National Institute of Economic and Social Research

NIESR Monthly CPI Tracker

Food Inflation Hits Concerning 45-Year High

Paula Bejarano Carbo

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"Annual CPI inflation fell to 10.1 per cent in March from 10.4 per cent in February, driven by price decreases in transport that were partially offset by price increases in food and non-alcoholic beverages, and recreation and culture. Though a fall in the headline rate is welcome, this marks a concerning seventh consecutive month of double-digit inflation. Further, food inflation rose to 19.1 per cent in March 18.0 per cent in February; this is particularly worrying as it will be impacting lower-income households disproportionately. Core inflation remained flat at 6.2 per cent in March while NIESR's measure of trimmed-mean inflation rose to a new series high of 9.9 per cent in March from 9.7 per cent in February. Clearly, inflationary pressures remain persistent, possibly warranting a need for the MPC to raise rates further next month. "

Paula Bejarano Carbo
Associate Economist, NIESR

Main points

- **Annual consumer price inflation decreased from 10.4 per cent in February to 10.1 per cent in March. This fall was largely driven by price decreases in transport (specifically motor fuels) which were partially offset by price increases in food and non-alcoholic beverages, as well as recreation and culture. This marks the seventh consecutive month of double-digit CPI inflation and the twentieth consecutive month that this rate has been above the Bank of England's target.**

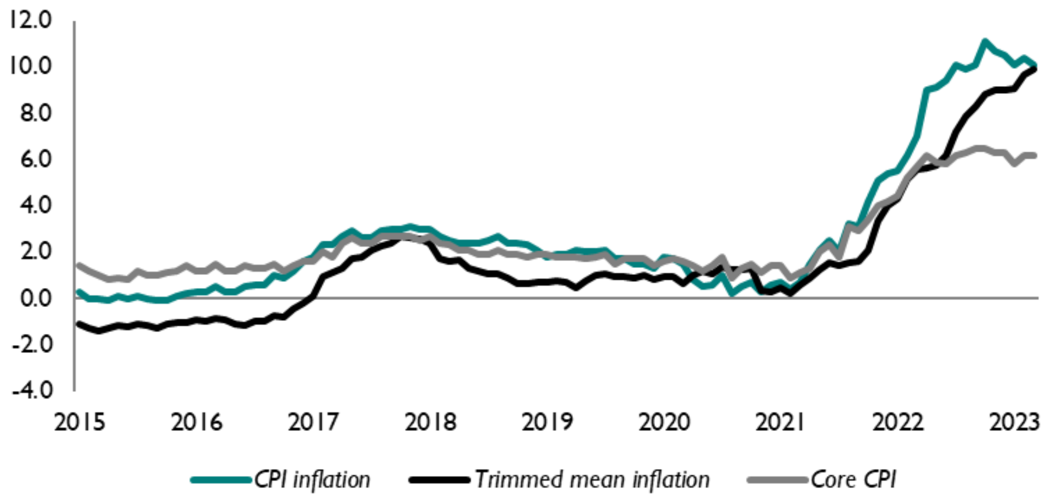
- **Food inflation rose to an annual rate of 19.1 per cent in March from 18.0 per cent in February – the highest rate for this category observed in over 45 years. This is concerning since there is no government support to help households (especially lower income households, who spend a greater part of their incomes on food) offset this cost.**

- **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 9.9 per cent in March from 9.7 per cent in February. At the same time, the ONS's measure of core inflation – CPI excluding food, energy, alcohol and tobacco – remained flat at 6.2 per cent. These figures suggest that we have yet to see a meaningful turning point in underlying inflationary pressure in the UK.**

- **NIESR's measure of underlying inflation rose in each of the 12 UK regions. It is notable, however, that regional trimmed-mean inflation dispersion has risen for a second consecutive month. For instance, the North of England experienced a trimmed-mean inflation rate of 10.70 per cent in March, while Northern Ireland experienced 8.89 per cent.**

- **For a breakdown of what inflation is and how it is calculated, read our blog post [here].**

Figure 1 – CPI, core 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. Source: ONS, NIESR Calculations.

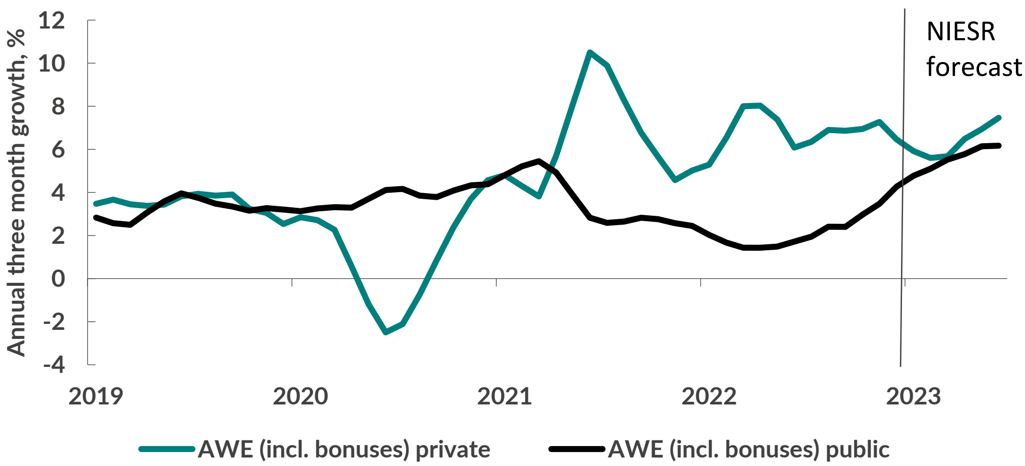
Economic Setting

Earlier this month, we released our [GDP](GDP) Tracker, which noted that, despite GDP growing by 0.1 per cent in the three months to February, the UK economy has largely flatlined since the initial stages of the post-pandemic recovery. Still, we believe the outlook for the first quarter of 2023 has improved relative to previous forecasts: in particular, higher-than-expected January and February data as well as optimistic high frequency data, including PMIs and spending and hiring indicators, have led us to estimate that the UK economy grew by 0.1 per cent in the first quarter of this year. Consistent with the longer-term trend of low but stable growth, our early forecast for the second quarter of 2023 sees this quarterly growth rate increasing to 0.3 per cent.

Yesterday's ONS labour market data suggested that average weekly earnings, excluding bonuses, grew by 6.6 per cent over the year in the three months to February. Despite this elevated growth in nominal wages, real total (including bonuses) wages fell by 3.0 per cent over the year, indicating the extent to which inflation continues to erode household living standards.

NIESR's wage tracker estimates that total (including bonuses) and regular average weekly earnings grew at 6.0 and 6.7 per cent, respectively, in the year to the first quarter of 2023. Our early forecast for the second quarter of this year sees these figures at 7.2 and 6.0 per cent, respectively, with the former reflecting high expected private-sector bonus growth. These elevated forecasts, alongside today's services inflation rate of 6.6 per cent (which tracks private sector wage growth quite well) indicate that high nominal wage growth may contribute to exacerbating the persistence of domestic inflationary pressures. More on this below.

Figure 2 – Average weekly earnings (including bonuses) in public and private sectors



Source: ONS, NIESR Calculations.

Inflation Analysis

Today's data suggest that annual headline consumer price inflation (CPI) decreased by 0.3 percentage points from 10.4 per cent in the year to February 2023 to 10.1 per cent in March. The latest fall was largely driven by price decreases in transport (specifically motor fuels) which were partially offset by price increases in food and non-alcoholic beverages, as well as recreation and culture.

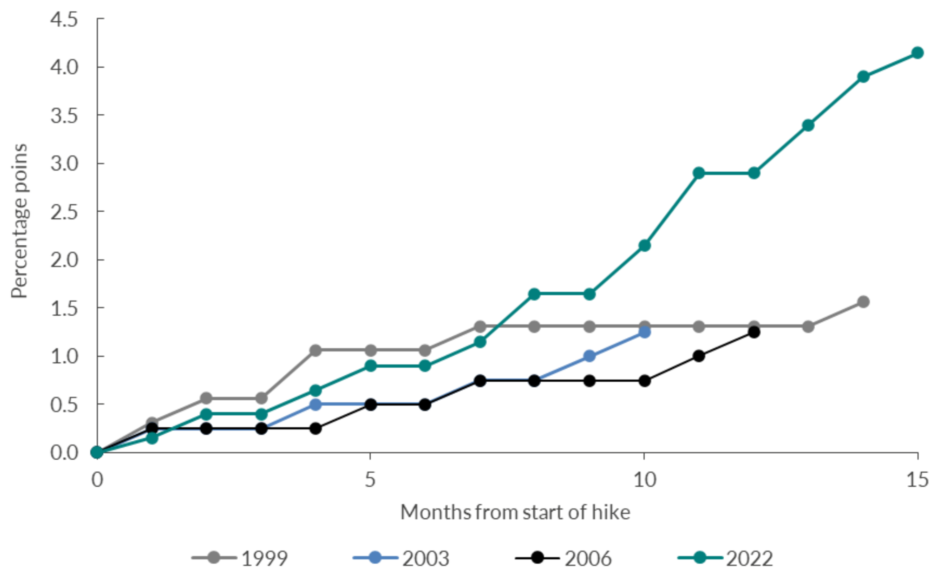
It is notable that food inflation grew at an annual rate of 19.1 per cent in March, rising from 18.0 per cent in January – representing the highest rate for this category observed in over 45 years. This is especially concerning given that there is no government support to help households (especially lower income households, who spend a greater proportion of their incomes on food) offset this cost.

In March, CPI inflation excluding energy, food, alcoholic beverages, and tobacco remained flat relative to February at a rate of 6.2 per cent. It remains well above the series average of 2 per cent. 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 9.9 per cent from 9.7 per cent in February. These figures suggest that we have yet to see a meaningful turning point in underlying inflationary pressure in the UK.

Our regional decomposition suggests that trimmed-mean inflation increased in each of the 12 UK regions in November. Additionally, regional trimmed-mean inflation dispersion has risen for a second consecutive month. For instance, the North of England experienced a trimmed-mean inflation rate of 10.70 per cent in March, while Northern Ireland experienced 8.89 per cent.

Monetary Policy Analysis

Figure 3- Bank Rate during historical tightening cycles



Source: Bank of England, NIESR Calculations.

On 23 March, the Monetary Policy Committee (MPC) opted to raise the Bank Rate by 25 basis points, bringing it to 4.25 per cent, to maintain the inflation rate at its 2 per cent target. The latest market expectations, as implied by the Overnight Index Swaps curve earlier this morning, are for a peak in rates of just under 5 per cent in September, and a rise of 25 basis points at May's MPC meeting.

As shown in Figure 3 above, since the Bank of England gained independence in 1997, the current tightening cycle is the most aggressive in terms of pace and magnitude of rate hikes. But the annual inflation rates we have seen throughout the course of 2022 are by far the highest we have seen during this period so the implied movement in real rates has been smaller. In addition, one of the reasons for the speed of the rises is that the MPC were 'behind the curve' in that they started the tightening cycle after inflation had already become set in.

Still, with rates rising by as much and as quickly as we have experienced in this past year, vulnerabilities in financial markets - particularly widespread illiquidity – have been exposed; the latest sign of this is the financial market turbulence that began with the Silicon Valley Bank closure in the United States. The subsequent contagion to other American and international banks altered market expectations regarding the path of interest rates, with markets originally expecting an end to rate rises by July. However, with inflation remaining persistently elevated, markets have since shifted their expectations, foreseeing rate rises into the autumn.

Table 1 – Regional trimmed mean inflation (per cent)

	2022							2023		
Region	Jul	Aug	Sep	Oct	Nov	Dec		Jan	Feb	Mar
London	7.2	7.7	8.1	8.7	9.1	9.1		9.4	9.9	10.0
South East	6.6	7.4	7.9	8.4	8.6	8.7		8.8	9.6	9.8
South West	7.4	8.0	8.5	9.0	9.2	9.1		8.9	9.7	9.8
East Anglia	7.4	8.1	8.6	9.1	9.2	9.5		9.5	10.0	10.2
East Midlands	8.0	8.6	8.9	9.2	9.4	9.2		9.3	9.9	10.1
West Midlands	8.0	8.3	8.6	9.2	9.1	9.2		9.0	9.4	9.7
Yorkshire and the Humber	7.2	7.9	8.3	8.9	9.2	9.1		9.1	9.6	10.0
North West	7.0	7.7	8.0	8.7	9.0	8.9		8.9	9.7	9.9
North	7.4	8.3	8.9	9.5	9.6	9.5		9.5	10.3	10.7
Wales	6.7	7.5	7.9	8.7	8.8	9.0		9.0	9.8	10.1
Scotland	7.4	8.0	8.5	9.1	9.2	9.2		9.1	9.8	10.0
Northern Ireland	6.4	7.5	7.6	8.5	8.4	8.2		8.2	8.7	8.9
United Kingdom	7.2	7.8	8.3	8.8	9.0	9.0		9.0	9.7	9.9

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.

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