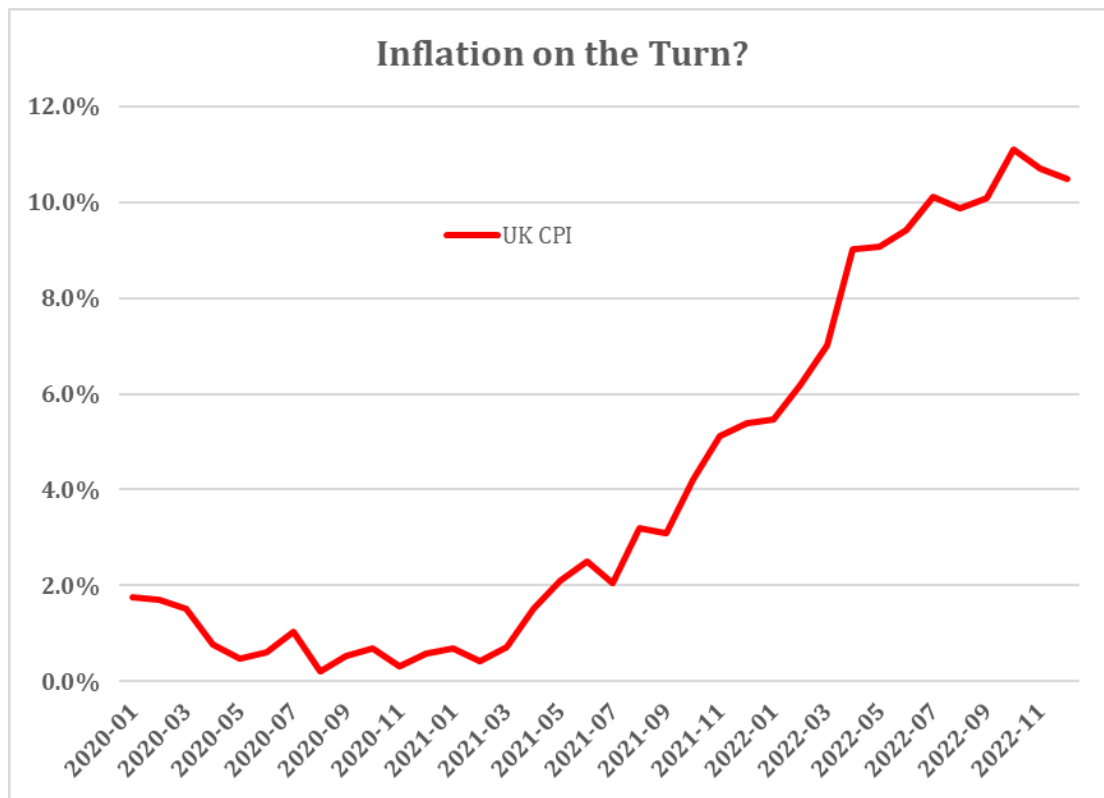


December inflation numbers

Synopsis: The UK CPI inflation rate for the December 2022 was 10.5%, 0.2% down from November.

Date published: 18.01.2023



The CPI annual rate for December dropped by 0.2% to 10.5%. That was in line with market expectations, according to Reuters, but still leaves the rate around a four decade high based on back-calculations by the Office for National Statistics (ONS).

A year ago, the December CPI reading was 5.4%. December 2022's monthly CPI rise was 0.4%, the same as the November level.

The CPI/RPI gap narrowed to 2.9% with the RPI annual rate down 0.6% at 13.4%. Over the month the RPI index was up 0.6%.

The ONS's favoured CPIH index fell by 0.1% to an annual 9.2%. Remember, Tuesday's news coverage of the 2.6% shrinkage of real wages reported by the ONS used CPIH data for September-November, not the higher CPI.

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 was 6.9% in December 2022, down for a sixth consecutive month from a peak of 15.2% in June 2022, and the

lowest rate since May 2021. The main driver came from motor fuels, which was partially offset by rising transport services prices. Overall, fuel prices rose by 11.5% in the year to December 2022, down from 17.2% in the year to November.

The annual inflation rate for passenger air transport was 44.1%, the largest recorded rate for this class since at least January 1989, when ONS began separate date series for this category.

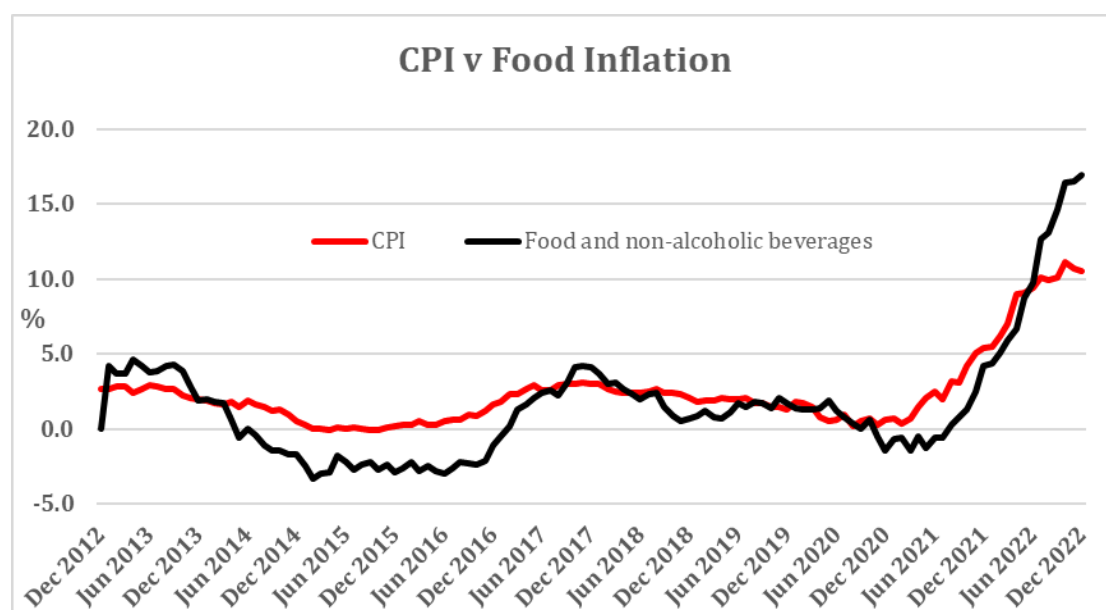
Clothing and Footwear: Overall prices of clothing and footwear rose by 6.4% in the year to December 2022, down from 7.5% in November. On a monthly basis, prices fell by 0.3% between November and December 2022. The ONS notes that prices usually fall into December each year and that before the pandemic, clothing and footwear prices on average fell by 1.3% in the month to December (between 2017 and 2019).

Upward drivers

Restaurants and hotels: The annual rate for restaurants and hotels was 11.4% in December 2022, up from 10.2% in November. The December annual rate was the highest since the constructed historical estimate of 11.4% in September 1991, and was last higher in August 1991, when it was 11.8%.

The effect came primarily from accommodation services, where prices rose on the month, compared with a fall in the same month a year earlier, particularly for overnight hotel accommodation. Fairly broad-based rises in restaurant and cafe prices averaging 0.7% also contributed to this effect, compared with a smaller rise of 0.5% in the previous year.

Food and non-alcoholic beverages



Overall prices in the food and non-alcoholic drinks category rose by 16.9% in the 12 months to December 2022, up from 16.5% in November. The annual rate of inflation for this category has risen for 17 consecutive months, from minus 0.6% in

July 2021. ONS modelling suggests that the rate would have last been higher in September 1977, when it was estimated to be 17.6%.

Three of the twelve broad CPI divisions saw annual inflation increase, while six saw a fall and three were unchanged. Housing, water, electricity, gas and other fuels was predictably the category with the highest annual inflation rate at 26.6% (unchanged from last month). Next highest was food and non-alcoholic beverages at 16.8%, up 0.4% over the month.

Four divisions (Alcoholic Beverages and Tobacco, Recreation and Culture, Communication and Education), accounting in total for 24.2% of the CPI basket, posted an annual inflation rate below 5%.

Core CPI inflation (CPI excluding energy, food, alcohol and tobacco) remained at 6.3%, 0.1% higher than market expectations, according to Reuters. Goods inflation in the UK fell 0.6% to 13.4%, while services inflation was up 0.5% at 6.8%.

Again no Producer Price Inflation data was issued following a discovery of errors within the calculation process which are currently subject to 'further investigation'.

Comment

The fall in the CPI in the UK between November and December was markedly less than in the USA (down 0.6% to 6.5%) and the Eurozone (down 0.8% to 9.2%). Both areas are also further from their 2022 peaks (2.6% and 1.2% respectively) than the UK (0.6%).

The Bank of England interest rate decision and inflation report are both due on February 2. The expectation is leaning towards another 0.5% rise in bank rate, to 4%. The Bank will be concerned by the 6.4% average annual pay increase reported by the ONS yesterday and the stickiness of core inflation, which is only 0.2% below its September peak.

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