

Article

# Estimated effect of the Budget on consumer price inflation: Spring 2020

The estimated impact of implementing measures announced in the March 2020 Budget, previous Budgets and pre-Budget reports on the Consumer Prices Index including owner occupiers' housing costs (CPIH), the Consumer Prices Index (CPI) and the Retail Prices Index (RPI). This article is simply a helpful guide to users of the CPIH, CPI and RPI.



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# 1 . Introduction

This article explains the estimated effect of implementing measures announced in the March 2020 Budget, previous Budgets and pre-Budget reports on the Consumer Prices Index including owner occupiers' housing costs (CPIH), the Consumer Prices Index (CPI) and the Retail Prices Index (RPI).

The estimated effect of the March 2020 Budget on consumer price inflation is based on applying the proposed duty rates within the Office for National Statistics CPIH and CPI, and RPI production systems. By measuring the effect on the item and aggregated indices, it is possible to estimate how the 2020 Budget may affect consumer price inflation.

It should be noted that our approach is unable to measure the effects of all the proposed changes in the 2020 Budget and does not take into consideration the indirect effects of policy changes within the 2020 Budget. The Office for Budget Responsibility outlines the inflationary impacts of the policies announced in the 2020 Budget in Box 2.2 of the [March 2020 Economic and Fiscal Outlook](#).

This article does not attempt to quantify the impact of changing consumer or producer behaviour, or any other secondary impact, following the Budget policy announcements. The estimated contributions assume all announced changes are passed on immediately and in full to consumers as soon as they come into effect. In practice, this is unlikely as changes to duties may affect the index over a period of months as stocks deplete.

## 2 . Budget measures that will affect CPIH, CPI and RPI

Table 1 details the measures announced in the 2020 Budget that will affect the Consumer Prices Index including owner occupiers' housing costs (CPIH), Consumer Prices Index (CPI) and Retail Prices Index (RPI) 1-month rates in the financial years (April to March) ending 2020 and 2021, along with the estimated magnitude of the effect.

We have not included an estimate of the impact of the Minimum Excise Tax for cigarettes because the effect on the headline inflation figures is likely to be negligible.

Aside from including owner occupiers' housing costs (OOH) and Council Tax, CPIH is otherwise identical to CPI. The size of the contributions for components other than OOH and Council Tax are exaggerated in the CPI compared with the CPIH because they account for a larger proportion of the overall index.

In accordance with the [Statistics and Registration Service Act 2007](#), the Retail Prices Index and its derivatives have been assessed against the [Code of Practice for Statistics](#) and found not to meet the required standard for designation as [National Statistics](#). The RPI continues to be used for purposes such as the indexation of pensions, rents and index-linked gilts. For further information, please see [Users and uses of consumer price inflation statistics](#).

Table 1: Budget announcements, financial years ending 2020 and 2021

Changes	Percentage points contribution to 1-month change			Timing of effect
	CPIH	CPI	RPI <sup>1</sup>	
Changes to excise duties <sup>2</sup>				
Alcohol				
Budget 2020 announced that duty rates on alcohol would remain unchanged.	0.00	0.00	0.00	NA
Tobacco				
Budget 2020 announced that the duty rates for all tobacco products will be increased by 2% (and 6% for hand-rolling tobacco) above RPI inflation.	0.04	0.05	0.06	11 March 2020
Vehicle Excise Duty (VED)				
Budget 2020 announced that VED rates for cars, vans and motorcycles would increase by RPI.	0.02	0.02	0.01	1 April 2020
Air Passenger Duty (APD)				
Budget 2020 announced APD rates for long-haul flights would increase in line with RPI. APD rates on short-haul flights will remain unchanged.	0.01	0.01	0.01	1 April 2020
Road Fuel				
The rate for unleaded petrol and heavy oil (diesel) remained frozen in the Budget 2020.	0.00	0.00	0.00	NA
Changes to indirect taxes				
Women's Sanitary Products				
Budget 2020 announced the introduction of a zero rate of VAT for women's sanitary products.	-0.01	-0.01	0.00	1 Jan 2021
E-publications				
Budget 2020 announced the introduction of a zero rate of VAT for e-publications (e-books, e-newspapers, e-magazines and academic e-journals).	0.00	0.00	-0.01	1 Dec 2020
Value Added Tax (VAT)				
There were no changes announced in the Budget 2020 pertaining to the CPI, CPIH or RPI.	0.00	0.00	0.00	NA
Insurance Premium Tax (IPT)				
The Budget 2020 announced the standard rate of IPT remains unchanged.	0.00	0.00	0.00	NA

Source: Office for National Statistics

Notes

1. In accordance with the Statistics and Registration Service Act 2007 the Retail Prices Index and its derivatives have been assessed against the Code of Practice for Official Statistics and found not to meet the required standard for designation as National Statistics. [Back to table](#)
2. Changes in duty rates are inclusive of VAT, and, for cigarettes, ad valorem tax. [Back to table](#)

### **3 . Effect of the Budget on the CPIH, CPI and RPI 1-month rate**

Table 2 presents a comparison of the effect on the Consumer Prices Index including owner occupiers' housing costs (CPIH), Consumer Prices Index (CPI) and Retail Prices Index (RPI) 1-month rates of the Budget measures that were implemented in the financial year ending 2020 and those known measures that will be implemented in the financial year ending 2021. There is also the possibility of further changes being announced in subsequent Budgets, which will impact in the financial year ending 2021.

The known measures that will be implemented in the financial year ending 2021 are estimated to increase the CPIH 1-month rate by approximately 0.02 percentage points, the CPI 1-month rate by approximately 0.02 percentage points and the RPI 1-month rate by approximately 0.01 percentage points.

Table 2: Budget effects on CPIH, CPI and RPI 1-month rate, UK, in the financial years ending 2020 and 2021

Changes	Percentage points contribution to 1-month change					
	CPIH		Consumer Prices Index		Retail Prices Index <sup>1</sup>	
	2019/20 <sup>3</sup>	2020/21	2019/20 <sup>3</sup>	2020/21	2019/20 <sup>3</sup>	2020/21
Excise duties						
Tobacco	0.04	-	0.05	-	0.06	-
Alcohol	0.00	0.00	0.00	0.00	0.00	0.00
Vehicle excise duty	0.02	0.02	0.03	0.02	0.02	0.01
Air passenger duty	0.00	0.01	0.00	0.01	0.00	0.01
Road fuel	0.00	0.00	0.00	0.00	0.00	0.00
Indirect taxes						
Value Added Tax	0.00	0.00	0.00	0.00	0.00	0.00
Women's sanitary products	-	-0.01	-	-0.01	-	0.00
E-publications	-	0.00	-	0.00	-	-0.01
Social housing rents	-0.02	-	-0.02	-	-0.02	-
Effect of known budget measures over the entire financial year <sup>2</sup>	0.04	0.02	0.06	0.02	0.06	0.01

Source: Office for National Statistics

#### Notes

1. In accordance with the Statistics and Registration Service Act 2007, the Retail Prices Index and its derivatives have been assessed against the Code of Practice for Official Statistics and found not to meet the required standard for designation as National Statistics. [Back to table](#)
2. The overall effect is calculated as the sum of the individual rounded effects shown in the table. [Back to table](#)
3. Historic estimates provided were calculated at the time of the October Budget 2018 and have not been revised in light of new information, with the exception of VED, where the contribution to the headline rates is now known. [Back to table](#)
4. A dash represents no relevant Budget announcement relating to the item and time period in question. [Back to table](#)

## 4 . Cumulative effects of the Budget on the CPIH, CPI and RPI 12-month rate

The following tables show the cumulative effects on the all items Consumer Prices Index including owner occupiers' housing costs (CPIH), Consumer Prices Index (CPI) and Retail Prices Index (RPI) 12-month rates of the 2020 Budget measures that were implemented in the financial year ending 2020 and known measures that will be implemented in the financial year ending 2021. They also show the likely timing of effects on the CPIH, CPI and RPI 12-month rates, assuming all announced changes are passed on immediately and in full to consumers as soon as they come into effect. There is also the possibility of further changes being announced in subsequent Budgets, which will impact in the financial year ending in 2021.

### Effects on the CPIH 12-month rate

It is estimated the known Budget measures implemented in the financial year ending 2021 will add 0.02 percentage points to the CPIH 1-month rate. This means that the CPIH 12-month rate is estimated to decrease by 0.02 percentage points because the impact of the measures implemented in the financial year ending 2020 was 0.04 percentage points.

Table 3: Cumulative effect of Budget changes on the CPIH 12-month rate, UK, in the financial year ending 2021

CPIH date	Budget measures impacting in the financial year ending 2021 (percentage point change)	Effect <sup>1</sup>	Cumulative effect <sup>2</sup>
Apr-20	Increases in vehicle excise duties.	0.02	
	Increases in air passenger duty.	0.01	0.03
	Previous year's increases in vehicle excise duties drop out of the 12 month comparison.	-0.02	0.01
	Previous year's decreases in social housing rents drop out of the 12 month comparison.	0.02	0.03
Jan-21	Removal of VAT from women's sanitary products.	-0.01	0.02
Mar-21	Previous year's increases in tobacco duties drop out of the 12 month comparison.	-0.04	-0.02

Source: Office for National Statistics

#### Notes

1. Historic estimates provided were calculated at the time of the October Budget 2018 and have not been revised in light of new information with the exception of VED, where the contribution to the headline rates is now known. [Back to table](#)
2. The cumulative effect is calculated as the sum of the individual rounded effects shown in the table. [Back to table](#)

## Effects on the CPI 12-month rate

It is estimated the known Budget measures implemented in the financial year ending 2021 will add 0.02 percentage points to the CPI 1-month rate. This means that the CPI 12-month rate is estimated to decrease by 0.04 percentage points because the impact of the measures implemented in the financial year ending 2020 was 0.06 percentage points.

Table 4: Cumulative effect of Budget changes on the CPI 12-month rate, UK, in the financial year ending 2021

CPI date	Budget measures impacting in the financial year ending 2021 (percentage point change)	Effect <sup>1</sup>	Cumulative effect <sup>2</sup>
Apr-20	Increases in vehicle excise duties.	0.02	
	Increases in air passenger duty.	0.01	0.03
	Previous year's increases in vehicle excise duties drop out of the 12 month comparison.	-0.03	0.00
	Previous year's decreases in social housing rents drop out of the 12 month comparison.	0.02	0.02
Jan-21	Removal of VAT from women's sanitary products.	-0.01	0.01
Mar-21	Previous year's increases in tobacco duties drop out of the 12 month comparison.	-0.05	-0.04

Source: Office for National Statistics

### Notes

1. Historic estimates provided were calculated at the time of the October Budget 2018 and have not been revised in light of new information with the exception of VED, where the contribution to the headline rates is now known. [Back to table](#)
2. The cumulative effect is calculated as the sum of the individual rounded effects shown in the table. [Back to table](#)

## Effects on the RPI 12-month rate

It is estimated that the Budget measures implemented in the financial year ending 2021 will add 0.01 percentage points to the RPI 1-month rate. This means that the RPI 12-month rate is estimated to decrease by 0.05 percentage points because the impact of the measures implemented in the financial year ending 2020 was 0.06 percentage points.

Table 5: Cumulative effect of Budget changes on the RPI 12-month rate, UK, in the financial year ending 2021

RPI date <sup>1</sup>	Budget measures impacting in the financial year ending 2021 (percentage point change)	Effect <sup>2</sup>	Cumulative effect <sup>3</sup>
Apr-20	Increases in vehicle excise duties.	0.01	
	Increases in air passenger duty.	0.01	0.02
	Previous year's increases in vehicle excise duties drop out of the 12 month comparison.	-0.02	0.00
	Previous year's decreases in social housing rents drop out of the 12 month comparison.	0.02	0.02
Dec-20	Removal of VAT from E-publications	-0.01	0.01
Mar-21	Previous year's increases in tobacco duties drop out of the 12 month comparison.	-0.06	-0.05

Source: Office for National Statistics

#### Notes

1. In accordance with the Statistics and Registration Service Act 2007 the Retail Prices Index and its derivatives have been assessed against the Code of Practice for Official Statistics and found not to meet the required standard for designation as National Statistics. [Back to table](#)
2. Historic estimates provided were calculated at the time of the October Budget 2018 and have not been revised in light of new information, with the exception of VED, where the contribution to the headline rates is now known. [Back to table](#)
3. The cumulative effect is calculated as the sum of the individual rounded effects shown in the table. [Back to table](#)

## 5 . Background notes

CPIH extends the Consumer Prices Index (CPI) to include a measure of the costs associated with owning, maintaining and living in one's own home, known as owner occupiers' housing costs (OOH), along with Council Tax. Both are significant expenses for many households and are not included in the CPI.

The CPI is a measure of consumer price inflation produced to international standards and in line with European regulations. First published in 1997 as the Harmonised Index of Consumer Prices (HICP), the CPI is the inflation measure used in the government's target for inflation. The CPI is also used for purposes such as uprating pensions, wages and benefits and can aid in the understanding of inflation on family budgets.

In accordance with the [Statistics and Registration Service Act 2007](#), the Retail Prices Index and its derivatives have been assessed against the [Code of Practice for Statistics](#) and found not to meet the required standard for designation as [National Statistics](#). The RPI continues to be used for purposes such as the indexation of pensions, rents and index-linked gilts.

This note is prepared as a helpful guide to users of the CPIH, CPI and RPI. The Office for National Statistics accepts no liability whatsoever for losses of any kind arising as a result of reliance on this note.

The effects of the Budget's measures shown in this note are estimates.

Percentage point contributions to the CPIH, CPI and RPI 1-month change are based on average retail prices as measured in the January 2020 indices.

No estimate has been made of any price changes resulting from other Budget measures, direct or otherwise.