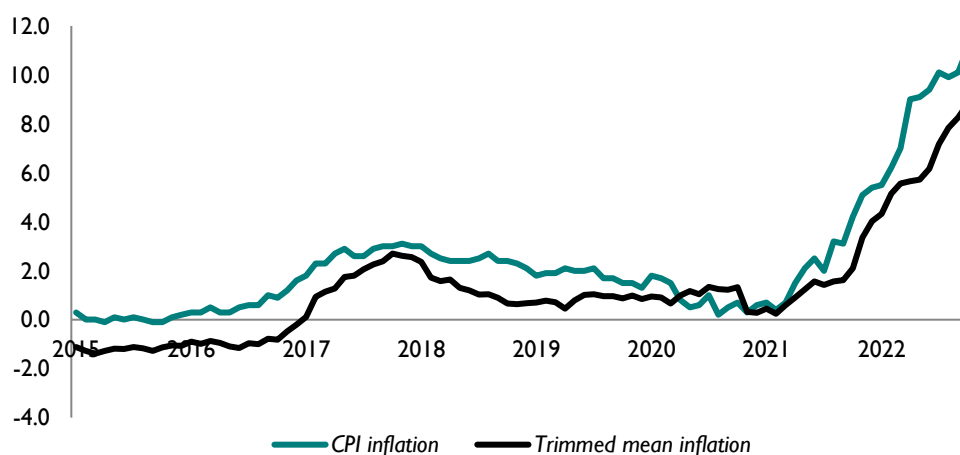
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Main points

- Headline consumer price inflation increased to 11.1 per cent in October 2022 from 10.1 per cent in September. At the same time, 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 8.8 per cent from 8.3 per cent in September. The latter measure of inflation suggests that inflation continues to be more persistent and broad-based.
- Between September and October, the housing, water, electricity and gas, and other fuels as well as the food and non-alcoholic beverages sectors were the main drivers of higher headline inflation: these sectors contributed 0.93 and 0.18 percentage points, respectively, to the change in the headline figure, outweighing the effects of a 0.23 percentage point reduction in transport.
- Our analysis suggests that in October, approximately 30.6 per cent of goods and services prices changed with almost 19,000 items recording price increases.
- Underlying inflation increased in each of the 12 UK regions in September. Underlying inflation in the North of England was the highest at 9.5 per cent, while the South East had the lowest rate at 8.4 per cent in October.
- **NIESR expects annual CPI inflation to remain around 11 per cent into the first quarter of 2023, mainly driven by the ‘triple shock’ to energy, food, and housing prices. Given this triple shock, we forecast that one in five UK households will see their savings eroded by April 2024. In the shorter term, [our research](#) suggests that more than 2.5 million households will turn to food banks to cope with soaring prices over the coming winter months.**

Figure 1 – CPI and trimmed mean inflation (per cent)



Commentary

Annual headline consumer price inflation (CPI) increased by 1 percentage point to 11.1 per cent in the year to October 2022, from 10.1 per cent in September. The latest monthly increase in inflation was mainly accounted for by the housing, water, electricity and gas, and other fuels as well as the food and non-alcoholic beverages sectors: these sectors contributed 0.93 and 0.18 percentage points, respectively, to the change in the headline figure, outweighing the effects of a 0.23 percentage point reduction in transport. 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 8.8 per cent in October from 8.3 per cent in September. Annual CPI inflation is expected to remain around 11 per cent into the first quarter of 2023, driven by the 'triple shock' of higher energy, food, and housing prices.**

The 'triple shock' to energy, food, and housing prices will badly hurt many UK households and hit the poorest the hardest. Research from our recent [Autumn Economic Outlook](#) suggests that, despite the Energy Price Guarantee (EPG), **20 per cent of UK households will have little or no savings by April 2024.** In the shorter term, the food price shock, in particular, will hit the most vulnerable and many people will need to choose between eating and heating. **In the absence of targeted support to help vulnerable households deal with surging costs, we expect that 2.5 million people will rely on food banks to get through the winter.** This is alarming. To prevent a rise in poverty and destitution (which is a category that 1.2 million people in the UK fit under), **we propose that the government raise Universal Credit payments by £25 per week.**

Tomorrow, Chancellor Jeremy Hunt will make his **Autumn Statement** announcement, and with it, will hopefully outline the plan for the EPG – currently set to be reviewed from April 2023 onwards. In doing so, the Chancellor will curb some uncertainty regarding the short-term path of inflation from the second quarter of 2023. NIESR has been proposing for some time now that the EPG should take the form of a '[variable price cap](#),' and we would encourage the Chancellor to implement a similar scheme from April, as it would provide targeted assistance to those who need it, encourage energy saving, and be cost-effective for the government.

As inflation persists, consumers' living standards continue to drop, with the latest UK earnings data for the third quarter of 2022 suggesting [real regular pay fell by 2.6 per cent](#). 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. We strongly recommend the government resists this pressure and ensures pensions rise in line with inflation.

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

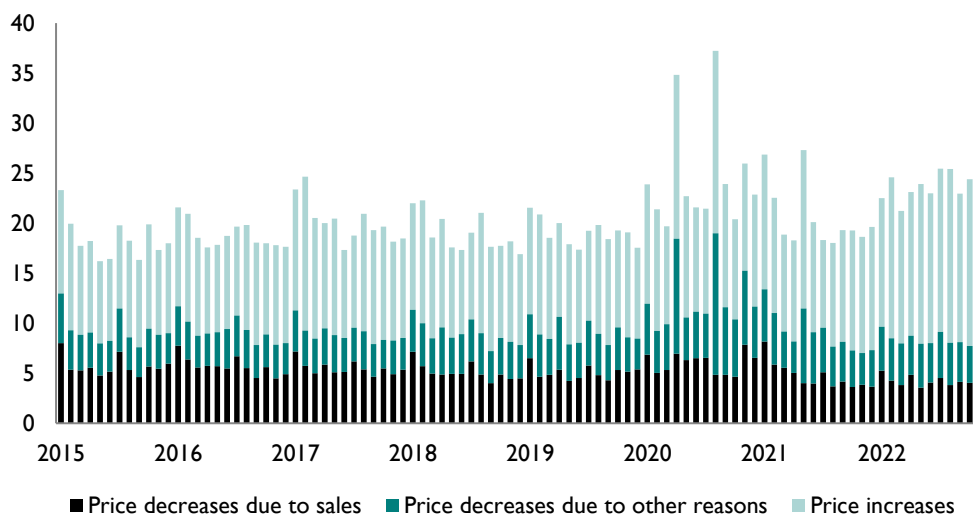


Table 1 – Regional trimmed mean inflation (per cent)

Region	2021						2022						
	Jul	Aug	Sep	Oct	Nov	Dec	Apr	May	Jun	Jul	Aug	Sep	Oct
London	3.9	2.4	2.5	2.9	4.3	5.0	6.7	5.8	6.2	7.2	7.7	8.1	8.7
South East	1.5	1.6	1.3	1.8	3.2	3.8	5.4	5.2	5.7	6.6	7.4	7.9	8.4
South West	1.3	1.4	1.5	2.1	3.4	4.3	5.7	6.1	6.2	7.4	8.0	8.5	9.0
East Anglia	0.6	1.2	1.3	1.8	3.5	3.9	5.6	5.8	6.4	7.4	8.1	8.6	9.1
East Midlands	0.8	1.8	1.9	2.4	3.6	4.4	5.9	6.3	6.7	8.0	8.6	8.9	9.2
West Midlands	1.6	2.0	2.2	2.6	4.0	4.6	6.7	6.5	6.9	8.0	8.3	8.6	9.2
Yorkshire and the Humber	1.0	1.3	1.4	2.1	3.1	3.8	5.6	5.6	6.4	7.2	7.9	8.3	8.9
North West	0.6	1.3	1.5	1.7	2.9	3.8	5.5	5.6	6.1	7.0	7.7	8.0	8.7
North	1.1	1.6	1.8	2.4	3.4	3.8	4.9	5.8	6.4	7.4	8.3	8.9	9.5
Wales	1.8	1.7	1.7	2.3	3.0	3.4	4.6	5.3	5.4	6.7	7.5	7.9	8.7
Scotland	1.2	1.1	1.2	1.9	3.4	4.1	5.7	5.8	6.6	7.4	8.0	8.5	9.1
Northern Ireland	1.5	1.4	1.4	1.5	2.4	3.0	5.0	5.5	5.5	6.4	7.5	7.6	8.5
United Kingdom	1.4	1.6	1.6	2.1	3.4	4.0	5.7	5.7	6.2	7.2	7.8	8.3	8.8

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 14 December 2022.

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