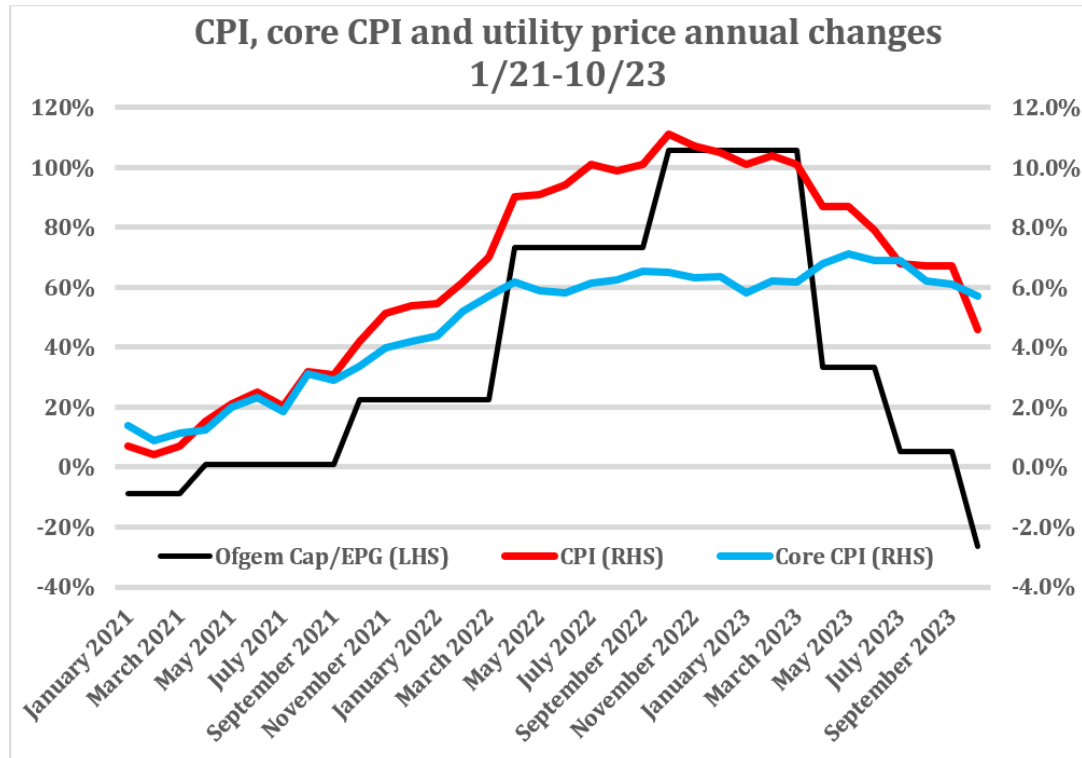


October inflation numbers

Synopsis: The UK CPI inflation rate for October 2023, which fell sharply to 4.6%.

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The CPI annual rate for October dropped by 2.1% from September, to 4.6%. A fall had been widely forecast, with market and the Bank of England’s expectations pitched at 4.8%, according to Reuters. Eurozone annual CPI saw a 1.4% drop for October, leaving its annual rate at 2.9%, while the USA’s CPI was down slightly more than expected at an annual 3.2%.

October 2023’s monthly CPI was unchanged from September’s, against a 2.0% rise in October 2022 (when annual inflation peaked at 11.1%). The CPI/RPI gap narrowed by 0.7% to 1.5% with the RPI annual rate falling by 2.8% to 6.1%. Over the month the RPI index fell by 0.2%.

The October 2023 CPI figure has had a sharp decline baked in for some time because of energy prices. In October 2022, the Energy Price Guarantee (EPG) kicked in at £2,500 a year against the previous Ofgem summer price cap of £1,877 – an increase of 33.2% across a month and 105.6% year-on-year (the cap in October 2021 was £1,216). The mechanics of CPI calculation means that the £2,500 EPG will effectively be the base for annual comparison until next July, at which point inflation currently looks as if it has an inbuilt upward kicker.

The Office for National Statistics (ONS)’s favoured CPIH index was down 1.6% from

September, at an annual 4.7%. The ONS attributed the fall in CPIH inflation to...

Main downward drivers

Housing and household services. Overall prices fell by 0.3% between September and October 2023, compared with a rise of 3.4% between the same two months a year ago. The ONS says that the decrease in the rate between September and October 2023 reflected downward effects from gas and electricity, as mentioned above. Gas costs fell by 31.0% in the year to October 2023, compared with a rise of 1.7% in September. This is the lowest annual rate since records began in January 1989. Electricity costs fell by 15.6% in the year to October 2023, compared with a rise of 6.7% in September. This is also the lowest annual rate since records began in January 1989.

The Ofgem price cap has marginally different relative weightings for gas and electricity to the CPIH (and CPI) because the cap is a combined figure, but the CPI data allows for the fact that some properties do not use gas. At present the Ofgem cap is split 51/49 in favour of electricity, whereas the CPIH and CPI weighting is 56/44.

Interestingly, the ONS goes out of its way to stress energy prices are still well above previous levels. It notes that the price of gas in October 2023 was around 60% higher than it was in October 2021, while the price of electricity in October 2023 was around 40% higher than it was in October 2021.

Food and non-alcoholic beverages. Overall prices rose by 0.1% between September and October 2023; this compares with a rise of 2.0% between the same two months a year ago. The result was an easing in the annual rate to 10.1% in October 2023, down from 12.2% in September and a recent high of 19.2% in March 2023, the highest annual rate seen for over 45 years.

The easing in the annual rate for this important category was driven by price movements which saw nine of the eleven classes provide a downward contribution in October. The largest downward contributions came from the milk, cheese and eggs category and the vegetables category.

Restaurant and hotel. Overall prices remained the same between September and October 2023, compared with a rise of 1.0% between the same two months a year ago. This resulted in an easing in the annual rate to 7.6% in October 2023, down from 8.6% in September and a peak of 12.1% in February.

The easing in the rate mainly reflected the downward effect from accommodation services, where prices fell by 2.5% between September and October 2023 compared with a rise of 1.2% between the same two months last year. In turn this downward effect came almost entirely from volatile overnight hotel accommodation, where prices fell by 9.2% between September and October 2023 compared with a rise of 1.1% between the same two months last year.

Main upward drivers

There were no significant upward drivers.

Nine of the twelve broad CPI divisions saw annual inflation decrease, while two saw an increase and one was unchanged. The category with highest annual inflation rate was alcoholic beverages and tobacco (4.2% of the Index) which recorded a 11.0% increase. Four divisions (Housing, water, electricity, gas and other fuels; Furniture, Household Equipment and Maintenance; Transport; and Education), accounting in total for 37.5% of the Index, posted an annual inflation rate below 5.0%.

Core CPI inflation (CPI excluding energy, food, alcohol and tobacco) was down 0.4% at 5.7%. Goods inflation in the UK fell 3.3% to 2.9%, while services inflation was down 0.3% at 6.6%.

Producer Price Inflation input prices fell by 2.6% in the 12 months to October 2023, against a revised fall of 2.1% in the year to September 2023. The corresponding output (factory gate) figures saw a 0.6% fall against a previous revised 0.2% rise. Inputs of fuel, and outputs of food products provided the largest downward contributions to the change in the annual rates of input and output inflation, respectively. The ONS warned that 'While annual producer price inflation rates have generally been negative since June 2023, with prices in some sectors falling, the index levels for both input and output prices remain substantially higher than their 2021 levels, which is the last time producer price inflation was stable.'

Comment

These CPI figures will be a relief for the Bank of England and also the Prime Minister, who, in January, pledged to halve inflation in 2023.

However, from here there are no big wins to be made on the energy front unless prices fall in the future. That can be seen in the core CPI figure, which is still 5.7%, down just 1.4% from its (May 2023) peak rather than the 6.5% drop of the CPI from its (October 2022) peak.

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