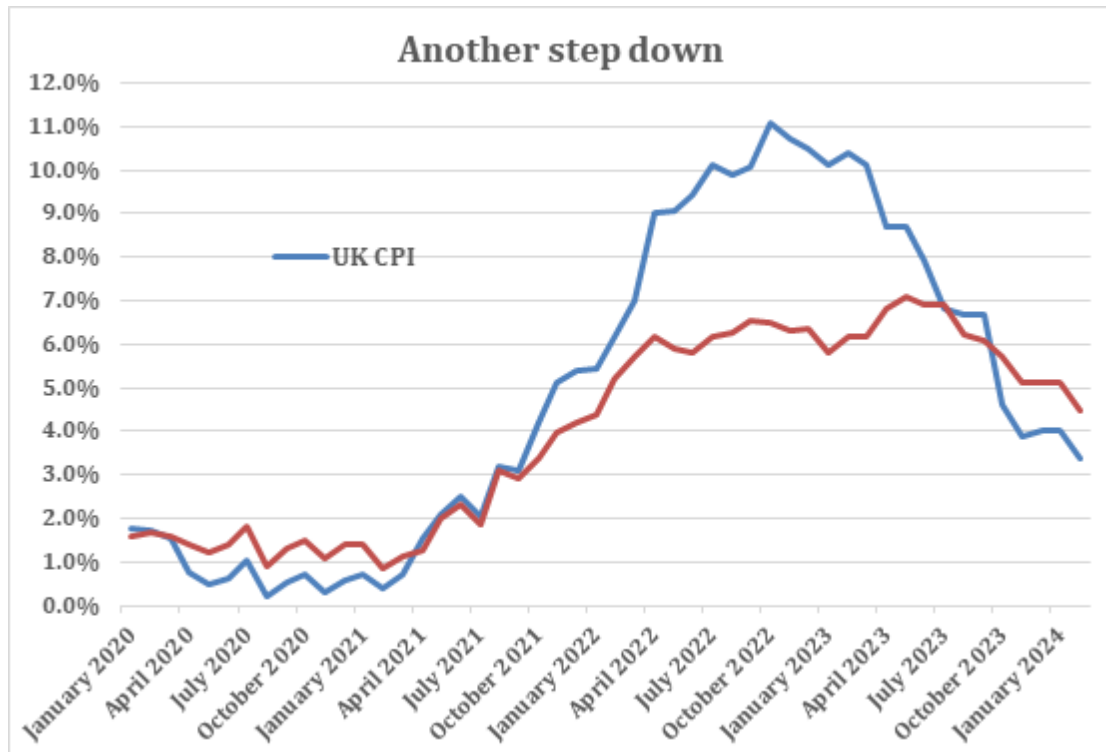


February inflation numbers

Synopsis: The UK CPI inflation rate for February 2023, which was 3.4%, down 0.6% from January.

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The CPI annual rate for February was down 0.6% from January at 3.4%, 0.1% below the Reuters consensus forecast.

Eurozone annual CPI inflation saw a 0.2% fall for February, leaving its annual rate at 2.6%, while the USA’s annual CPI inflation was up by 0.1% to 3.2%.

The UK’s outperformance was mainly due to base effects. Between January and February 2023, food and non-alcoholic drinks prices rose by 2.1% and restaurants and hotels prices added 1.9%. That pair, accounting for about a quarter of the index, helped push up the CPI by 1.1% between January and February 2023. Now we have arrived at the February 2024 calculation, those 2023 increases have disappeared from the year-on-year numbers and have been replaced by monthly rises of 0.2% and 1.0% respectively.

February 2024’s monthly CPI reading was up 0.6% from January’s. The CPI/RPI gap widened by 0.2% to 1.1%, with the RPI annual rate falling by 0.4% to 4.5%. Over the month the RPI index rose by 0.8%.

The Office for National Statistics (ONS)’s favoured CPIH index was down 0.4% from January at an annual 3.8%. It is notable that over the last year the CPIH has moved

from being 1.2% below the CPI to 0.4% above, a reflection of the different weightings and contents of the two indices (please see below).

The ONS attributed the reduced level CPIH inflation to a combination of counterbalancing factors:

Main downward drivers

Food and non-alcoholic beverages. Prices for this division rose by 5.0% in the year to February 2024, down from 7.0% in January. The February figure is the lowest annual rate since January 2022. The rate has now eased for eleven consecutive months since hitting a high of 19.2% in March 2023.

The ONS says prices have been relatively high but stable since early summer 2023, rising by less than 2% over the nine months between May 2023 and February 2024. This compares with a sharp rise of around 22% seen over the previous 14 months between March 2022 and May 2023. Overall, the annual rate eased in ten of the 11 food and non-alcoholic beverages classes with oils and fats the exception; its annual rate rising from 8.0% in January to 8.3% in February 2024.

Restaurants and hotels. The annual inflation rate for this division was 6.0% in February 2024, down from 7.1% in January, and the lowest rate since February 2022. The easing in the rate reflected a downward effect from restaurants and cafes, where prices rose by 0.7% on the month, less than the 2.1% rise between January and February 2023. The downward contribution was largely driven by the prices of alcohol, such as gin, whisky and various beers.

The easing in the annual rate for restaurants and cafes was slightly offset by accommodation services, where prices rose by 5.3% in the year to February, up from 4.5% in January. Within this category, the effect was from overnight hotel accommodation, where prices are collected just before the date of the nominal overnight stay and are often volatile.

Main upward drivers

Housing and household services. The annual rate for this division was 2.9% in February 2024, up from 2.5% in January. This compares with a recent peak of 11.8% observed in January and February 2023. The 0.4 percentage point increase in the rate between January and February 2024 reflected upward effects from owner occupiers' housing (OOH) costs and, to a lesser extent, actual rentals for housing, along with electricity, gas and other fuels.

OOH costs (which are not included in the CPI but have a 16.5% weighting in the CPIH) rose by 6.0% in the year to February 2024, compared with a rise of 5.4% in January. The annual rate for actual rentals for housing was 6.9% in the year to February 2024, up from 6.5% in January, with the rise between months caused by price increases from privately rented properties.

Overall prices for electricity, gas and other fuels fell by 18.2% on the year, compared with a fall of 18.4% in January. The rate was slightly smaller because of a

rise in the price of liquid fuels between January and February this year compared with a fall a year ago.

Transport. Overall prices in this division fell by 0.4% in the year to February 2024, compared with a fall of 0.5% in January. The annual rate has been negative for the latest four months. The small overall change in the annual rate masks larger, partially offsetting, movements in some of the more detailed transport categories, with a large upward effect from motor fuels partially offset by smaller downward effects, for example, from second-hand cars, and maintenance and repairs.

Second-hand car prices fell by 0.5% between January and February 2024, compared with a rise of 1.1% between the same two months a year ago. On an annual basis, prices fell by 7.3% in the year to February 2024, compared with a fall of 5.9% in January, the seventh consecutive month of falls.

Nine of the twelve broad CPI divisions saw annual inflation decrease, while two rose and one was unchanged. The category with highest annual inflation rate was alcoholic beverages and tobacco (3.9% of the Index) which recorded a 11.9% 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 45.2% of the Index, posted an annual inflation rate below 5.0%.

Core CPI inflation (CPI excluding energy, food, alcohol and tobacco) fell 0.6% to 4.5%. Goods inflation in the UK fell 0.7% to 1.1%, while services inflation was down 0.4% at 6.1%.

Producer Price Inflation input prices fell by 2.7% in the 12 months to February 2024, against a revised fall of 2.8% in the year to January 2023. The corresponding output (factory gate) figures saw a 0.4% annual rise against a previous 0.3% fall. The ONS notes that 'Input and output price levels have been relatively stable since mid-2022 but remain substantially higher than their 2021 levels.'

Comment

These figures will reinforce the expectation of both the Bank of England and the Office for Budget Responsibility (OBR) that by April the CPI will have dropped to 2%, helped by the Q2 utility price cap fall. Thereafter the Bank sees the rate climbing to about 2.75% by the year end, while the OBR sees a continued gentle fall.

Thursday's interest rate decision from the Bank is unlikely to be anything other than 'no change' because the Bank will want to see the impact of April's National Living Wage and National Minimum Wage increases on services inflation (which accounts for 49% of the CPI).

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