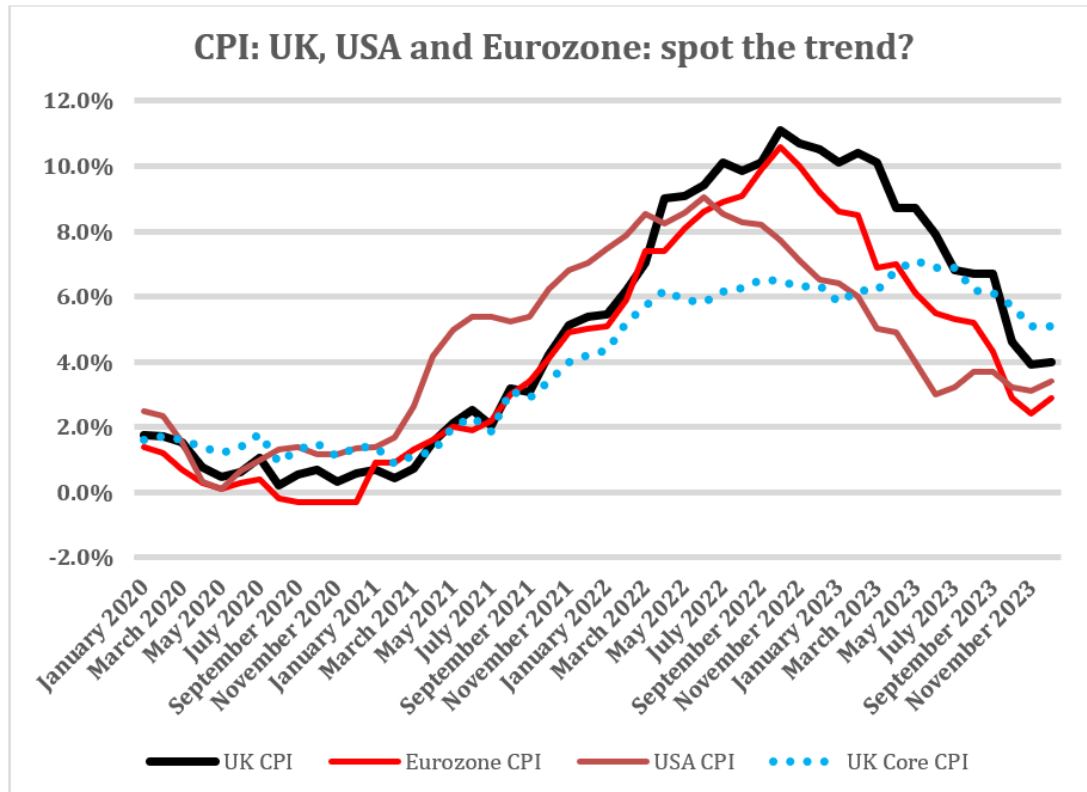


December inflation numbers

Synopsis: The UK CPI inflation rate for December 2023, which was 4.0% - an unexpected rise of 0.1% from November.

Date published: 17.01.2024



The CPI annual rate for December rose by 0.1% from November to 4.0%. A 0.1% fall had been the consensus forecast, according to Reuters. Eurozone annual CPI inflation saw a 0.5% rise for December, leaving its annual rate at 2.9%, while the USA's annual CPI inflation was also up, by 0.3% to 3.4%.

December 2023's monthly CPI was up 0.4% from November's, the same rise as in December 2022 (when annual inflation was running at 10.5%). The fact that both December monthly figures were the same shows that it was effectively rounding which created the increase: December 2022 annual inflation was 10.53% whereas December 2023 inflation 3.99%. The actual increase in annual inflation between November and December 2023 was 0.052%, a point to remember when the commentary hangs so much on an unexpected rise.

The CPI/RPI gap narrowed by 0.2% to 1.2% with the RPI annual rate falling by 0.1% to 5.2%. Over the month the RPI index rose by 0.5%.

The Office for National Statistics (ONS)'s favoured CPIH index was unchanged from November at an annual 4.2%. The ONS attributed the unmoved level CPIH inflation to a combination of counterbalancing factors:

Main upward drivers

Alcohol and tobacco. Overall prices in this division rose by 12.8% in the year to December 2023, compared with a rise of 10.2% in November. Prices rose by 1.2% between November and December this year, compared with a fall of 1.1% between the same two months a year ago. The annual rate increase was largely the result of the increase in tobacco duty, with higher taxes introduced by the autumn statement.

Tobacco prices rose by 4.1% between November and December compared with a 0.3% rise between the same two months last year, leading to an annual increase of 16.0%. Alcohol made a smaller contribution to the rise in the annual rate. Alcohol prices fell by 1.6% between November and December 2023 and by 2.3% between the same two months last year, leading to an annual increase of 9.6%

Recreation and culture. Prices for recreational and cultural goods and services rose by 0.2% between November and December this year, compared with a fall of 0.2% a year ago. The annual rate rose to 6.0% in December 2023, up from 5.5% in November.

The increase in the rate between November and December 2023 was the result of small upward effects from a variety of the more detailed classes. As ever, the ONS warned that short-term movements in some of the division's categories should be interpreted with a degree of caution as the movements depend upon the composition of best seller charts.

Main downward drivers

Transport. Prices in the division fell by 1.3% in the year to December 2023, compared with a fall of 1.4% in November. Prices rose by 0.6% between November and December this year, compared with a rise of 0.5% between the same two months a year ago.

The slower pace of decline was mainly the result of air fares, with motor fuels also providing a small positive contribution. However, these were offset by a strong downward contribution from used cars.

Food and non-alcoholic beverages. Food and non-alcoholic beverage prices rose by 0.5% between November and December 2023, compared with a rise of 1.6% a year ago. The annual rate was 8.0% in December 2023, easing for the ninth consecutive month from a recent high of 19.2% in March 2023, the highest annual rate seen for over 45 years. The December 2023 rate is the lowest since April 2022.

The ONS notes that although the annual inflation rate for food has been slowing, food prices are still high following relatively sharp rises over the latest two years. The overall price of food and non-alcoholic beverages rose by around 26% over the two years between December 2021 and December 2023. This compares with a

rise of around 9% over the 10 years between December 2011 and December 2021.

Food prices are highly visible and the leap of over a quarter in just two years compared with less than a tenth across the previous decade goes a long way in explaining why there is so much public focus on 'the cost-of-living crisis'. Proclamations that inflation has more than halved may create cognitive dissonance for the average shopper when the supermarket bill has gone from £100 to £126 in the space of 24 months.

Four of the twelve broad CPI divisions saw annual inflation decrease, while six rose and two were unchanged. The category with highest annual inflation rate was alcoholic beverages and tobacco (4.2% of the Index) which recorded a 12.9% annual increase. Five divisions (Housing, water, electricity, gas and other fuels; Furniture, Household Equipment and Maintenance; Transport and Education; Miscellaneous goods and services), accounting in total for 45.8% of the Index, posted an annual inflation rate below 5.0%.

Core CPI inflation (CPI excluding energy, food, alcohol and tobacco) was unchanged at 5.1%. Goods inflation in the UK fell 0.1% to 1.9%, while services inflation was up 0.1% at 6.4%.

Producer Price Inflation input prices fell by 2.8% in the 12 months to December 2023, 0.1% more from a revised fall of 2.7% in the year to November 2023. The corresponding output (factory gate) figures saw a 0.1% rise against a previous revised 0.1% decline. The largest downward contributions to the annual input inflation rate in December 2023 came from inputs of chemicals and inputs of crude oil.

Comment

These CPI figures will be unwelcome for the Treasury in the run up to the Budget as they support the Bank of England's cautious approach to future cuts in interest rates. The Bank will also be weighing the 6.6% annual increase in earnings (excluding bonuses) which the ONS reported yesterday – a figure far from compatible with a 2% price inflation target.

The Bank's next rate-setting announcement – and the last before the Budget – is on 1 February. It will be accompanied by a Monetary Policy Report.

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