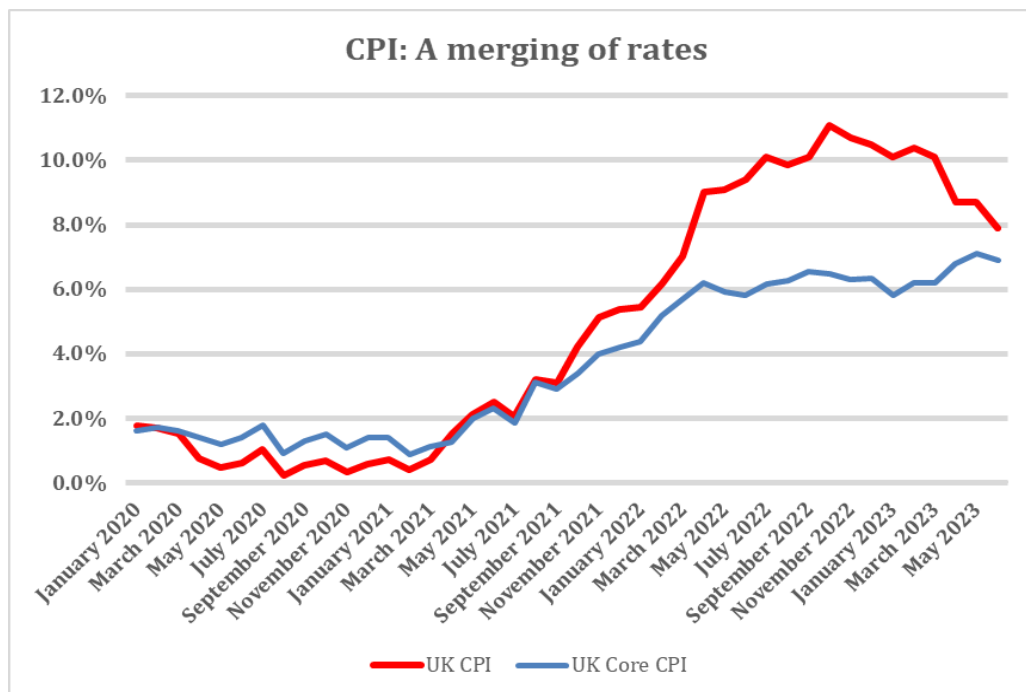


June inflation numbers

Synopsis: The UK CPI inflation rate for the June 2023 fell from 8.7% to 7.9%.

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The CPI annual rate for June was down 0.8% from May at 7.9%. A decline had been widely expected, with market expectations pitched at a figure of 8.2%, according to Reuters, while in May the Bank of England had pencilled in 7.9% - for once not being overly optimistic. The Eurozone and the USA saw falls of 0.6% and 1.0% for June, taking their annual CPI inflation rates to 5.5% and 3.0% respectively.

June 2023's monthly CPI change was 0.1%, against in 0.8% June 2022 (when annual inflation was 9.4%). The CPI/RPI gap widened to 2.8% with the RPI annual rate falling by 0.6% to 10.7%. Over the month the RPI index rose 0.3%.

The ONS's favoured CPIH index fell by 0.6% to an annual 7.3%. The decline in CPIH inflation was the result of downward movements from four main categories and little upward movement elsewhere:

Transport

Overall prices fell by 1.7% in the year to June 2023, compared with a rise of 1.3% in May. This continues the broadly downward trend in the annual rate since June 2022 and it is the first time that the rate has turned negative since August 2020. Prices fell by 0.7% between May and June this year, compared with a rise of 2.4% between the same two months a year ago.

The easing in the annual rate for transport was almost entirely because of changes in the price of motor fuel and lubricants, where annual *deflation* is running at 22.7%.

Food and non-alcoholic beverages

Overall prices rose by 0.4% between May and June 2023, compared with a rise of 1.2% between the same two months a year ago. This resulted in an easing in the annual rate to 17.4% in June 2023. This is down from 18.4% in May 2023 and from a recent high of 19.2% in March 2023.

Furniture and household goods

Overall prices of furniture and household goods were little changed between May and June this year, but they rose by 0.9% between the same two months a year ago. This resulted in an annual inflation rate of 6.6% in June 2023, down from 7.5% in May, and the lowest rate recorded since November 2021.

Restaurants and hotels

Overall prices rose by 0.5% between May and June 2023 compared with 1.2% between the same two months in 2022. The main driver behind the easing in the rate came from accommodation services, where prices rose by 11.3% in the year to June 2023, down from 14.4% in May. The annual inflation rate for this category is now 9.5%, down from 10.3% in May.

Eight of the twelve broad CPI divisions saw annual inflation decrease, while two saw a rise and two were unchanged. The category with highest annual inflation rate remains food and non-alcoholic beverages (11.9% of the Index) which recorded at a 17.3% increase. Only two divisions (Transport and Education), accounting in total for 16.6% of the Index, posted an annual inflation rate below 6.5%.

Core CPI inflation (CPI excluding energy, food, alcohol and tobacco) fell 0.2% to 6.9%. Goods inflation in the UK fell 1.2% to 8.5%, while services inflation was down 0.2% at 7.2%. The gap between the two once again points to inflation becoming increasingly a domestically generated problem.

Producer Price Inflation input prices fell by 2.7% in the 12 months to June 2023, against a rise of 0.4% in the year to May 2023. The corresponding output (factory gate) figures saw a 0.1% rise against a previous 2.7%.

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

These CPI figures are better than the market expected, and for once matched what the Bank of England had forecast. The modest 0.2% drop in core inflation, while also beating market expectations of no change, poses a problem for the Bank of England: does it go ahead with another 0.5% Bank Rate increase on Thursday week, as it previously hinted, or revert to a 0.25% rise?

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