Office for National Statistics

Article

Prices economic commentary: April 2019

Additional economic analysis of the latest Consumer Prices Index including owner occupiers' housing costs (CPIH), Producer Price Index (PPI), house price 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) was 1.8% in March 2019, unchanged since January 2019.

- The input Producer Price Index (input PPI) grew by 3.7% in the 12 months to March 2019, down from 4.0% in the 12 months to February 2019.

- The output Producer Price Index (output PPI) grew by 2.4% in the 12 months to March 2019, unchanged from February 2019.

- In February 2019, the annual growth rate of the UK House Price Index fell to 0.6%, the lowest rate of growth since September 2012, driven mainly by a continued slowdown in London, the South East and the East of England.

- The South East experienced negative house price growth for the first time since November 2011 at negative 1.8%, its lowest rate of growth since September 2009.

- The UK Consumer Prices Index (CPI) has grown more quickly on the year than the comparable euro area Harmonised Index of Consumer Prices (HICP) for every month since February 2016.

- Relatively stable exchange rates since 2017 have reduced the inflationary pressure on non-crude oil components of input PPI.

2 . Statistician's comment

Commenting on today's inflation figures, Head of Inflation Mike Hardie said:

"Annual house price growth has slowed to the lowest rate in close to seven years. Growth in Wales and the west of England was offset by a sustained fall in London and falling prices in the South East for the first time since 2011.

"Inflation is stable, with motor fuel prices rising between February and March this year, offset by falls in food prices as well as the cost of computer games growing more slowly than it did at 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) was 1.8% in March 2019, unchanged since January 2019. The 12-month growth rate of the Consumer Prices Index (CPI) also remained unchanged in March 2019 at 1.9%, driven by the same price movements as CPIH.

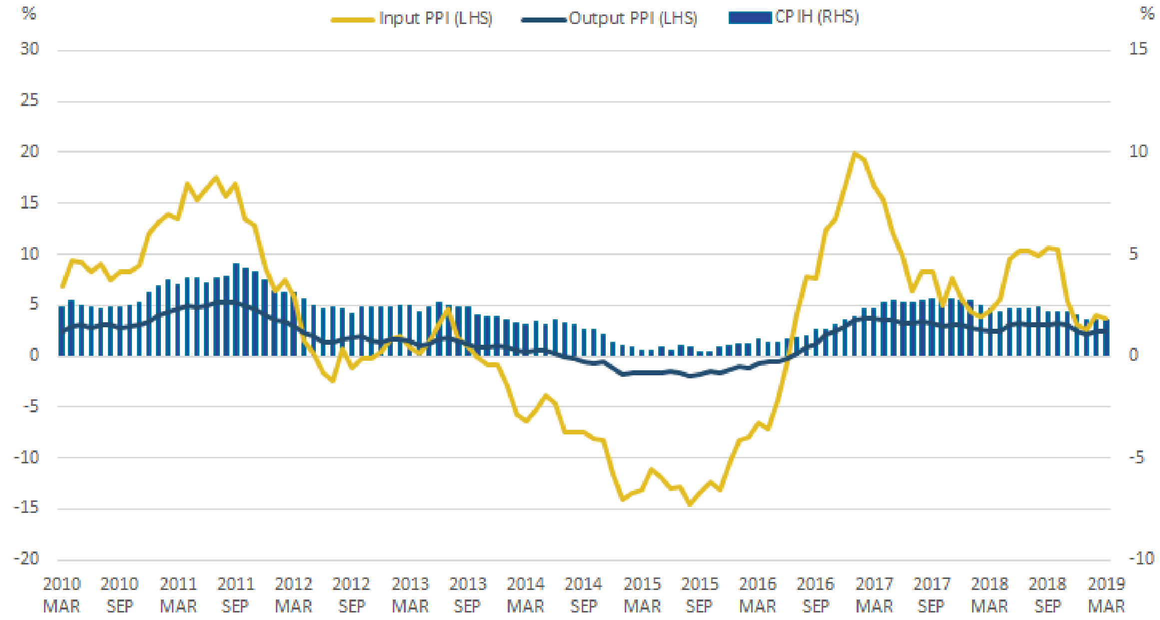
The largest downward contributions to change in the 12-month rate came from falls in recreation and culture, and food and non-alcoholic beverages. These downward effects were offset by upward contributions from a variety of categories including transport, principally increases in both petrol and diesel prices, miscellaneous goods and services, and from clothing and footwear.

The input Producer Price Index (input PPI) grew by 3.7% in the 12 months to March 2019, falling from growth of 4.0% in the 12 months to February 2019. Fuels and crude oil made the largest upward contributions to the 12-month growth rate

The output [Producer Price Index](#) (output PPI) grew by 2.4% in the 12 months to March 2019, unchanged from February 2019. All product groups provided positive contributions to the 12-month growth rate of output PPI in March 2019.

Figure 1: 12-month growth rates of CPIH and output PPI remained unchanged in March 2019, while 12-month growth of input PPI fell to 3.7%

12-month growth rates for input Producer Price Index (PPI), output PPI (left-hand side), and Consumer Prices Index including owner occupiers' housing costs (CPIH) (right-hand side), UK, March 2010 to March 2019



Source: Office for National Statistics - Producer Price Index and Consumer Prices Index including owner occupiers' housing costs

Notes:

1. These data are also available within the [Dashboard: Understanding the UK economy](#).

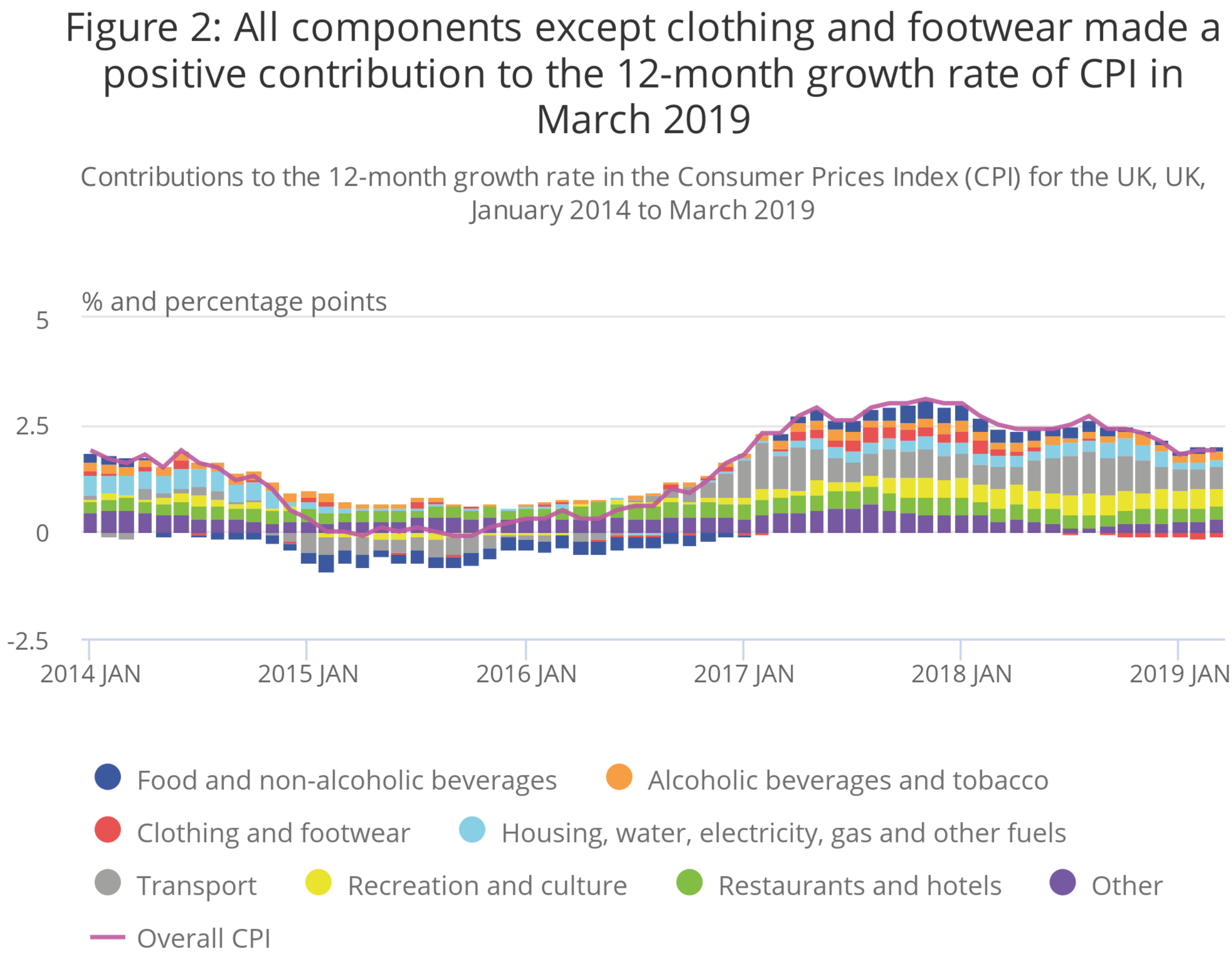
4 . UK CPI has grown more quickly than euro area HICP every month since February 2016

Figures 2 and 3 show contributions to the 12-month growth rate of the Consumer Prices Index (CPI) for the UK from January 2014 to March 2019, and contributions to the Harmonised Index of Consumer Prices (HICP) for the euro area from January 2014 to February 2019, the latest month for which data are currently available. The HICP allows for international comparisons to be made on a consistent basis and is equivalent to the UK's CPI measure, as such it does not include owner occupiers' housing costs.

The 12-month growth rate for CPI in the UK has been higher than the HICP 12-month growth rate for the euro area for much of the period and has been consistently above the euro area rate every month since February 2016. Both the UK and the euro area saw annual price growth increase in 2016 with price growth remaining relatively high in much of the period since.

Figure 2: All components except clothing and footwear made a positive contribution to the 12-month growth rate of CPI in March 2019

Contributions to the 12-month growth rate in the Consumer Prices Index (CPI) for the UK, UK, January 2014 to March 2019



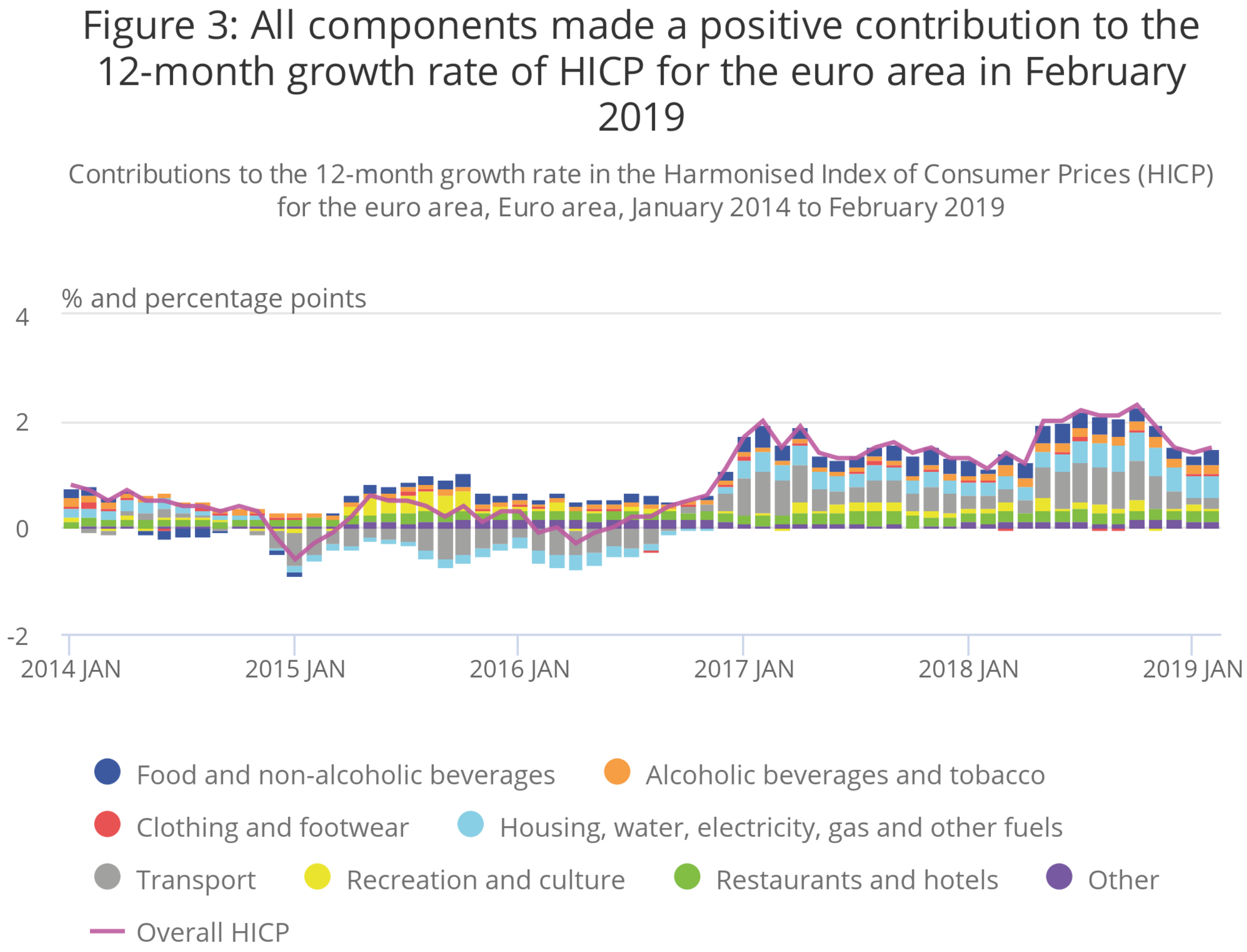
Source: Office for National Statistics - Consumer Prices Index

Notes:

1. Contributions may not sum due to rounding.
2. The "other" component includes: furnishings, household equipment and routine household maintenance; health; communication; education and miscellaneous goods and services.

Figure 3: All components made a positive contribution to the 12-month growth rate of HICP for the euro area in February 2019

Contributions to the 12-month growth rate in the Harmonised Index of Consumer Prices (HICP) for the euro area, Euro area, January 2014 to February 2019



Source: Eurostat - Harmonised Index of Consumer Prices

Notes:

1. Contributions may not sum due to rounding.
2. The latest data available for contributions in the euro area are February 2019.
3. The "other" component includes: furnishings, household equipment and routine household maintenance; health; communication; education and miscellaneous goods and services.

Some of the components make similar contributions to annual price growth in the UK and euro area, likely reflecting similarities in market conditions and global price trends faced for the likes of food and non-alcoholic beverages, and crude oil, one of the largest drivers of transport price movements.

Other components show more variation in their contribution to prices growth. For example, housing, water, gas, electricity and other fuels makes considerably different contributions to price growth in the UK and euro area in the period since 2016. This may be partly explained by weight differences as the UK housing, water, gas, electricity and other fuels has a weight of 130 parts per thousand for 2019 in the [CPI basket](#) whereas for the euro area it has a weight of 165.34 in the HICP basket. This may reflect country-specific differences in demand for specific goods and services due to infrastructure differences.

Movements in the 12-month growth rate for housing, water, electricity, gas and other fuels are driven mainly by electricity, gas and other fuels for both the UK and the euro area, with actual rents for housing having more impact on price growth movements in the UK than in the euro area. For the euro area, liquid fuels are a large driver of price growth movements for electricity, gas and other fuels, while this is a relatively minor component of the UK CPI basket.

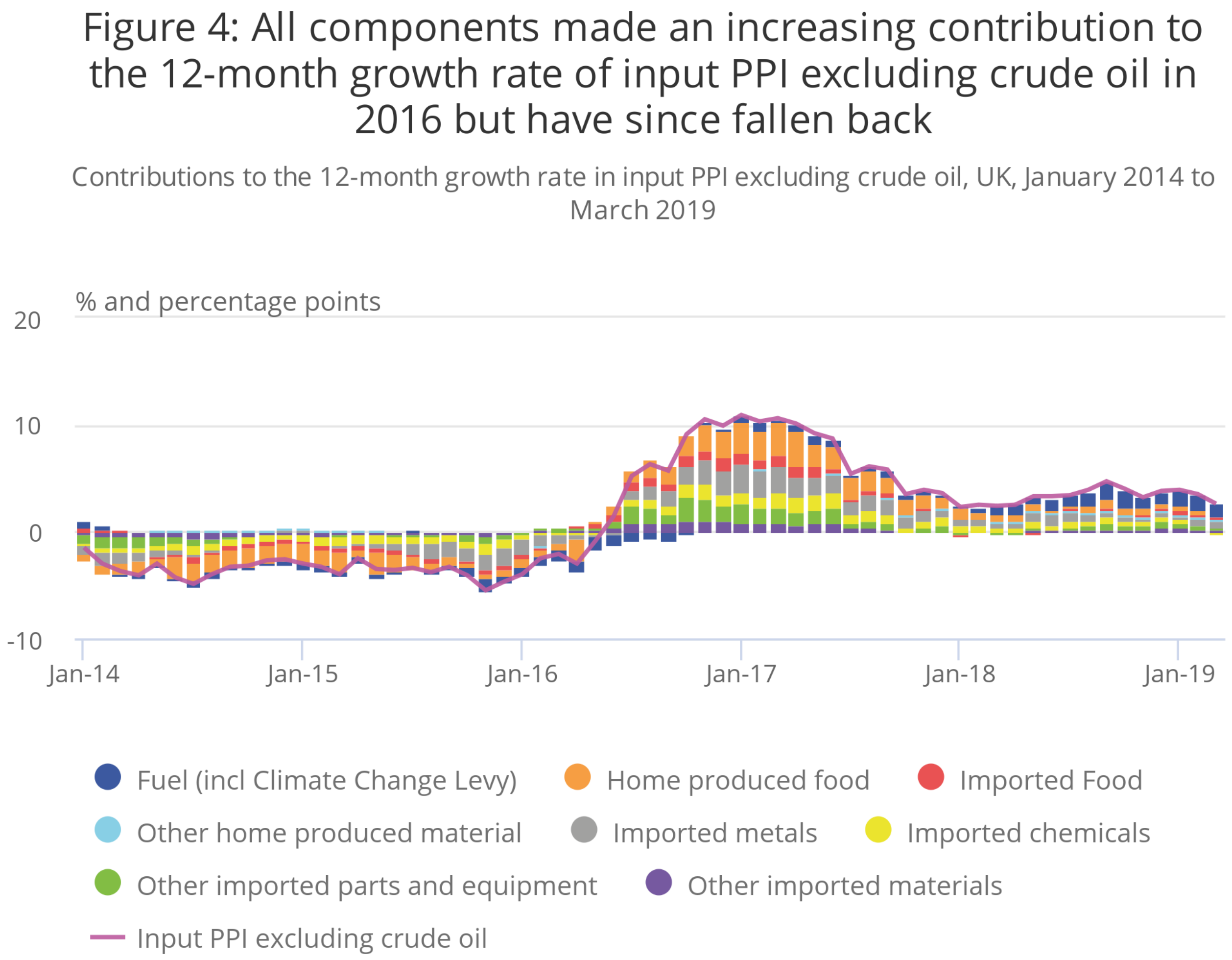
Liquid fuels consists of regular kerosene and has a weight of one in the UK CPI basket as the majority of households in the UK have a mains gas supply and therefore are not dependent on liquid fuels. In the euro area, liquid fuels have a weight of 7.38 in the HICP basket with Greece, Germany and Belgium having particularly high weights of over 12 for liquid fuels. Liquid fuels is a volatile series and has been a main driver of price growth movements for electricity, gas and other fuels in the euro area throughout the period.

5 . Relatively stable exchange rates since 2017 have reduced the inflationary pressure on input PPI excluding crude oil

Figure 4 shows the contributions to the 12-month growth rate of the input Producer Price Index (PPI) excluding crude oil. Crude oil has generally been the largest contributor to the change in the growth rate throughout the period, so we have removed it here to more clearly show the contributions of other components to the 12-month growth rate. As such, the growth rate shown here is for input PPI excluding crude oil.

Figure 4: All components made an increasing contribution to the 12-month growth rate of input PPI excluding crude oil in 2016 but have since fallen back

Contributions to the 12-month growth rate in input PPI excluding crude oil, UK, January 2014 to March 2019



Source: Office for National Statistics - Producer Price Index

Notes:

1. Contributions may not sum due to rounding.

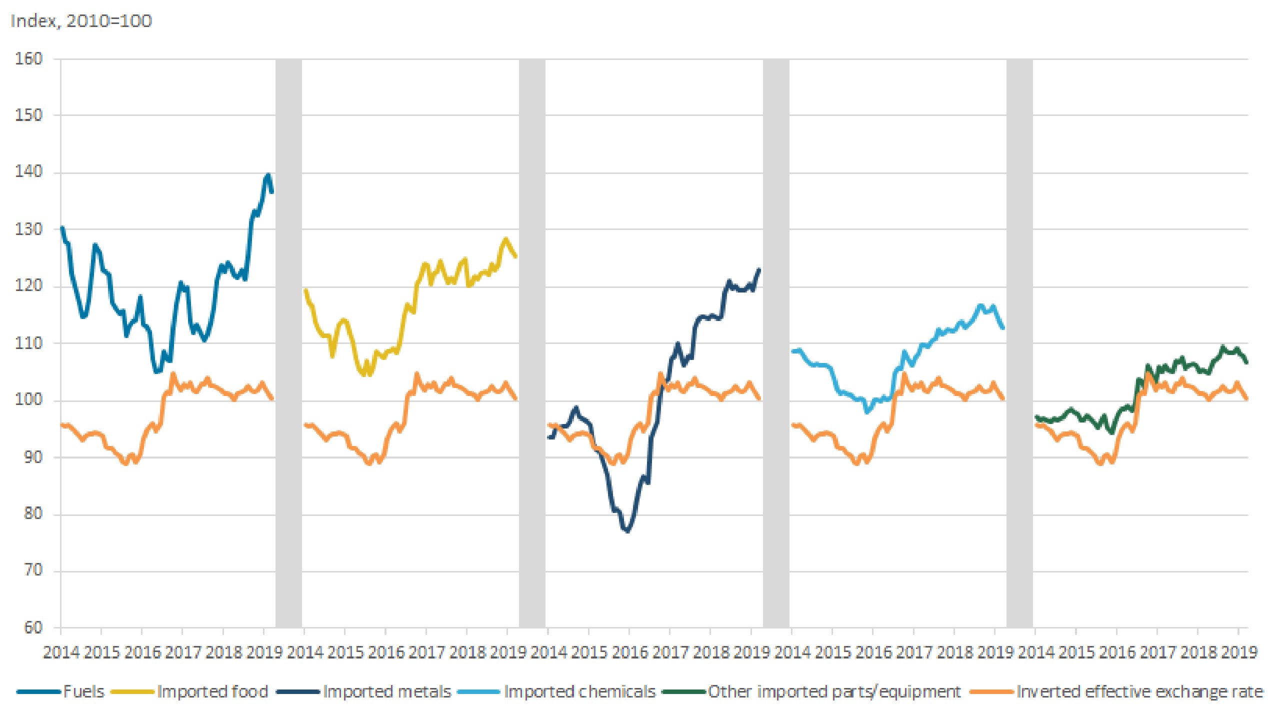
2. The 12-month growth rate of input PPI excludes crude oil.

From January 2014 to June 2016, the 12-month growth rate of input PPI excluding crude oil was consistently negative, with most components providing a negative contribution to the rate. Since July 2016, the 12-month growth rate has been positive, peaking at 10.9% in January 2017. All components made an increasing contribution to the 12-month growth rate from July 2016 until early 2017, likely reflecting the effects of the depreciation of sterling.

Throughout the period, home-produced food has been one of the largest contributors to the 12-month growth rate of input PPI excluding crude oil, peaking in April 2017 with a contribution of 3.31 percentage points. Since June 2018, fuels has made the largest contribution to the 12-month growth rate every month; in March 2019 it contributed 1.17 percentage points to the 12-month growth rate.

Figure 5: Prices for fuels and imported metals have continued to increase in recent years even as the exchange rate has remained relatively stable

Inverted sterling effective exchange rate and selected indices for input PPI, UK, January 2014 to March 2019



Source: Office for National Statistics - Producer Price Index, Bank of England

Figure 5 shows the relationship between five selected components of input PPI and the inverted effective sterling exchange rate between January 2014 and March 2019. This allows us to look in more detail at how each of these components moves in relation to the exchange rate. The exchange rate has been inverted so that an increase on the chart corresponds to a fall in the value of sterling, which would be expected to increase the price of imported components of input PPI, all else being equal, while the opposite is true for a fall in the inverted effective exchange rate.

Prices for imported food, imported metals, imported chemicals and other imported parts and equipment all increased in 2016 when the value of sterling fell sharply, as reflected in their increased contributions to the 12-month growth rate of input PPI at that time. Price movements for other imported parts and equipment, and for imported food have both since flattened out as the exchange rate has remained relatively stable more recently, whereas prices for imported metals and imported chemicals have continued to increase, suggesting that they are likely subject to other drivers besides exchange rate movements. Prices for fuels have also continued to increase, as they include both imported and domestically-produced fuels it is unsurprising that they are less closely correlated with exchange rate movements than other imported components are.

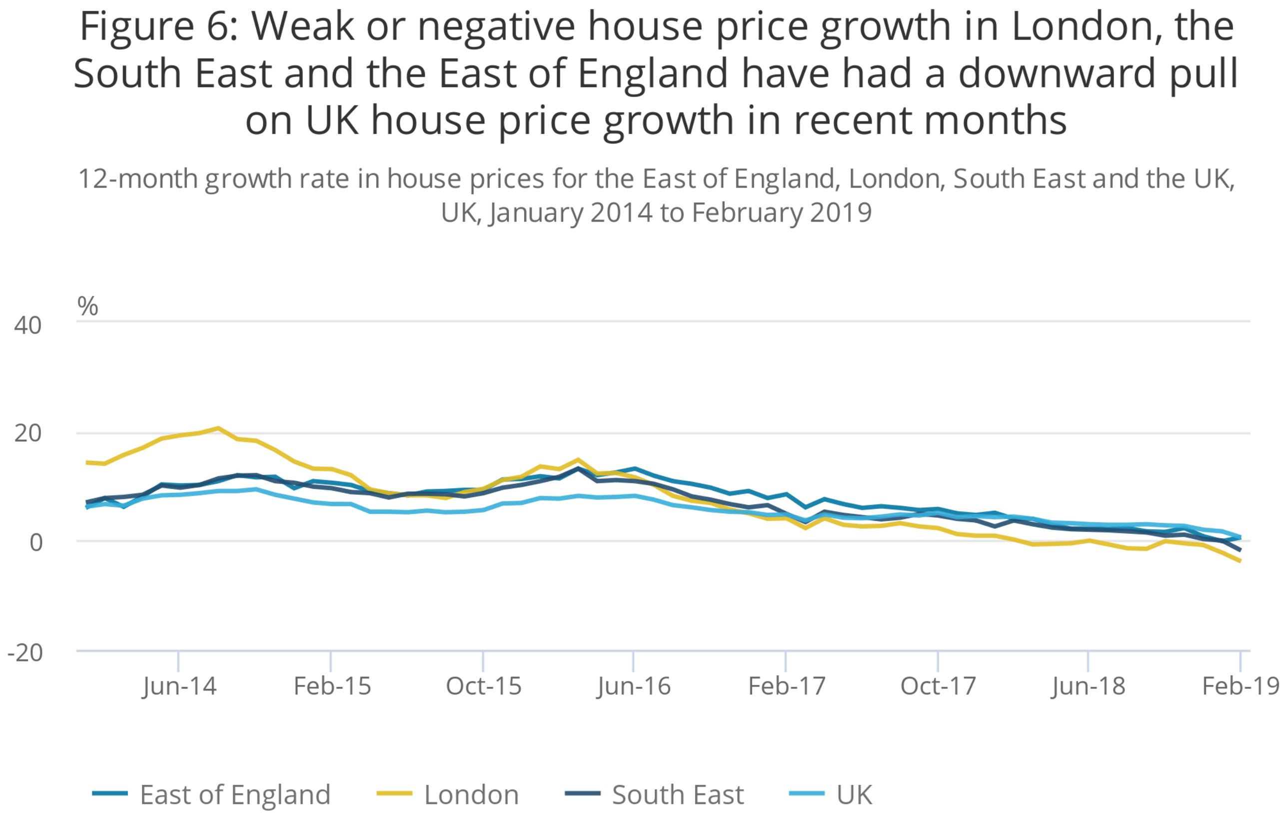
6 . Annual UK HPI growth fell for the fifth consecutive month in February 2019, driven by the continued slowdown in London, the South East and the East of England

In February 2019, UK annual house price growth fell for the fifth consecutive month, to 0.6%. Figure 6 shows movements in annual house price growth for the UK as well as London, the East of England and the South East, three regions that collectively have a weight of around 34% in the UK House Price Index (HPI).

These three regions have seen similar trends of fairly consistent decreasing house price growth since June 2016. In the most recent month for which we have data, February 2019, the South East saw negative annual house price growth for the first time since November 2011 with average prices falling by 1.8% over the year. Annual house price growth in London remained negative for the eighth consecutive month, falling to negative 3.8%, its lowest rate since August 2009, while annual growth in the East of England rose slightly to growth of 0.6% from a fall of 0.1% in January 2019.

Figure 6: Weak or negative house price growth in London, the South East and the East of England have had a downward pull on UK house price growth in recent months

12-month growth rate in house prices for the East of England, London, South East and the UK, UK, January 2014 to February 2019

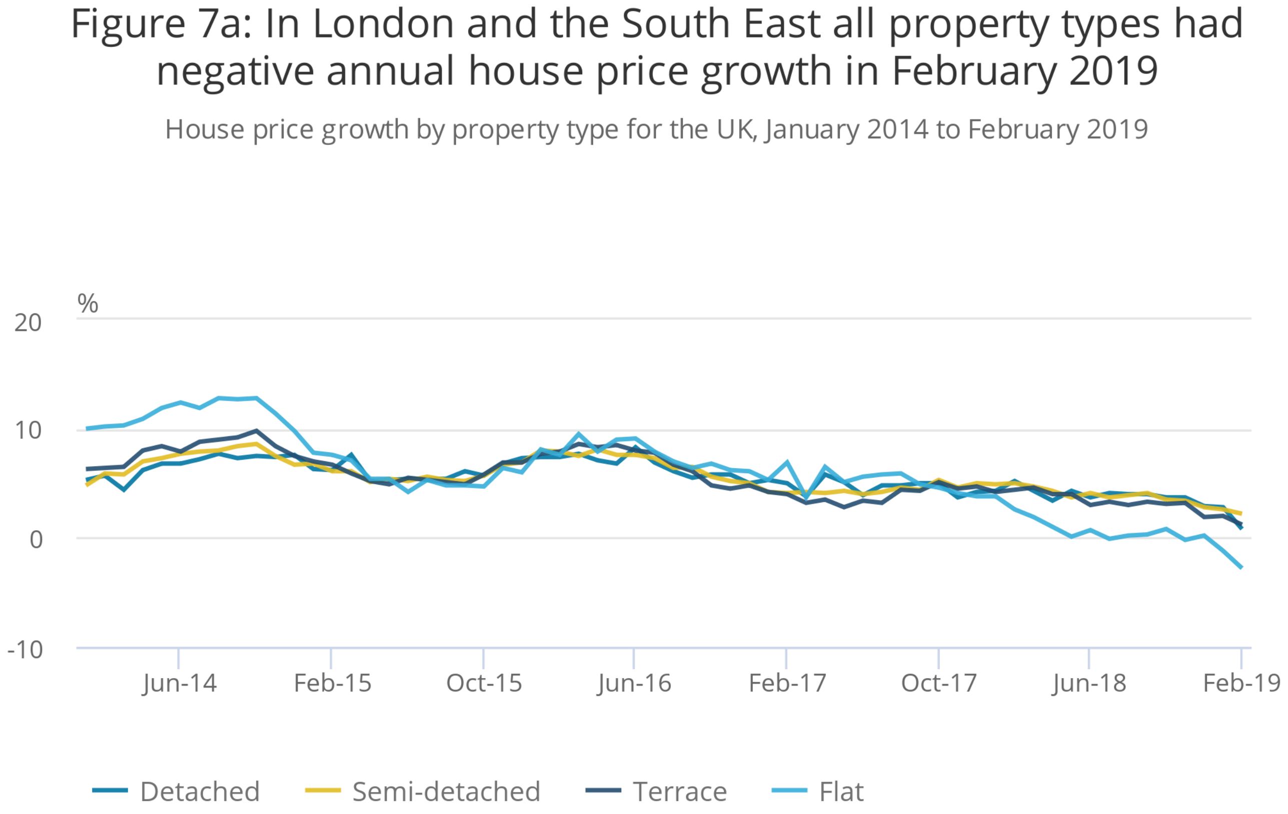


Source: Office for National Statistics - UK House Price Index, HM Land Registry - Price Paid Dataset

Figure 7 shows annual house price growth by property type for the East of England, London, the South East and the UK. In all three regions, and the UK, the most pronounced fall in property prices across the period has been for flats. In February 2019, annual house price growth for flats in London was negative for the 13th consecutive month with a growth rate of negative 5.9%, its lowest annual rate since August 2009. In February 2019, both London and the South East saw negative annual house price growth across all property types, the first time over the period that this has happened for either region.

Figure 7a: In London and the South East all property types had negative annual house price growth in February 2019

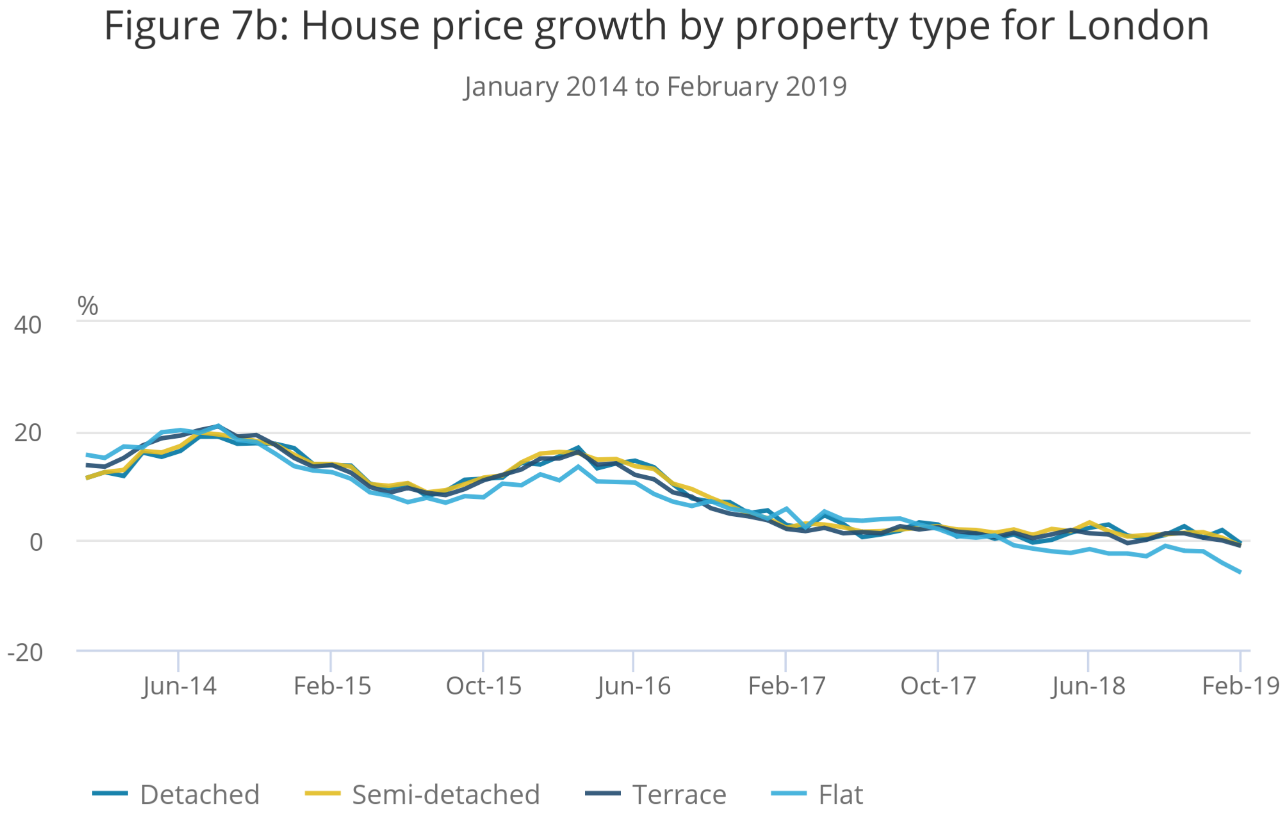
House price growth by property type for the UK, January 2014 to February 2019



Source: Office for National Statistics - UK House Price Index, HM Land Registry - Price Paid Dataset

Figure 7b: House price growth by property type for London

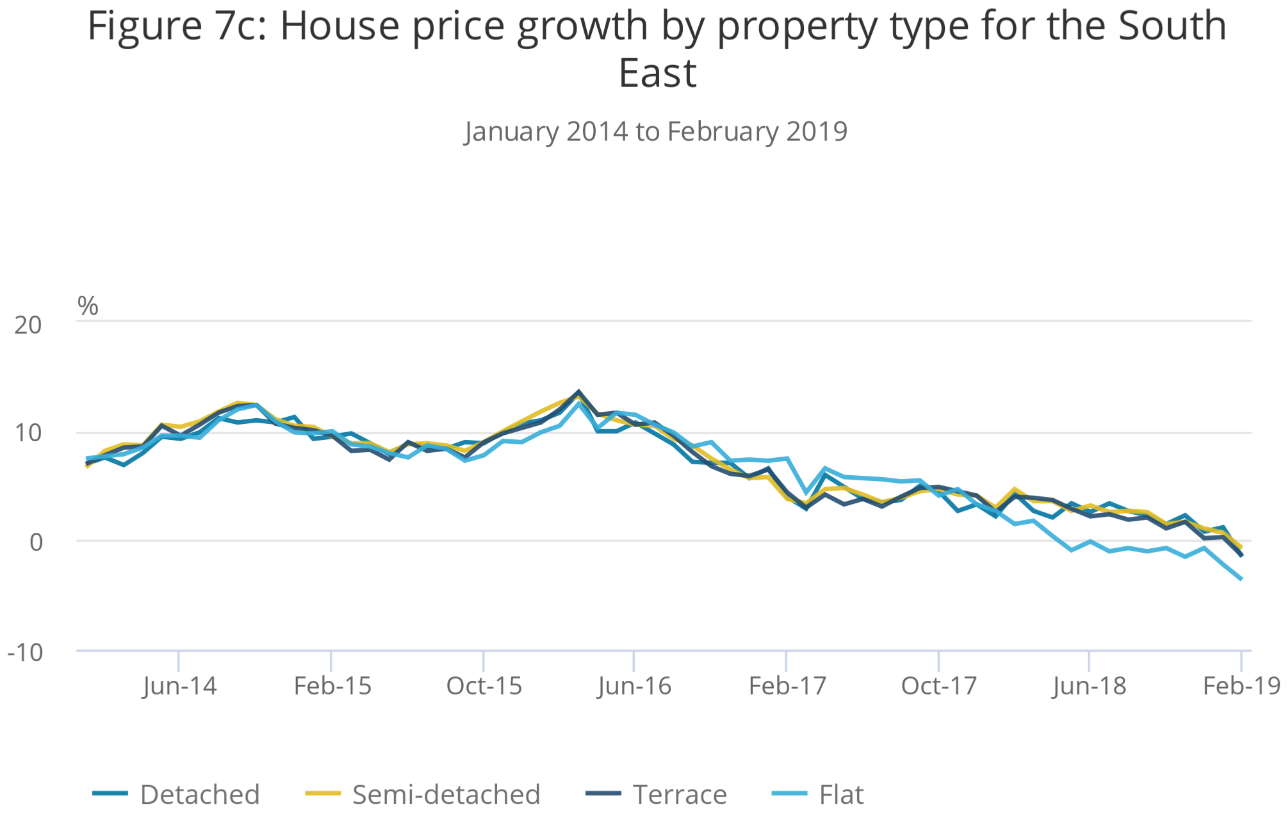
January 2014 to February 2019



Source: Office for National Statistics - UK House Price Index, HM Land Registry - Price Paid Dataset

Figure 7c: House price growth by property type for the South East

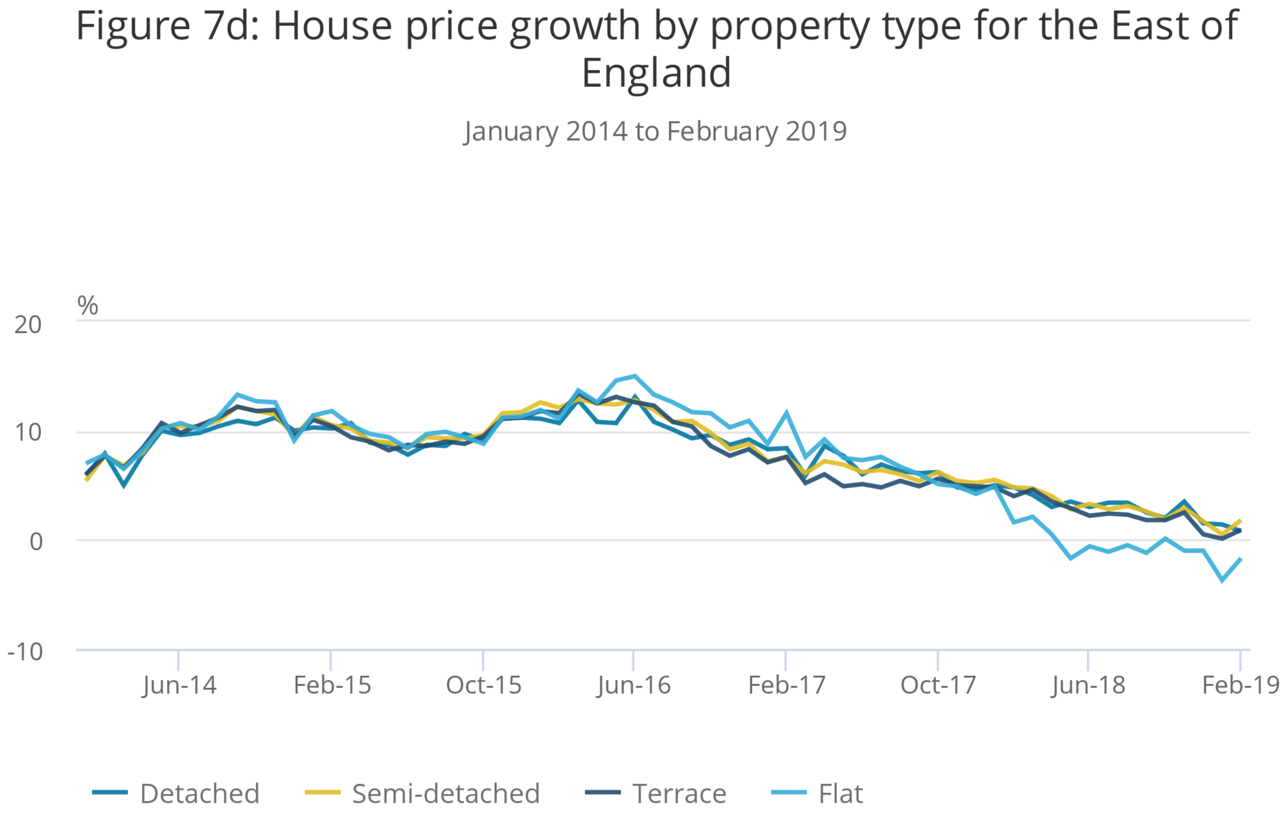
January 2014 to February 2019



Source: Office for National Statistics - UK House Price Index, HM Land Registry - Price Paid Dataset

Figure 7d: House price growth by property type for the East of England

January 2014 to February 2019



Source: Office for National Statistics - UK House Price Index, HM Land Registry - Price Paid Dataset

Flats account for a large proportion of property sales in London with a weight of 53.3% in 2019, compared with only 19.7% for the UK as a whole, 22.3% for the South East and 16.7% for the East of England.

The Bank of England has noted in their inflation reports that the London housing market has probably been disproportionately affected by regulatory and tax changes (PDF, 5.0MB), and also by lower net migration from the EU. They have noted a slowdown in the buy-to-let market in general and that London may have been particularly affected by this as it accounts for a substantial proportion of the UK buy-to-let activity. A phased reduction in mortgage tax relief starting in April 2017 may have contributed to dampened demand for buy-to-let properties and may affect flats more than other property types.

7 . Authors

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