Article

Recent drivers of UK consumer price inflation: March 2022

A detailed look into recent drivers of UK consumer price inflation.

Table of contents

1. Main points
2. Overview of consumer price inflation
3. Energy prices have contributed to rising inflation
4. Motor fuels and used cars have put strong upward pressure on price growth
5. Prices for food and non-alcoholic beverages have increased recently
6. Inflationary pressure has come from across the basket
7. Related links
1. Main points

- UK consumer price inflation has risen sharply in recent months, driven by a broad range of items, with particular pressure coming from food, durables, consumer goods and energy.

- Energy, motor fuels and used cars have put strong upward pressure on inflation while food prices have also risen.

- Recent inflation trends for the UK are broadly in line with those seen in other countries with similar pressures coming from crude oil and gas.

- An increasing proportion of business have reported that their costs have increased and that they have raised their prices.

- Of people surveyed in the Opinions and Lifestyle Survey (OPN) in the first half of March, 81% reported an increase in their cost of living.
2. Overview of consumer price inflation

Consumer price inflation has risen sharply over recent months prompting widespread discussion of increases in the cost of living. This analysis explores recent drivers of inflation and the factors that have been driving this increase. Consumer prices are affected by a range of different factors including costs of inputs, wages, changes in demand, availability of components and global economic factors.

The 12-month growth rate of the Consumer Prices Index including owner occupiers' housing costs (CPIH) rose to 5.5% in February 2022. Business prices also rose sharply in recent months to 15.2% for the input Producer Price Index (PPI) in November 2021, and 10.1% for the output PPI in February 2022. Business prices can give early indications of possible movements in CPIH as input and output prices pass through the economy and on to consumers.
This analysis will focus on three components of CPIH – transport, food and non-alcoholic beverages and housing and household services. Transport and housing and household services combined have accounted for more than half of the growth in consumer price inflation each month since February 2021. Food and non-alcoholic beverages have also been making an increasing contribution to consumer inflation in recent months. They account for around 9.3% of the CPIH basket and are a part of the basket for which consumers may particularly feel price movements as part of their regular spending.
Figure 2: Transport and housing and household services combined have accounted for more than half of CPIH growth each month since Feb 2021

Contributions to the 12-month growth rate of the Consumer Prices Index including owner occupiers’ housing costs (CPIH), UK, Jan 2015 to Feb 2022

Notes:

1. “Other” includes alcoholic beverages and tobacco, health, communication, recreation and culture and miscellaneous goods and services.
The UK is not alone in experiencing high inflation in recent months. Using the internationally comparable CPI, which is the same as Eurostat’s Harmonised Index of Consumer Prices (HICP), we can see that UK inflation has been broadly in line with the EU average for the last year. US inflation has risen considerably more quickly, reaching 8.1% in December 2021, while UK CPI has reached 6.2% in February 2022.

Many of the current drivers of this inflation are common across countries, with energy and fuel prices being subject to global market conditions and both the US and the UK seeing strong upward price pressure from used cars.
Figure 3: UK consumer price inflation is in line with recent international trends

12-month growth rate of the Harmonised Index of Consumer Prices (HICP), UK, Germany, France, EU and United States, Jan 2015 to Feb 2022

Source: Eurostat and Office for National Statistics, Consumer Prices Index

Notes:

1. The internationally comparable series Harmonised Index of Consumer Prices is equivalent to the Consumer Prices Index (CPI) in the UK, so that is used here.

2. The UK was part of the EU average until January 2020, after which it is no longer included.
Components like energy have widespread impacts on inflation as they affect consumers both directly and indirectly as inputs for firms. Recent findings from the Business Insights and Conditions Survey (BICS): 10 March 2022 bulletin show that almost one in six businesses had seen their production and/or suppliers affected by recent increases in wholesale gas prices. For wholesale and retail trade that figure was around one in five.

Figure 4: In early February 2022, 16% of businesses reported their production and/or suppliers were affected by recent increases of wholesale gas prices

Wholesale gas prices, businesses not permanently stopped trading, broken down by industry, weighted by count, UK, 7 February to 20 February 2022

Source: Office for National Statistics – Business Insights and Conditions Survey

Notes:
1. Industries may not sum to 100% because of rounding.

2. "Mining and quarrying" and "water supply; sewerage, waste management and remediation activities" have been removed for disclosure purposes, but their totals are included in "All industries".

3. For presentational purposes, response options have been combined.
3. Energy prices have contributed to rising inflation

Housing and household services have put strong upward pressure on consumer price inflation in the UK and other countries since 2020. This has been driven by the increase in energy prices (gas and electricity), which have seen demand increase as economies reopened after the initial stages of the coronavirus (COVID-19) pandemic. It has also been driven by supply side issues such as weather conditions, including a cold winter in Europe and lower than usual availability of wind energy, leading to reduced gas stocks. More information is available on recent developments in natural gas and electricity markets.
12-month growth rates of housing and household services prices, European Union, UK, France, Germany and the United States, Jan 2015 to Feb 2022

Source: Eurostat and Office for National Statistics, Consumer Prices Index

Notes:
1. The internationally comparable series Harmonised Index of Consumer Prices is equivalent to the Consumer Prices Index (CPI) in the UK, so that is used here.
Consumer prices for gas and electricity are typically less volatile than wholesale prices as they also account for other costs including distribution and customer engagement, which are more stable. In Great Britain, consumer price movements for gas and electricity are also tempered by the role of the Office of Gas and Electricity Markets (Ofgem) energy price cap.

Introduced in January 2019, the Ofgem price cap limits the price that energy firms can charge per unit for customers on variable tariffs, and limits adjustments to the default tariff price cap to twice a year: every April and October. Following the unusually high wholesale price increases in the latter half of 2021, the price cap was often lower than the price of available fixed rate contracts. The energy price cap is set to rise again in April 2022.

Over recent months around 80% of respondents to the Opinions and Lifestyle Survey (OPN) have reported increases in their energy bills, while around 37% of respondents in the second half of February 2022 said that they have reduced their fuel consumption. Recent analysis looks in more depth at energy prices and their effects on households.
4. Motor fuels and used cars have put strong upward pressure on price growth

Transport has seen steady increases in price growth since September 2020, following a period of falling prices between April and August 2020. This reflects trends in various components of transport but most notably in fuels and lubricants and purchases of motor vehicles. Figure 6 shows that this trend is also not specific to the UK, and the US in particular has seen exceptionally high price growth for transport.
Figure 6: Transport price growth has risen steadily in the UK since September 2020

12-month growth rates of transport prices, European Union, UK, France, Germany and the United States, Jan 2015 to Feb 2022

Price growth for the operation of personal transport equipment, which includes motor fuels and vehicle maintenance, had a negative pull on inflation through most of 2020 as people across the world travelled less, businesses closed, and fewer goods were transported in response to the coronavirus (COVID-19) pandemic. This trend later reversed as businesses began to reopen and lockdowns eased, increasing demand for motor fuels.
The operation of personal transport equipment and the purchase of second hand cars have put the strongest upward pressure on inflation from transport in recent months.

**Contributions to the 12-month growth rates of CPIH from components of transport, UK, Jan 2019 to Feb 2022**

Prices for fuels and lubricants tend to be strongly driven by the cost of inputs such as crude oil, which typically move in line with global market trends. Figure 8 shows 12-month growth rates for inputs of crude oil from input PPI, coke and refined petroleum products from output PPI and fuels and lubricants in CPIH since January 1997.

For almost every turning point in crude oil price growth, coke and refined petroleum products and fuels and lubricants followed within a month, showing the speed of the pass-through from crude oil prices to consumer prices for petrol and diesel.

Price movements for fuels and lubricants are more muted than those for crude oil as they also reflect other factors such as fuel duty, distribution costs and retail costs. More information is available in our International comparisons of consumer prices: August 2021 article.
At the beginning of the coronavirus pandemic, there were falls in the oil price in response to falling demand. The Organization of Petroleum Exporting Countries (OPEC) agreed cuts to output in mid-2020, which led to rising prices, coinciding with initial easing of some of the most stringent coronavirus pandemic-related movement restrictions. Prices continued to rise in early 2021 as the global economy continued to reopen, including international travel, but has since fallen back.

Consumer prices fell at the beginning of the coronavirus pandemic as both crude oil prices and consumer demand fell. As a result, consumers were more affected by the higher prices for motor fuels coming through in 2021 when demand was more similar to pre-coronavirus pandemic levels. In February 2022 petrol prices reached 147.6 pence per litre, the highest on record at that time. More information is available in our Consumer price inflation, UK: January 2022 bulletin.

Used cars have also been making strong contributions to consumer price growth since mid-2021, likely reflecting both increased total demand for cars and substitution effects caused by delays in supplies of new cars.

Between April 2021 and January 2022 prices for used cars increased by around 32%, compared with an increase of 3% for new cars over the same period. This trend in inflation has also been seen in the US, where used car prices have put strong upward pressure on consumer price inflation.
Figure 9: Prices for used cars increased sharply between April and November 2021

Price movements for new and used cars in CPIH, UK, Jan 2019 to Feb 2022

New car production has been hit by widespread delays in large part because of a worldwide shortage of semiconductors, which are used in many features of new cars. Existing supply issues for semiconductors have been exacerbated by larger than usual fluctuations in demand during the coronavirus pandemic, including for personal electronics as more people work from home.

At the same time, over the last two years people have generally driven less than average, meaning that one- or two-year-old cars will typically have driven fewer miles than would have been the case before the coronavirus pandemic. As a result, second-hand cars are retaining their value more than previously.

5. Prices for food and non-alcoholic beverages have increased recently

Price growth for food and non-alcoholic beverages has risen sharply over recent months, in line with trends seen in other countries and input prices as seen in the Producer Price Index (PPI).

Figure 10 shows contributions to the 12-month growth rate of the Consumer Prices Index including owner occupiers' housing costs (CPIH) from each component of food and non-alcoholic beverages.

Given the variety of goods included in food and non-alcoholic beverages it is typical to see a range of price movements offsetting one another each month, reflecting factors including seasonality of different products, changes in supply and demand, and pricing decisions by manufacturers and retailers, such as temporary discounting. It is notable, therefore, that since December 2021 all components of food and non-alcoholic beverages have been putting upward pressure on consumer price inflation.
Figure 10: All components of food and non-alcoholic beverages have made positive contributions to the 12-month growth rate of CPIH in recent months

Contributions to the 12-month growth rate of the Consumer Prices Index including owner occupiers’ housing costs CPIH, UK, Jan 2019 to Feb 2022
Bread and cereals, meat, and milk, cheese and eggs have all seen considerable increases in their contribution to total CPIH growth in recent months. In early March the Agricultural and Horticultural Development Board (AHDB) reported record increases in grain prices and reduced dairy output putting upward pressure on prices, citing factors including poor silage quality and labour shortages as well as rising input costs.

Food and beverage firms with 10 or more employees in the Business Insights and Conditions Survey (BICS) have reported decreased turnover, increased input costs and supply chain challenges at higher rates than the average for all industries sampled in the survey over recent months.

Businesses were asked about how prices for items bought and sold have changed over the previous month compared with normal price fluctuations. Since April 2021, the proportion of food and beverage firms reporting increased costs above normal fluctuations has increased from around 18% to around 61% in February 2022. Over the same period, those reporting that they have increased prices has risen from around 7% to around 39% in February 2022.

Figure 11a: The final three months of 2021 saw a rise in the proportion of business reporting increases in prices of inputs bought

Source: Office for National Statistics – Business Insights and Conditions Survey (BICS)

Notes:

1. Businesses were asked for their experiences for the reference period of each wave. However, businesses may respond from the point of completion of the questionnaire. Data are plotted in the middle of the period of each wave.
Figure 11b: The final three months of 2021 saw a rise in the proportion of business reporting increases in prices of items sold

Percentage of businesses currently trading, broken down by industry, excluding businesses with 0 to 9 employees, three-wave moving average, weighted by count, UK, 1 June 2020 to 20 Feb 2022

Source: Office for National Statistics – Business Insights and Conditions Survey (BICS)

Notes:

1. Businesses were asked for their experiences for the reference period of each wave. However, businesses may respond from the point of completion of the questionnaire. Data are plotted in the middle of the period of each wave.

Increased costs for fuel and energy also feed through as input costs to firms, increasing overheads for manufacturing, delivery and retail. Almost half of food and beverage firms with 10 employees or more reported being affected by rising wholesale gas prices in February 2022, compared with around 25% of firms across all sectors surveyed by BICS.

In terms of consumer demand, predominantly food stores have seen somewhat different trends to those seen in the rest of the retail sector since the beginning of the coronavirus (COVID-19) pandemic. Figure 12 shows movements in sales volumes for predominantly food stores and all retail since January 2019, with demand for food increasing at the beginning of the coronavirus pandemic while demand for all retail fell sharply. This reflects substitution effects as we entered lockdown, with many restaurants and takeaways closing for an extend period, and consumer uncertainty about the ongoing availability of goods at that time.

During subsequent periods of lockdown restrictions, demand for food remained relatively high as demand for other types of retail fell. Demand for all retail rebounded following the end of lockdown restrictions and, most recently, has risen, while demand for food fell slightly in January 2022.
Figure 12: Demand for food remained high as overall retail demand fell during lockdowns

Retail Sales Index: Value of Retail Sales at Current Prices, Seasonally Adjusted, UK, Jan 2019 to Jan 2022

Source: Office for National Statistics – Retail Sales Index

Notes:
1. Predominantly automotive fuel also includes sale of fuel by supermarkets
6. Inflationary pressure has come from across the basket

In recent months, consumer prices have risen across the basket, with particularly strong upward pressure coming from essentials such as energy and motor fuels. Food prices have also increased considerably, all of which is felt directly by consumers as they see changes in the cost of transport, energy bills and food costs on a weekly or monthly basis.

In the most recent responses to the Opinions and Lifestyle Survey (OPN) 81% of those asked reported that their cost of living had increased in the previous seven days. Of those, 92% reported an increase in the price of food shopping, 80% reported an increase in gas or electricity bills and 76% an increase in the price of fuel.
Figure 13: Higher food prices was the most common reason given for cost of living increases

Opinions and Lifestyle Survey: Coronavirus and the social impacts on Great Britain: Household finances, Great Britain, 3rd March 2022 to 13th March 2022

Notes:

1. Over the last month, for what reasons has your cost of living increased?
2. Adults who reported their cost of living had increased over the last month.
3. Respondents were able to choose more than one option.

Source: Office for National Statistics – Opinions and Lifestyle Survey (OPN)
When asked what actions they were taking in response to an increase in the cost of living, 51% said they were spending less on non-essentials, 37% were using less fuel such as gas or electricity at home, 37% were shopping around more and 30% were spending less on food shopping and essentials.

7. Related links

Consumer Price Inflation, UK
Bulletin | Released 23 March 2022
Price indices, percentage changes, and weights for the different measures of consumer price inflation.

Producer price inflation, UK: February 2022
Bulletin | Released 23 March 2022
Changes in the prices of goods bought and sold by UK manufacturers including price indices of materials and fuels purchased (input prices) and factory gate prices (output prices)

Energy prices and their effect on households
Digital article | Released 1 February 2022
As the cost of living rises for households across Great Britain, growing energy prices disproportionately impact those on lower incomes.

Coronavirus and the social impacts on Great Britain: 4 March 2022
Article | Released 4 March 2022
Indicators from the Opinions and Lifestyle Survey covering the period 16 February 2022 to 27 February 2022 to understand the impact of the coronavirus (COVID-19) pandemic on people, households and communities in Great Britain.

Business insights and impact on the UK economy: 10 March 2022
Article | Released 10 March 2022
The impact of challenges facing the economy and other events on UK businesses. Based on responses from the voluntary fortnightly business survey (BICS) to deliver real-time information to help assess issues affecting UK businesses and economy, including financial performance, workforce, trade, and business resilience.

Retail sales, Great Britain: January 2022
Bulletin | Released 18 February 2022
A first estimate of retail sales in volume and value terms, seasonally and non-seasonally adjusted.