

Article

Prices economic commentary: April 2018

Additional economic analysis of the latest Consumer Prices Index including owner occupiers' housing costs (CPIH), Producer Price Index (PPI), House Price Index (HPI) and Index of Private Housing Rental Prices (IPHRP) statistics and long-term trends.

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1 . Main points

- The 12-month growth rate of the Consumer Prices Index including owner occupiers' housing costs (CPIH) fell to 2.3% in March 2018, with the change driven mainly by the clothing and footwear, and alcoholic beverages and tobacco categories.
- The 12-month growth rate in CPIH remained below the 12-month growth rate in average weekly earnings (AWE) nominal regular pay for the second consecutive month in February 2018.
- Manufacturer factory gate prices for food have been growing more quickly than consumer food prices since mid-2016 but the growth rates have shown signs of converging since the beginning of 2018.
- London saw negative average house price growth between February 2017 and February 2018, the first month of negative annual growth since September 2009.

2 . Statistician's comment

Commenting on today's inflation figures, Office for National Statistics Head of Inflation Mike Hardie said:

"Inflation fell to its lowest rate in a year, with women's clothing prices rising slower than usual for this time of year.

"Alcohol and tobacco also helped ease inflation pressures, with tobacco duty rises linked to the Budget not appearing this March, thanks to its new autumn billing.

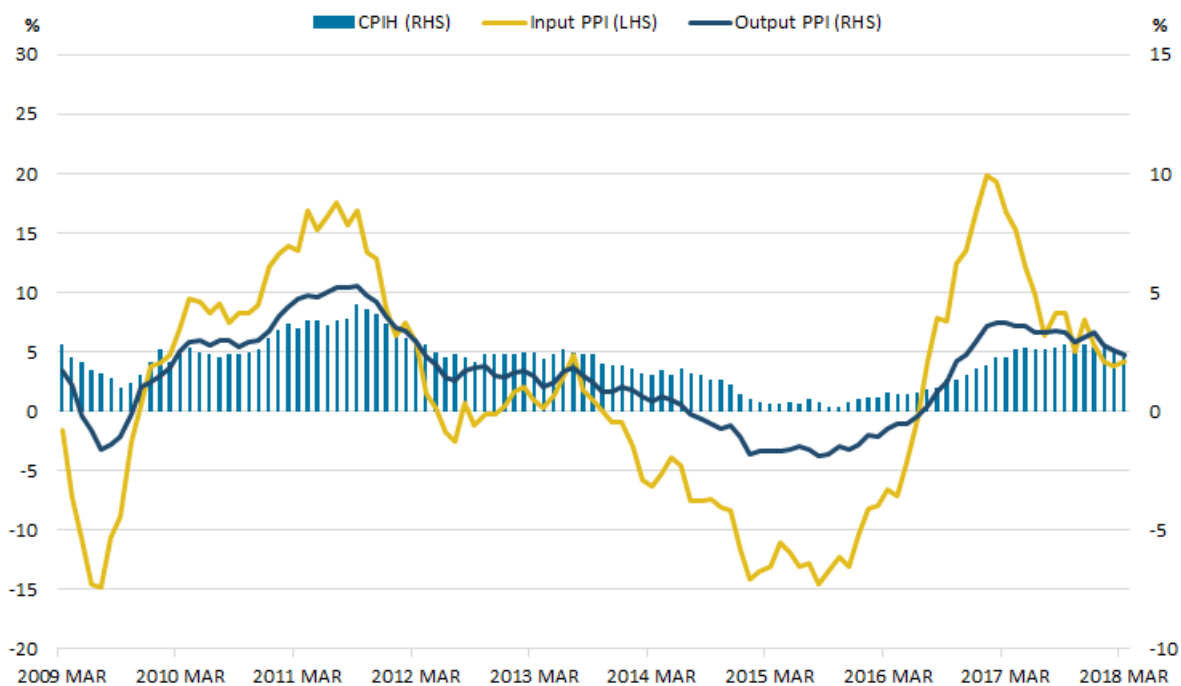
"Growth in the price of goods leaving factories continued to slow, due mainly to a smaller increase in the price of food products compared with this time last year."

3 . Summary

Figure 1 shows that the 12-month growth rate of the [Consumer Prices Index including owner occupiers' housing costs](#) (CPIH) fell to 2.3% in March 2018; the change was driven mainly by the clothing and footwear, and alcoholic beverages and tobacco categories. The input [Producer Price Index](#) (input PPI) grew by 4.2% in the 12 months to March 2018, up from 3.8% in the 12 months to February 2018; driven mainly by increases in the 12-month growth rates for crude oil and fuels. The output [Producer Price Index](#) (output PPI) grew by 2.4% in the 12 months to March 2018, down from 2.6% in the 12 months to February 2018, with the biggest falls seen in the 12-month growth rates for food products and transport equipment.

Figure 1: Annual growth rate for input Producer Price Index (PPI) (left-hand side), output PPI and Consumer Prices Index including owner occupiers' housing costs (CPIH) (right-hand side)

UK, March 2009 to March 2018



4 . Regular earnings growth in 2018 outpaces CPIH for the first time since January 2017

In the period since January 2007, the 12-month growth rate of the Consumer Prices Index including owner occupiers' housing costs (CPIH) has varied considerably from a high of 4.8% in September 2008 to a low of 0.2% in September and October 2015. It is useful to also consider the growth in nominal earnings over the same period, as the extent to which people feel the effects of increasing prices is influenced by whether their earnings also grow at the same rate, or a higher or lower rate.

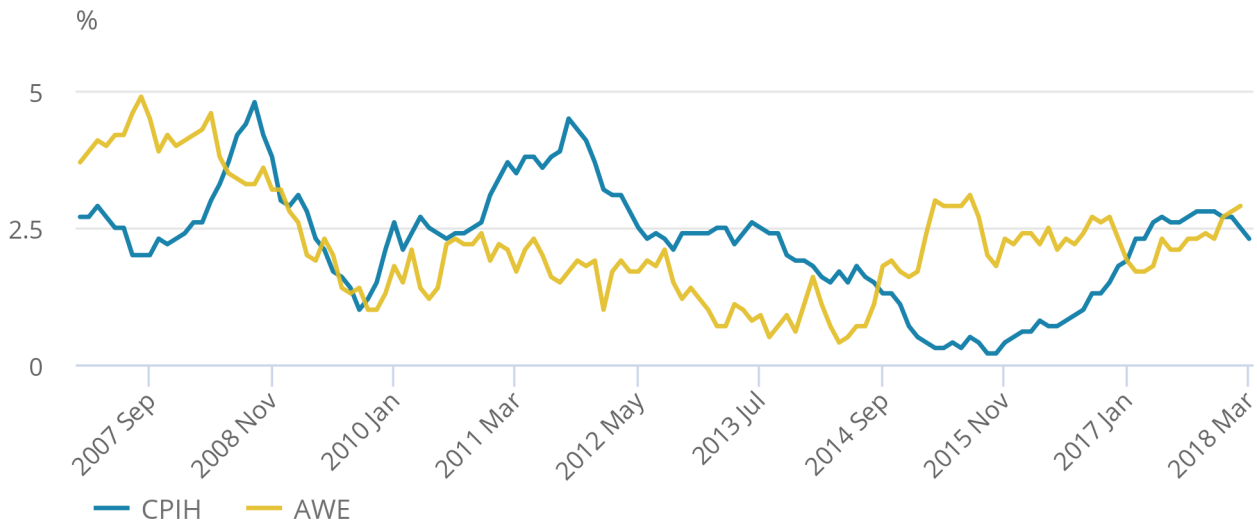
Figure 2 shows the 12-month growth rates for the CPIH and average weekly earnings (AWE) nominal regular pay for the whole economy. [Average weekly earnings](#) measures money paid per week, per job to employees in Great Britain in return for work done, before tax and other deductions from pay¹.

Figure 2: 12-month growth rates for the Consumer Prices Index including owner occupiers' housing costs (CPIH) and 12-month growth in average weekly earnings (AWE) nominal regular pay

UK (CPIH) and Great Britain (AWE), January 2007 to March 2018

Figure 2: 12-month growth rates for the Consumer Prices Index including owner occupiers' housing costs (CPIH) and 12-month growth in average weekly earnings (AWE) nominal regular pay

UK (CPIH) and Great Britain (AWE), January 2007 to March 2018



Source: Monthly Wages and Salaries Survey, Office for National Statistics

Notes:

1. Average weekly earnings estimates do not include earnings of self-employed people.
2. The latest data are used for both CPIH (March 2018) and AWE (February 2018).

During the 2008 to 2009 economic downturn, the 12-month growth rates in both CPIH and AWE fell sharply and broadly in line with one another. From October 2009, the 12-month growth rate in CPIH rose at a much faster rate than the 12-month growth rate in AWE, and inflation remained above nominal earnings growth until September 2014. Although nominal earnings continued to grow over the entire period, when inflation was growing more quickly than nominal earnings the value of real earnings (nominal earnings adjusted for inflation) was falling, as growth in the prices of goods and services outpaced growth in earnings.

Large decreases in the 12-month growth rate of CPIH seen between September 2011 and September 2015 have previously been linked to several factors, including a period of strong price competition between supermarkets, and continued even after nominal earnings started to increase in May 2014. The initial return to positive real wage growth in September 2014 was therefore driven by a combination of rising nominal wage growth and falling 12-month growth rates for CPIH.

Since September 2015, the 12-month growth rate in nominal earnings has been volatile but seen no periods of sustained increases or decreases. By contrast, the 12-month growth rate in CPIH has been steadily increasing, once again outpacing nominal earnings growth between February 2017 and December 2017, resulting in a return to negative real wage growth. These increases in the 12-month growth rate of CPIH were driven by a combination of factors. These include increasing food prices, increasing world prices for oil and exchange rate effects due to depreciations in sterling following the EU referendum in June 2016.

Most recently, since January 2018, nominal earnings have once again grown more quickly than CPIH, with the 12-month growth rate in AWE continuing to gradually increase; while the 12-month growth rate in CPIH fell from 2.7% in December 2017 to 2.3% in March 2018. These recent falls in the 12-month growth rate of CPIH have been driven most notably by falls in the 12-month growth rates for fuels and lubricants, food and non-alcoholic beverages, and clothing and footwear, which may be partly attributable to a gradual strengthening of the sterling effective exchange rate over the same period.

Notes for: Earnings growth in 2018 outpaces CPIH for the first time since January 2017

1. This measure of average earnings does not include bonuses, which tend to follow very seasonal patterns and mask underlying trends in regular earnings.

5 . Factory gate prices for food are growing more quickly than consumer food prices

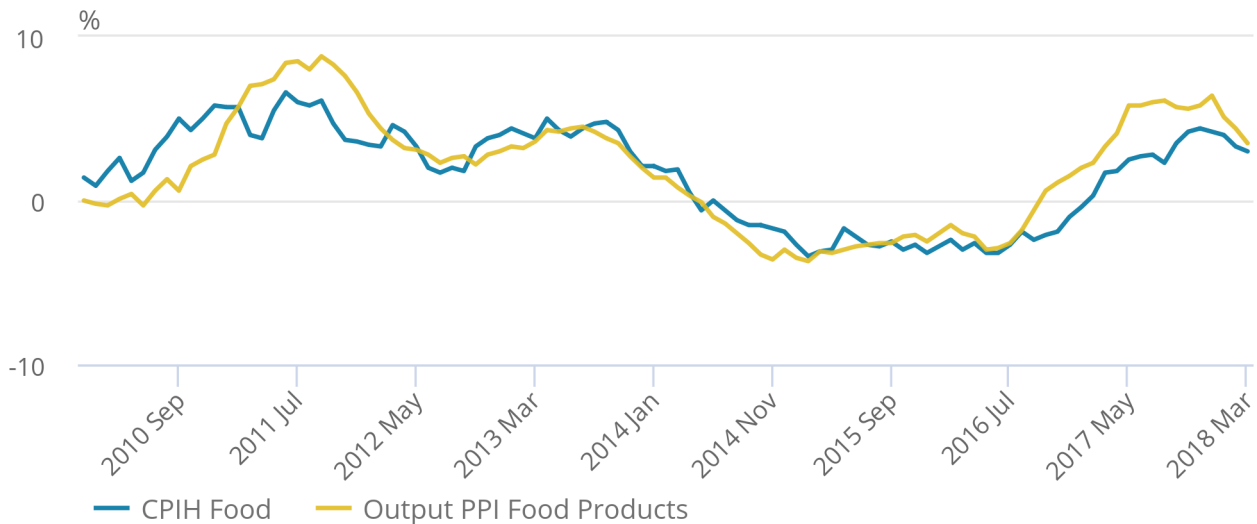
Figure 3 shows the 12-month growth rates for the food component of the Consumer Prices Index including owner occupiers' housing costs (CPIH) and the food products component of the output Producer Price Index (PPI) from January 2010 to March 2018. Both series have followed broadly similar trends over the period, tracking one another fairly closely between 2012 and 2016, but showing wider variation at the beginning of the period and more recently since September 2016.

Figure 3: 12-month growth for food within the Consumer Prices Index including owner occupiers' housing costs (CPIH) and food products within the output Producer Price Index (PPI)

UK, January 2010 to March 2018

Figure 3: 12-month growth for food within the Consumer Prices Index including owner occupiers' housing costs (CPIH) and food products within the output Producer Price Index (PPI)

UK, January 2010 to March 2018



Source: Office for National Statistics

Between September 2013 and February 2015, both the food component of CPIH and the food products component of output PPI experienced a sharp decline in the 12-month growth rate, falling from positive 4.8% to negative 3.4% and from positive 3.8% to negative 3.7% respectively. This sustained decline may be partially attributable to "supermarket price wars", a period of strong price competition between supermarkets, as well as a strong harvest putting downward pressure on world commodity prices for food. The 12-month growth rates for the food components of CPIH and output PPI were relatively stable between December 2014 and June 2016, remaining negative throughout.

From September 2016 to September 2017, the 12-month growth rates for both the food component of CPIH and the food products component of output PPI increased relatively quickly, returning to positive growth in February 2017 and October 2016 respectively. This reflects both increasing world food prices, in particular [dairy products](#), and the relative weakness of sterling over this period.

Since September 2016, the 12-month growth rate for the food products component of output PPI has been consistently higher than the 12-month growth rate for the food component of CPIH. This may mean that retailers are not passing on the full extent of cost increases to consumers but may also reflect the relatively high import intensity of the food component of CPIH and the gradual stabilising of the sterling effective exchange rate in recent months. Since the end of 2017, the 12-month growth rates for both series have been falling and converging somewhat to 3.0% for the food component of CPIH and 3.5% for the food products component of output PPI in March 2018.

6 . Annual house price growth in London negative in February 2018

In February 2018, the latest month for which data are available, the 12-month growth rate for house prices in London fell to negative 1.0%, its first month of negative annual growth since September 2009, continuing a recent broadly downward trend that started in 2014. By contrast, the 12-month growth rate for house prices in Great Britain excluding London was 4.7% and the average rate for Great Britain as a whole was 4.3%.

Figures 4a and 4b show the House Price Index (left-hand side, indexed to January 2010) and 12-month growth rates for house prices (right-hand side) for London and Great Britain excluding London respectively.

Figure 4a: London House Price Index (HPI) (left-hand side) and 12-month growth rate in house prices (right-hand side)

January 2010 to February 2018

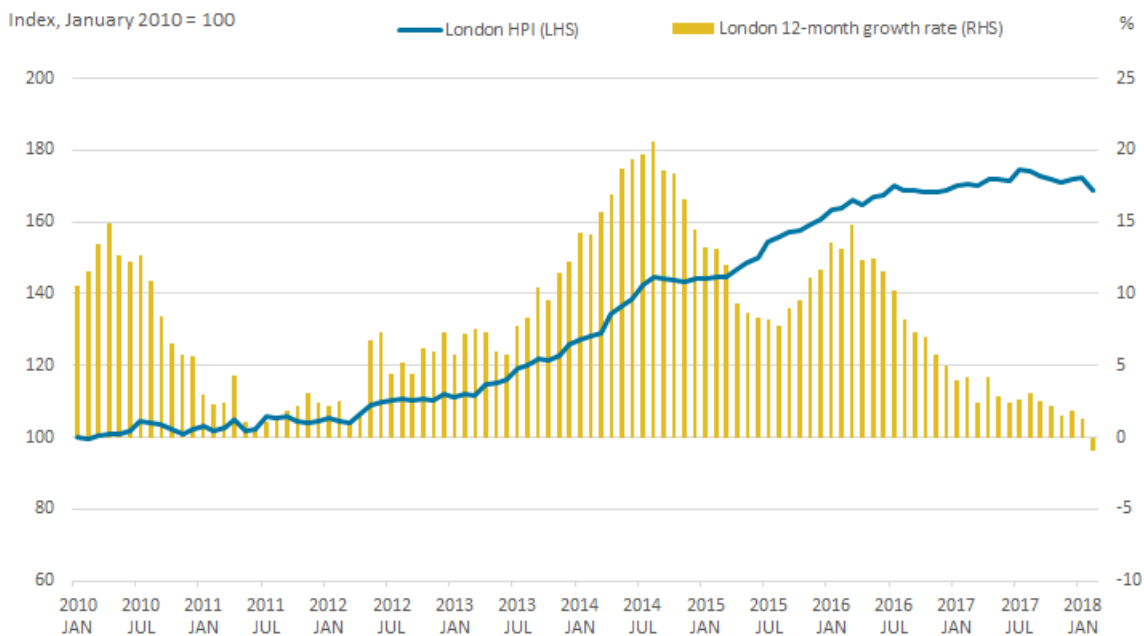
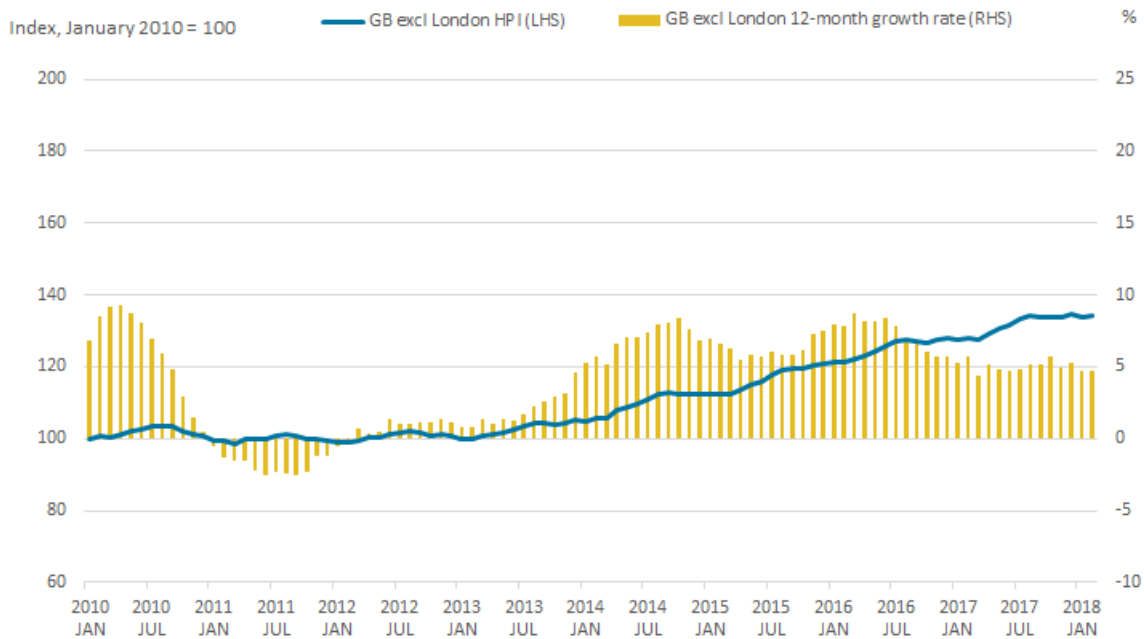


Figure 4b: Great Britain excluding London House Price Index (HPI) (left-hand side) and 12-month growth rate in house prices (right-hand side)

January 2010 to February 2018



Since March 2016, the 12-month growth rate in house prices in London has been decreasing from positive 14.8% in March 2016 to a low point of negative 1.0% in February 2018. Over the same period, the 12-month growth rate in Great Britain excluding London has been relatively more stable, falling only from 8.7% in March 2016 to 4.7% in February 2018.

The decrease in house price growth in London since March 2016 likely reflects changing demand for properties in the capital, following the introduction of a higher rate of Stamp Duty on additional properties in April 2016, and affordability due to historic high prices in the capital.

In February 2018, the average house price in London was £472,000 while the average house price in Great Britain excluding London was £219,000. There has been considerable difference in the overall growth seen in house prices over the period – since January 2010, average house prices in London have increased by 68.7% (peaking in July 2017 at 74.5% higher than January 2010 prices). Meanwhile, average house prices in Great Britain excluding London have grown by 34.3% between January 2010 and February 2018 (down slightly from a peak of 34.6% in December 2017).

Taken in this longer-term context, it can be seen that despite recent falls, average house prices in London remain relatively high compared with the rest of Great Britain. At their recent peak, average house prices in London had seen more than double the growth since January 2010 than that experienced in the rest of Great Britain.

7 . Authors

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