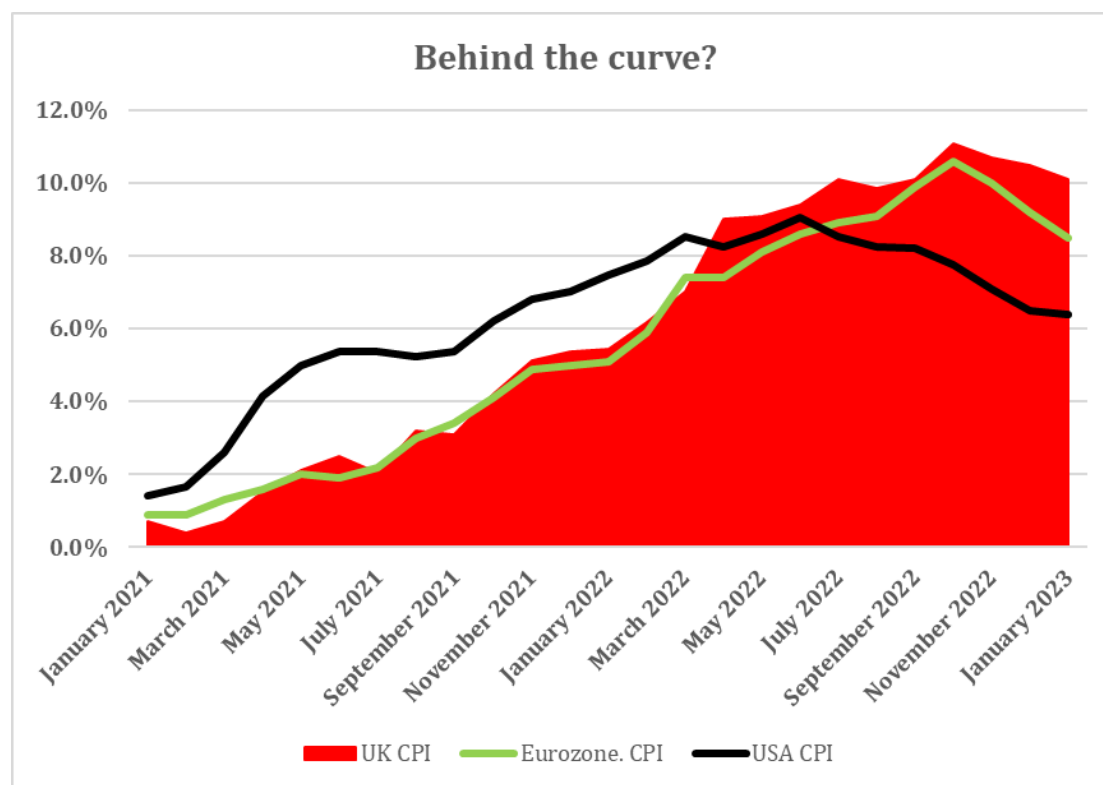


January inflation numbers

Synopsis: The UK CPI inflation rate for the January 2023 was 10.1%, 0.4% down from December.

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The CPI annual rate for January dropped by 0.4% to 10.1%. That was a 0.2% faster fall than market expectations, according to Reuters, and leaves the annual rate 1% below last October's peak. As the graph demonstrates, both the Eurozone and the USA have enjoyed larger declines from lower peaks. A year ago, the January CPI reading was 5.5%.

January 2023's monthly CPI change was -0.6%, the first month of falling prices since January 2022. January usually sees a monthly price fall from December – 2023 is the twelfth consecutive year of negative January readings.

The CPI/RPI gap widened to 3.3% with the RPI annual rate unchanged at 13.4%. Over the month, the RPI index fell 0.2%.

The Office for National Statistics (ONS)'s favoured CPIH index also fell by 0.4% to an annual 8.8%. Remember, Tuesday's news coverage of the 2.5% shrinkage of real wages reported by the ONS used CPIH data for October-December, not the higher CPI (please see our earlier Bulletin) which would have shown a drop of about 3.7%.

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 3.4% in January 2023, down for a seventh consecutive month from a peak of 15.2% in June 2022. The main driver came from motor fuels, which fell 3.8% over the month. Overall, fuel prices rose by 7.7% in the year to January 2023, down from 11.5% in the year to December.

The annual inflation rate for passenger air transport was swung from 44.1% in December to 18.4% in January, as prices fell by 41.7% over the month. The impact of this large drop in the annual CPIH rate has been increased by the annual update of expenditure weights, with air fares accounting for 0.6% of the CPIH basket in January 2023, compared with 0.2% a year earlier. The corresponding change in the CPI basket is from 0.2% to 0.7%.

Restaurants and hotels Overall prices rose 10.8% in the year to January 2023, down from 11.4% in the year to December 2022 (which was the highest rate since the constructed historical estimate of 11.4% in September 1991). The effect came mainly from restaurant and café prices, which eased from 10.1% in the year to December 2022, to 9.4% in the year to January 2023.

Upward drivers

Alcoholic beverages and tobacco Overall prices increased by 5.2% in the year to January 2023, up from 3.8% in December 2022. This was caused by monthly price rises across much of the alcohol and tobacco basket. Overall alcohol prices rose 4.6% in the month to January 2023 and tobacco prices rose 0.8% in the same period. This was compared with smaller monthly rises of 2.2% and 0.3% respectively a year earlier.

Six of the twelve broad CPI divisions saw annual inflation increase, while four saw a fall and two were unchanged. Housing, water, electricity, gas and other fuels was predictably the category with the highest annual inflation rate at 26.7% (up 0.1% from last month). Next highest was food and non-alcoholic beverages at 16.7%, down 0.1% over the month. Three divisions (Transport, Communication and Education), accounting in total for 19.3% of the CPI basket, posted an annual inflation rate below 5%.

Core CPI inflation (CPI excluding energy, food, alcohol and tobacco) fell 0.5% to 5.8%. Goods inflation in the UK fell 0.1% to 13.3%, while services inflation was down 0.8% at 6.0%.

Producer Price Inflation data reappeared this month after a period of suspension while calculation issues were sorted. Input prices rose by 14.1% in the 12 months to January 2023, down from 16.2% in the year to December 2022. The corresponding output (factory gate) figures were 13.5% against a previous 14.6%. 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

The fall in the CPI in the UK between December and January was better than in the USA (down 0.1% to 6.4%) but inferior to the Eurozone (down 0.7% to 8.5%). Both areas are also further from their 2022 peaks (2.7% and 2.1% respectively) than the UK (1.0%). The latest UK figures reflect the first of two weighting revisions to indices, the second due next month. These basket updates can introduce distortions, witness the air passenger travel impact mentioned above.

The next Bank of England interest rate decision is due on 23 March, a day after the next set of inflation figures is issued (and eight days after the Budget). The Bank will be relieved by the 0.5% fall in core inflation, but that will be tempered by the 6.7% average annual pay increase reported by the ONS.

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