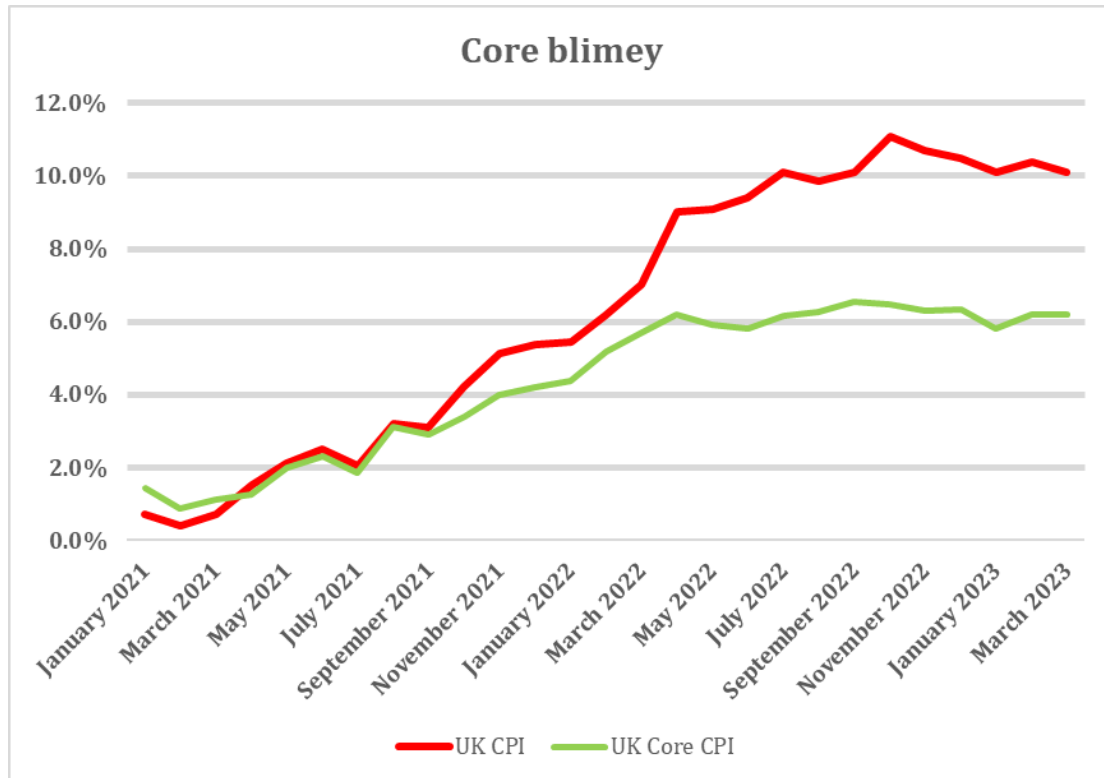


March inflation numbers

Synopsis: The UK CPI inflation rate for March 2023 did not move as the pundits predicted: instead of falling below 10%, it dropped half as much as expected to 10.1%.

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The CPI annual rate for March fell by 0.3% to 10.1%. That was 0.3% higher than market expectations, which according to Reuters had been for a fall to 9.8%, escaping the double-digit level that has ruled since September. Both the Eurozone (down 1.6% to 6.9%) and the USA (down 1% to 5.0%) saw much larger annual CPI declines in March. A year ago, the UK March CPI reading was 7.0%, while the Eurozone and US numbers were 7.4% and 8.5% respectively.

March 2023's monthly CPI change was 0.8% compared with 1.1% in March 2022. The CPI/RPI gap was unchanged at 3.4% with the RPI annual rate also falling by 0.3% to 13.5%. Over the month, the RPI index rose 0.7%.

The Office for National Statistics (ONS)'s favoured CPIH index also fell by 0.3% to an annual 8.9%. Remember, recent news coverage of the 2.3% shrinkage of real earnings (excluding bonuses) reported by the ONS used CPIH data for December-February, not the higher CPI (please see our earlier Bulletin) which would have shown a drop of about 3.4%.

The ONS notes that the decrease in CPIH inflation was mainly due to the following factors...

Downward drivers

Transport

The annual inflation rate for transport eased slightly from 3.1% in February 2023 to 1.0% in March 2023, down for a ninth consecutive month from a recent peak of 15.2% in June 2022. The rate was last lower in August 2020. The easing in the rate between February and March 2023 was caused by changes in the price of the motor fuels category.

Housing and household services

The annual inflation rate for housing, water, electricity, gas and other fuels was 11.6% in March 2023, down from 11.8% in February. The main driver behind the change was liquid fuels, with prices of heating oil falling by 6.7% between February and March this year, compared with a Ukraine war driven rise of 44.0% between the same two months a year ago. Heating oil accounts for just 0.1% of the CPI and CPIH shopping baskets.

Upward drivers

Food and non-alcoholic beverages

Overall prices increased by 19.2% in the year to March 2023, up from 18.2% in February 2023. The ONS estimates that this is the highest rate of annual increase since August 1977 – over 45 years ago. The rise was driven by price movements from five of the 11 detailed sub-classes in the category.

The largest upward effect came from bread and cereals, where prices rose in the month to March 2023 but fell a year earlier, leading to an annual rate of 19.4% in the year to March 2023.

This is the highest annual rate for bread and cereals on record (with the series starting in January 1989). Within this detailed class, the upward push between the latest two months came from a variety of biscuits and cakes.

Other smaller upward effects between February and March came from fruit, chocolate and confectionery, and meat, partly offset by a downward movement from oils and fats, where the annual rate slowed from 32.1% to 25.6%.

The annual rates in March 2023 for chocolate and confectionery, other food products (principally ready-meals and sauces) and hot beverages were each the highest on record (starting from January 1989).

Recreation and culture

Overall prices for recreational and cultural goods and services rose by 4.6% in the year to March 2023, up from 4.1% in February. The increase in the annual rate came from a wide range of the more detailed classes.

Four of the twelve broad CPI divisions saw annual inflation increase, while six saw a fall and two were unchanged. Housing, water, electricity, gas and other fuels was predictably still the category with the highest annual inflation rate at 26.1% (down 0.5% from last month). Next highest was food and non-alcoholic beverages at 19.1%, up 1.1% over the previous month. Four divisions (Transport, Communication, Recreation & Culture and Education), accounting in total for 3.27% of the new re-weighted CPI basket, posted an annual inflation rate below 5%.

Core CPI inflation (CPI excluding energy, food, alcohol and tobacco) was unchanged at 6.2%. Goods inflation in the UK fell 0.6% to 12.8%, while services inflation was unchanged at 6.6%.

Producer Price Inflation

Input prices rose by 7.6% in the 12 months to March 2023, down from 12.8% in the year to February 2023. The corresponding output (factory gate) figures were 8.7% against a previous 11.9%. Inputs of crude oil, and petroleum products, provided the largest downward contributions to the change in the annual rates of input and output inflation, respectively.

Comment

A CPI inflation rate still above 10% - and the highest in Western Europe – is not what the Bank of England wants to see ahead of its next Monetary Policy Committee meeting on 10/11 May.

The Old Lady will be concerned that core inflation (just over 75% of the CPI) remains at over three times the CPI target and has been churning around that level for the last year (please see the graph above). Such 'stickiness' that is being observed elsewhere – in the USA the core rate is 5.6%, 0.6% above CPI, while in the Eurozone the core figure hit a record high of 5.7% in March (against a CPI of 6.9%).

The one solace for the Bank is that next month's CPI will benefit from a major base effect. Between March and April 2022 the utility price cap rose by 54.3%: between March and April 2023 the Energy Price Guarantee means no change.

With yesterday's earnings figures up 6.6% in nominal terms, the market is now betting heavily on another 0.25% rise in interest rates next month. As things stand at present, it may not be the last.

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