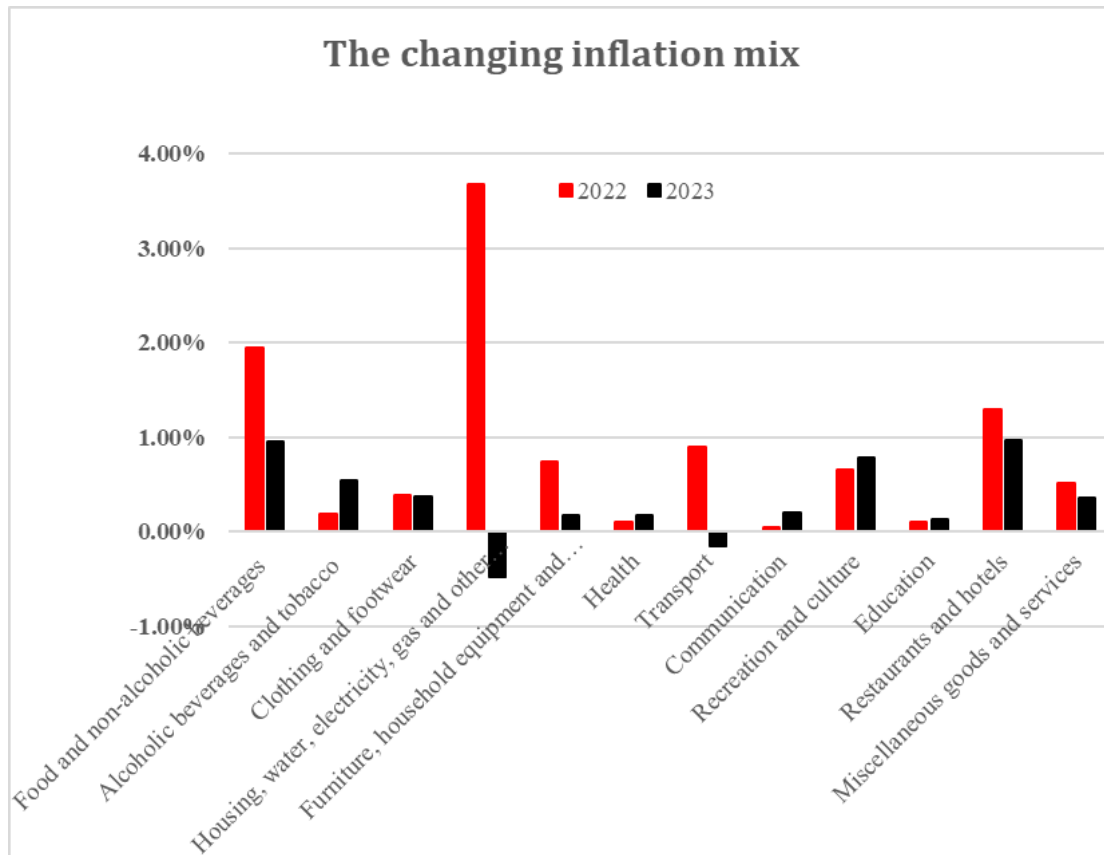


2023 inflation numbers

Synopsis: 2023 inflation figures. Inflation fell sharply in 2023, but it is hard to give the Government much credit for the drop.

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Source:ONS

The CPI annual inflation reading for December 2023 was 4.0%, 6.5% below the 10.5% of December 2022. The welcome fall was driven by a variety of factors, not all of which the Government can lay claim for. Drill down and the picture is far from one of price drops across the board...

- There were significant changes in the weightings of the twelve divisions in the CPI Index between 2022 and 2023, reflecting a post-pandemic change in spending patterns. For example, the weighting for Restaurants and Hotels rose from 11.4% to 13.8%, bad news for the Government when the 2023 annual inflation in the sector was 7.0%. On the other hand, the weighting of Alcoholic Beverages and Tobacco dropped from 5.0% to 4.2%, which helped the Government as the division’s 2023 inflation was 12.9%, mainly driven by the Government’s own duty increases.
- A major contributor to the decline in inflation was Housing, Water, Electricity, Gas and Other Fuels. In 2022, inflation in this division was 26.6%, driven by the hike in utility prices. That, in turn, reflect the spike in gas

- prices and the delayed effects of the utility price cap. In 2023 *deflation* in this category was 3.4%, which contributed -0.48% to the annual overall CPI number. In 2022, the contribution was +3.67%. Combine the two and this division alone accounted for 4.1 percentage points of the year-on-year CPI decline.
- While Housing, Water, Electricity, Gas and Other Fuels was the standout contributor to 2022 inflation, in 2023, that prize goes to Restaurants and Hotels. As well as higher food and alcohol prices, the rise in the division will also be a reflection of the increase in the National Living Wage, which was 9.7% in 2023, against 6.6% in 2022. The division's 2023 annual inflation was 7.0% against 11.3% in 2022, but its weighting moved in the opposite direction, as explained above.
- Food and Non-alcoholic Drink price inflation more than halved between 2022 and 2023, from 16.8% to 8.0%. The impact of that on public perceptions of inflation is not straightforward.
- Although 2023 inflation was much lower than 2022's, there were four divisions where annual inflation was higher last year, as the graph shows – Alcoholic Beverages and Tobacco; Health; Communication; and Education. Ironically, one the reasons behind these increases was that, in 2023, prices were increased based on 2022 inflation – mobile phone and broadband charges being a classic example.

Comment

The fall in inflation was largely a commodity story – energy became marginally cheaper and food price increases halved. Some of that downward momentum should continue into 2024, with April's projected fall in the utility price cap. However, the 9.8% increase in the National Living Wage, also due in April, will pull the cost of services in the other direction.

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