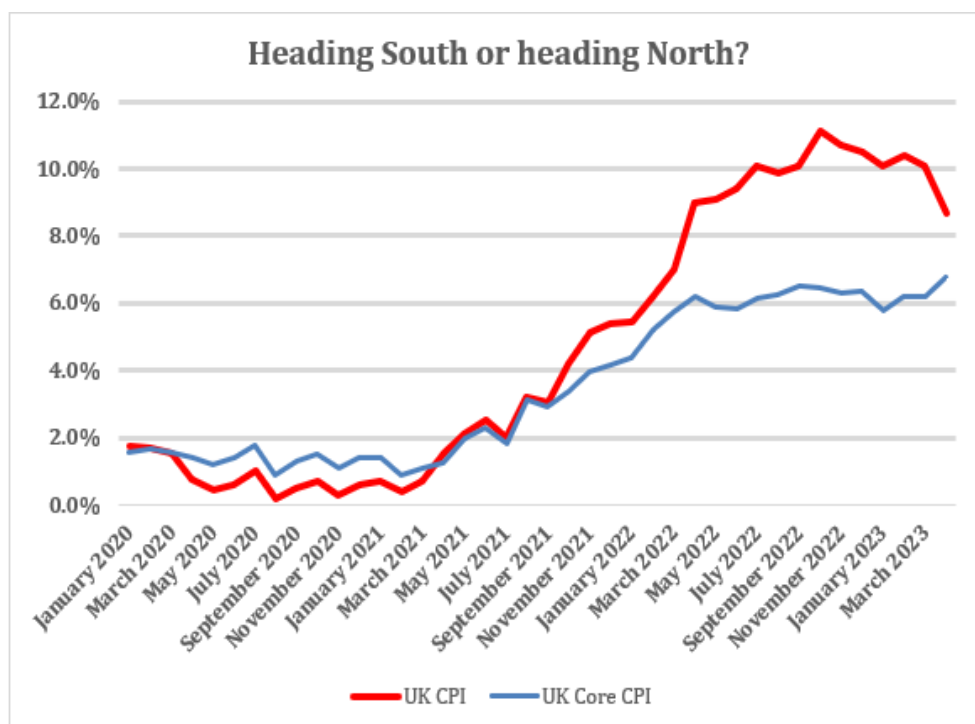


April inflation numbers

Synopsis: As widely forecast, the UK CPI inflation rate for the April 2023 fell sharply, leaving behind the double-digit level it had maintained since last September. However, it was not all good news.

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The CPI annual rate for April fell by 1.4% to 8.7%, finally dropping below the double-digit level that has ruled since last September. The decline was 0.5% less than market expectations, which according to Reuters had been for a fall to 8.2%. The Bank of England had recently forecast 8.4%. Both the Eurozone (up 0.1% to 7.0%) and the USA (down 0.1% to 4.9%) saw much smaller annual CPI changes in April, but enjoy lower inflation rates.

A year ago, the UK April CPI reading jumped 2.0% from the March 2022 level to 9.0%, primarily due to an increase in the Ofgem utility price cap. Back then the cap rose from £1,277 to £1,917, an increase of 54.3%. Even though gas and electricity only accounted for 3.4% of the Index, the cap's jump was alone enough to add 1.85% to annual inflation.

In April 2023 the £2,500 Energy Price Guarantee means the 23% fall in the Ofgem cap (from £4,279 to £3,280), from April, is irrelevant. Instead, an unchanged EPG (as announced in the Budget) meant an overall 1.0% fall in gas prices and a 1.1% drop in electricity prices between March and April. Coincidentally, the duo count for more on the Index now, as, from February 2023, their weighting rose to 4.7%.

April 2023's monthly CPI change was 1.2% compared with 2.5% in April 2022. The CPI/RPI gap narrowed to 2.7% with the RPI annual rate falling by 2.1% to 11.4%.

Over the month the RPI index rose 1.5%. Electricity and gas have a 7.4% weighting in the RPI – hence the sharper annual fall than the CPI.

The Office for National Statistics (ONS)'s favoured CPIH index declined by 1.1% to an annual 7.8%. The gas and electricity weighting in the CPIH is 3.9%. The decrease in CPIH inflation was almost entirely due to the gas price fall of 1.0% between March and April this year compared with a 66.8% rise on the month a year ago, according to the ONS. The largest, partially offsetting, upward contribution came from recreation and culture.

Five of the twelve broad CPI divisions saw annual inflation increase, while six saw a fall and one was unchanged. The housing, water, electricity, gas and other fuels category predictably fell from its lead role, with the category's inflation rate plummeting from 26.1% in March to 12.3% in April.

The category with the highest annual inflation rate is now food and non-alcoholic beverages (11.9% of the Index) which recorded a 19.0% increase, down just 0.1% from the previous month. Only two divisions (transport and education), accounting in total for 16.6% of the Index, posted an annual inflation rate below 6%.

Core CPI inflation (CPI excluding energy, food, alcohol and tobacco) rose 0.6% to 6.8%. Goods inflation in the UK fell 2.8% to 10.0%, while services inflation was up 0.3% at 6.9%.

Producer Price Inflation. Input prices rose by 3.9% in the 12 months to April 2023, down from 7.3% in the year to March 2022. The corresponding output (factory gate) figures were 5.4% against a previous 8.5%. Inputs of metals and non-metallic minerals, and petroleum products provided the largest downward contributions to the change in the annual rates of input and output inflation, respectively.

Comment

These CPI figures are not what the Chancellor or the Bank of England would have been hoping for. In particular, the 0.6% rise in core inflation reinforces concerns that inflation has become embedded in the UK economy and will not fade as energy prices stabilise.

The Prime Minister's January pledge to halve inflation by the year end (equating to a rate of 5.2%) is no longer looking the shoo-in it seemed at the start of 2023. The maths now says that between April and December prices must increase by less than 2.7% for the target to be hit.

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