

---

# UK Consumer Price Inflation

*November 2013 Update*

Issued 20<sup>th</sup> November 2013

*Richard Ramsey*

*Chief Economist Northern Ireland*

*[richard.ramsey@ulsterbankcm.com](mailto:richard.ramsey@ulsterbankcm.com)*

*Twitter @UB\_Economics*

## UK Inflation Summary

---

- ❑ The annual rate of UK consumer price inflation (CPI) fell by 0.5 percentage points to 2.2% in October 2013. UK CPI has now been above the 2% Bank of England target in 67 of the 74 months since the credit crunch began (Aug-2007). Meanwhile the Retail Price Index (RPI) inflation measure saw its annual inflation rate decelerate to 2.6% in Oct-13.
- ❑ The UK's annual rate of CPI inflation (2.2%) compares with 1.0% for the United States, 0.7% for the Eurozone and -0.1% for the Republic of Ireland.
- ❑ Since August 2007, UK CPI has increased **cumulatively** by 21.2%. This compares with a rise in average earnings of 11%. Meanwhile, the inflation rates of other categories of consumer spending have increased at a much faster rate. Utility bills (*electricity, gas & other fuels*) increased by 61% between August 2007 and October 2013. Over the same time period food has risen by 37% and *Transport Fuels & Lubricants (i.e. petrol & diesel)* have risen by 39%.
- ❑ Inflation has been more pronounced in the UK than in the Eurozone. Indeed, since the credit crunch began, the UK has experienced the largest increases in consumer prices within the EU-27, outside of Eastern Europe. Conversely, the Republic of Ireland (RoI) has become the poster child of low inflation within Europe and is the only EU-27 economy not to experience a double-digit rise in consumer prices since August 2007.
- ❑ Since the credit crunch began (August 2007), the UK has experienced a cumulative rise in consumer prices 7 times greater than that of the RoI (+2.9%). The divergence is even starker when comparing some items of consumer spending. For example, UK food prices have risen by 37% since August 2007, whereas RoI food prices in October 2013 were no higher than they were when the credit crunch began.
- ❑ The BoE's latest Quarterly Inflation Report (Nov-13) projects the annual rate of CPI to be 2.2% at the 2-year target horizon assuming monetary policy settings remain constant. The BoE also expects UK CPI to remain above the 2% target until 2016 (assuming no change in policy). If this comes to pass, this would represent 10 consecutive years of a CPI (*annual average*) overshoot. 2005 was the last year that CPI averaged at or below the 2% target.

# UK Consumer Prices: CPI Summary Table

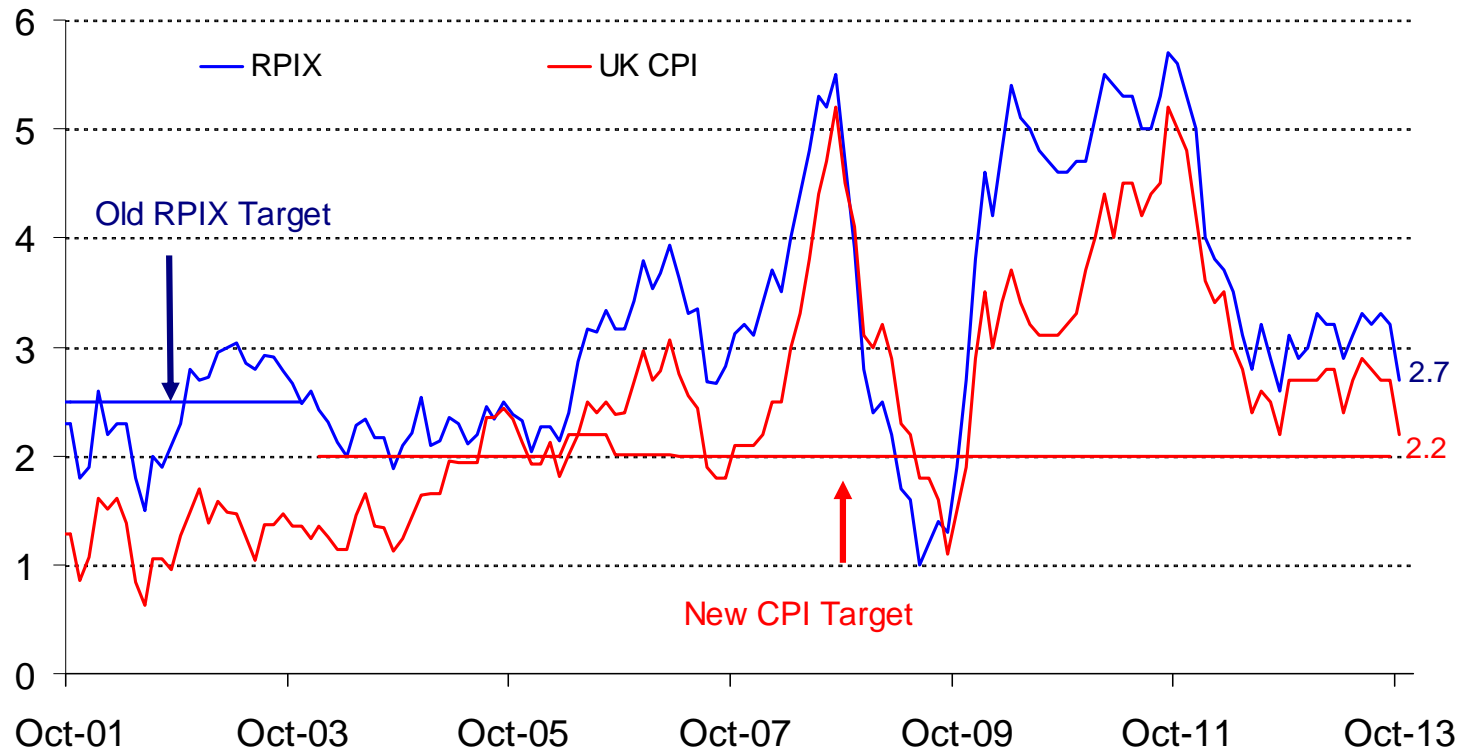
## UK CPI Inflation by Sub-Category

CPI by main categories	October 2013 % Y/Y	October 2013 % M/M	% Change Since August 2007*
Food & non-alcoholic beverages	3.9	0.1	36.3
Alcohol & Tobacco	5.4	0.3	41.2
Clothing & Footwear	1.0	1.0	-7.1
Housing & household services <i>(includes water &amp; fuel)</i>	4.1	0.0	32.1
Furniture & Household Equipment	1.0	-0.4	19.3
Health	2.6	-0.2	19.1
Transport	-0.3	-1.5	24.2
Communication	2.7	0.3	15.2
Recreation & Culture	0.7	0.2	4.5
Education	10.3	8.2	88.6
Restaurants & Hotels	2.8	0.2	21.3
Miscellaneous Goods & Services	0.7	-0.2	14.3
<b>Overall CPI</b>	<b>2.2</b>	<b>0.1</b>	<b>21.2</b>

Source: ONS, \* August 2007 marks the beginning of the credit crunch

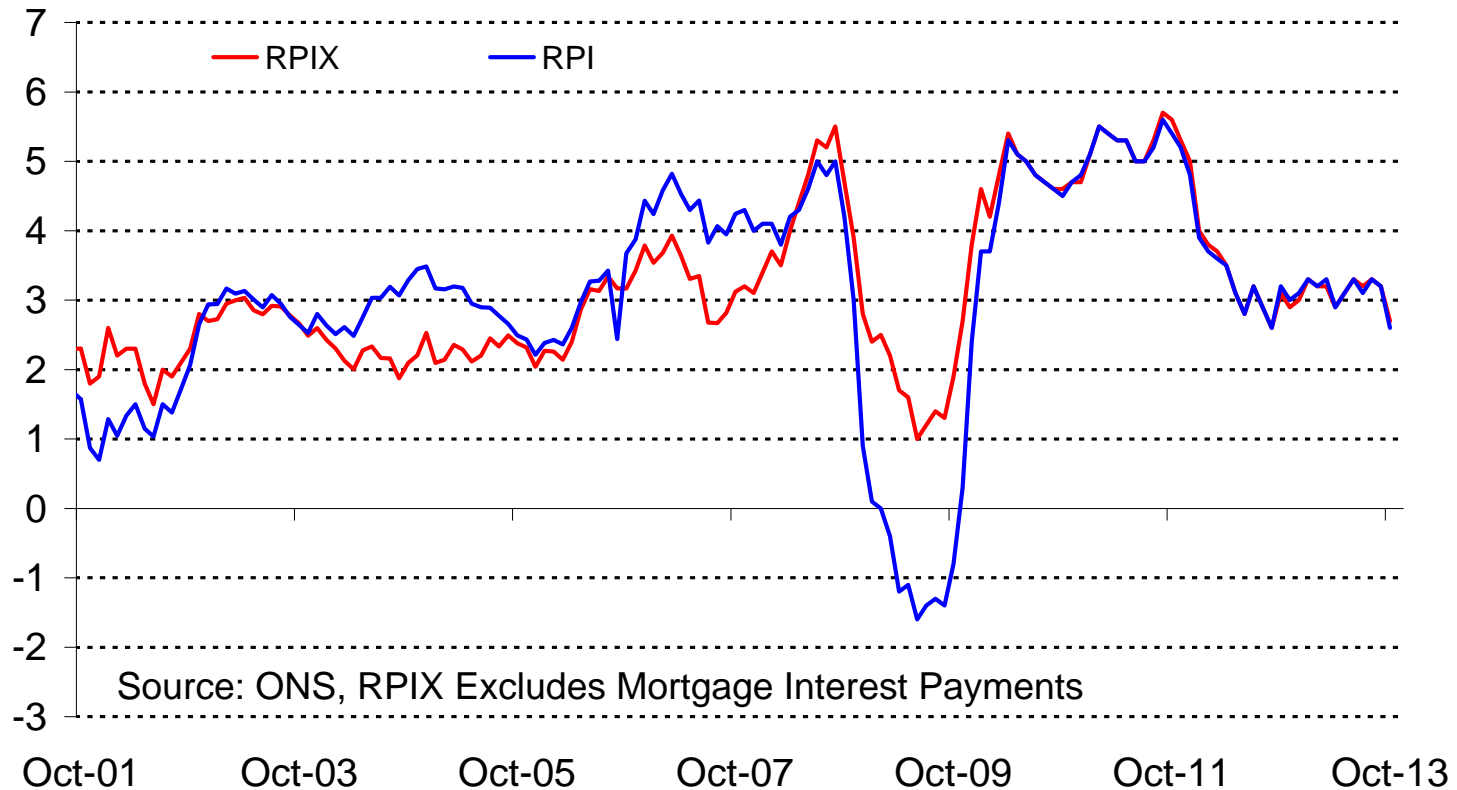
UK CPI has exceeded the MPC's 2% target in 67 out of 74 months since the credit crunch began (*August 2007*)

## UK CPI vs RPIX

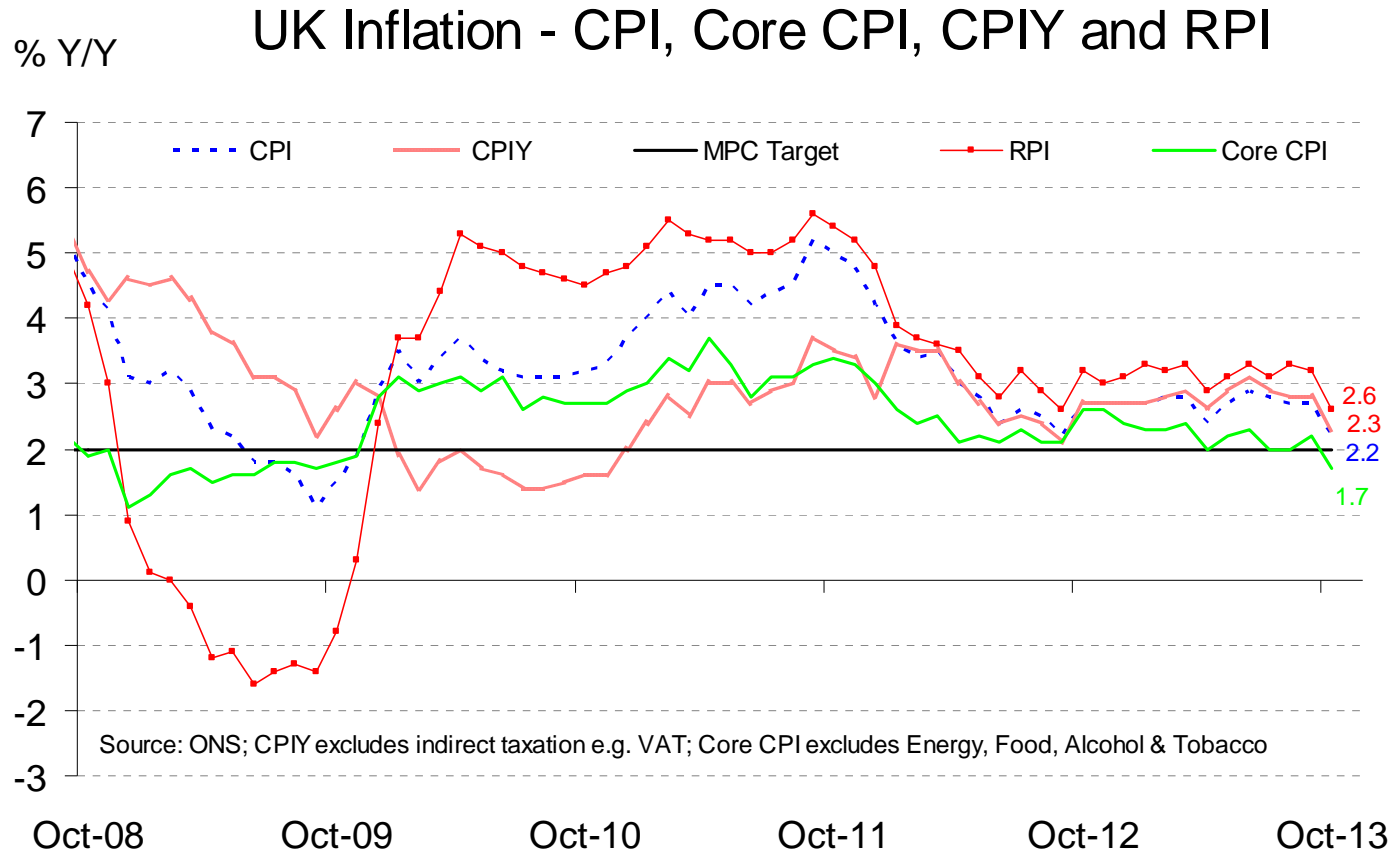


# The annual rate of RPI & RPIX inflation in October 2013 fell to its lowest rate in 13 months

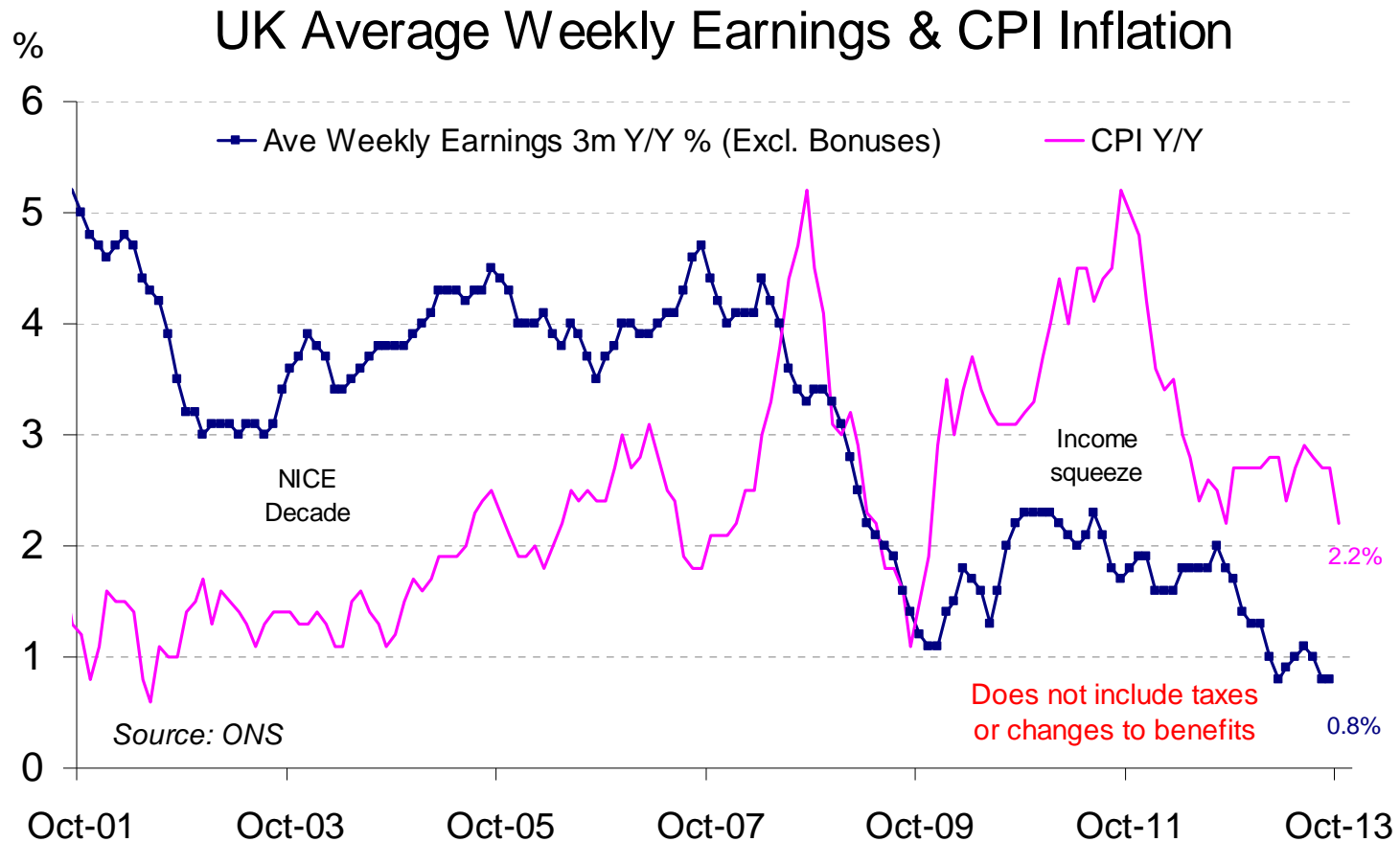
UK RPI vs RPIX



All measures of inflation ease significantly in October with Core CPI dipping below 2% for the first time since Nov-09

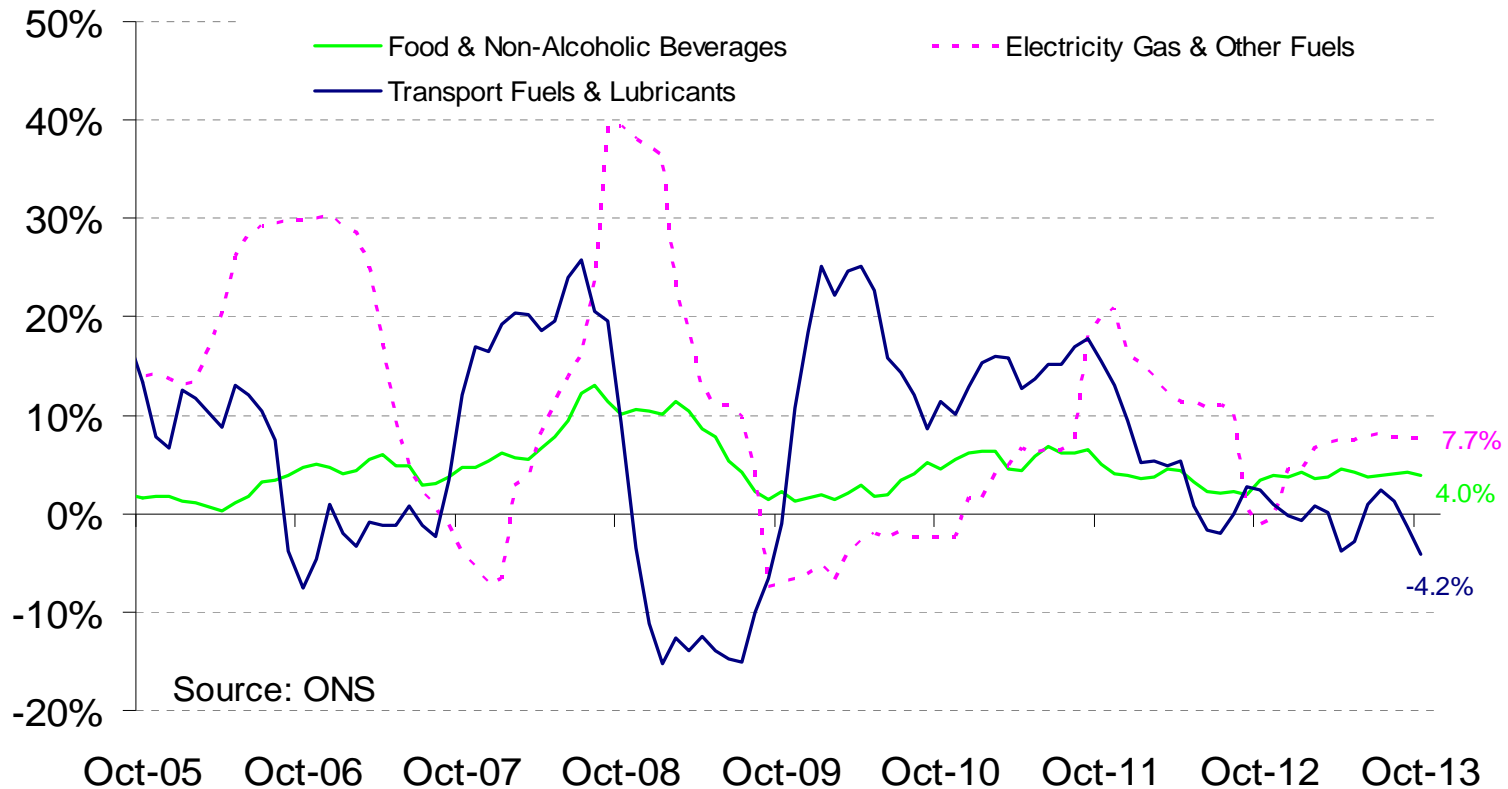


# UK inflation still rising at a much faster rate than earnings and therefore prolonging the income squeeze



Energy & food inflation has eased markedly since 2008 & 2009 but it's the cumulative impact that is doing the damage...

## UK CPI Inflation Year-on-Year

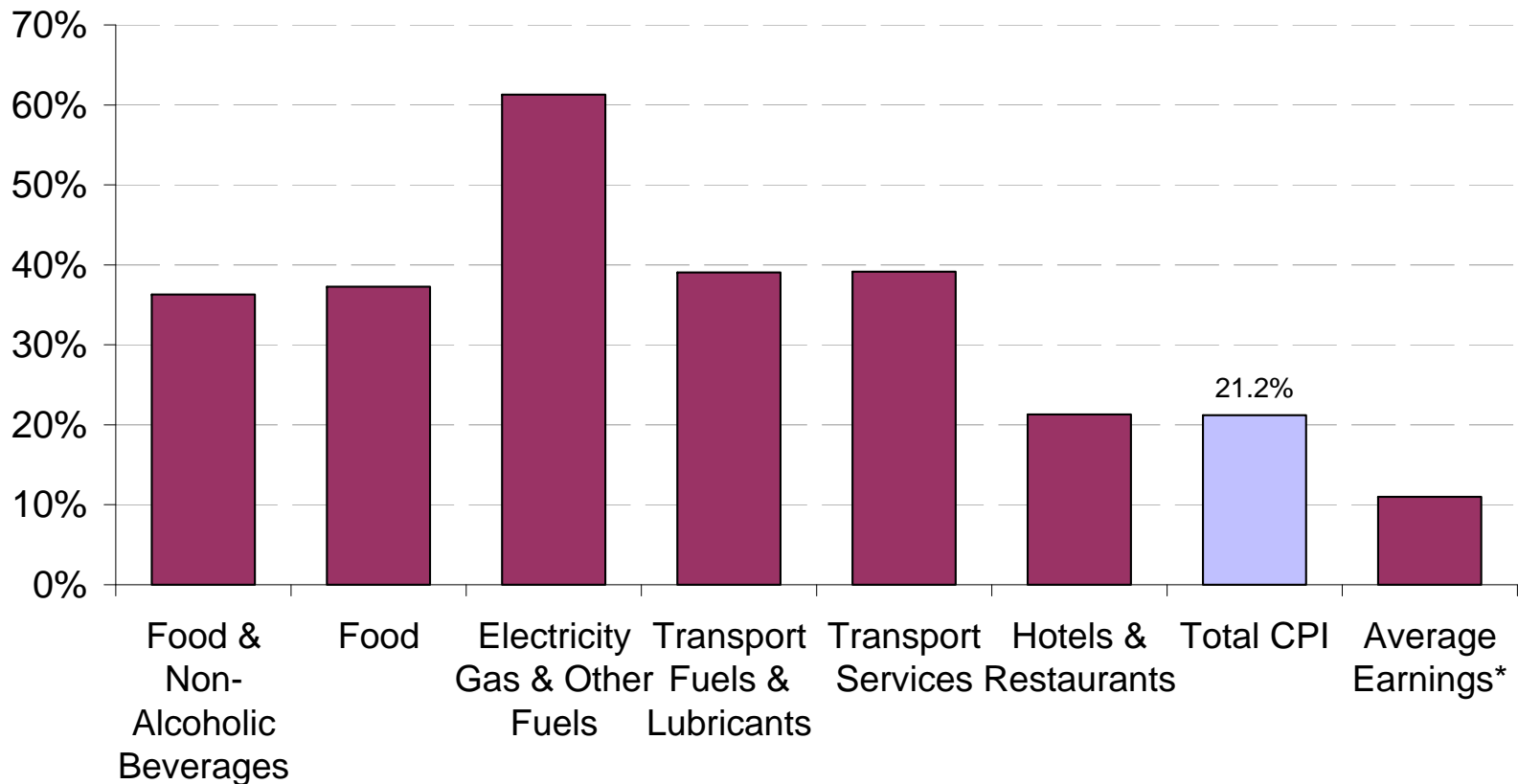




Since Aug-07 CPI has risen by 21% which compares with a rise in average earnings of just 11%

## Cumulative % Change in UK Consumer Prices

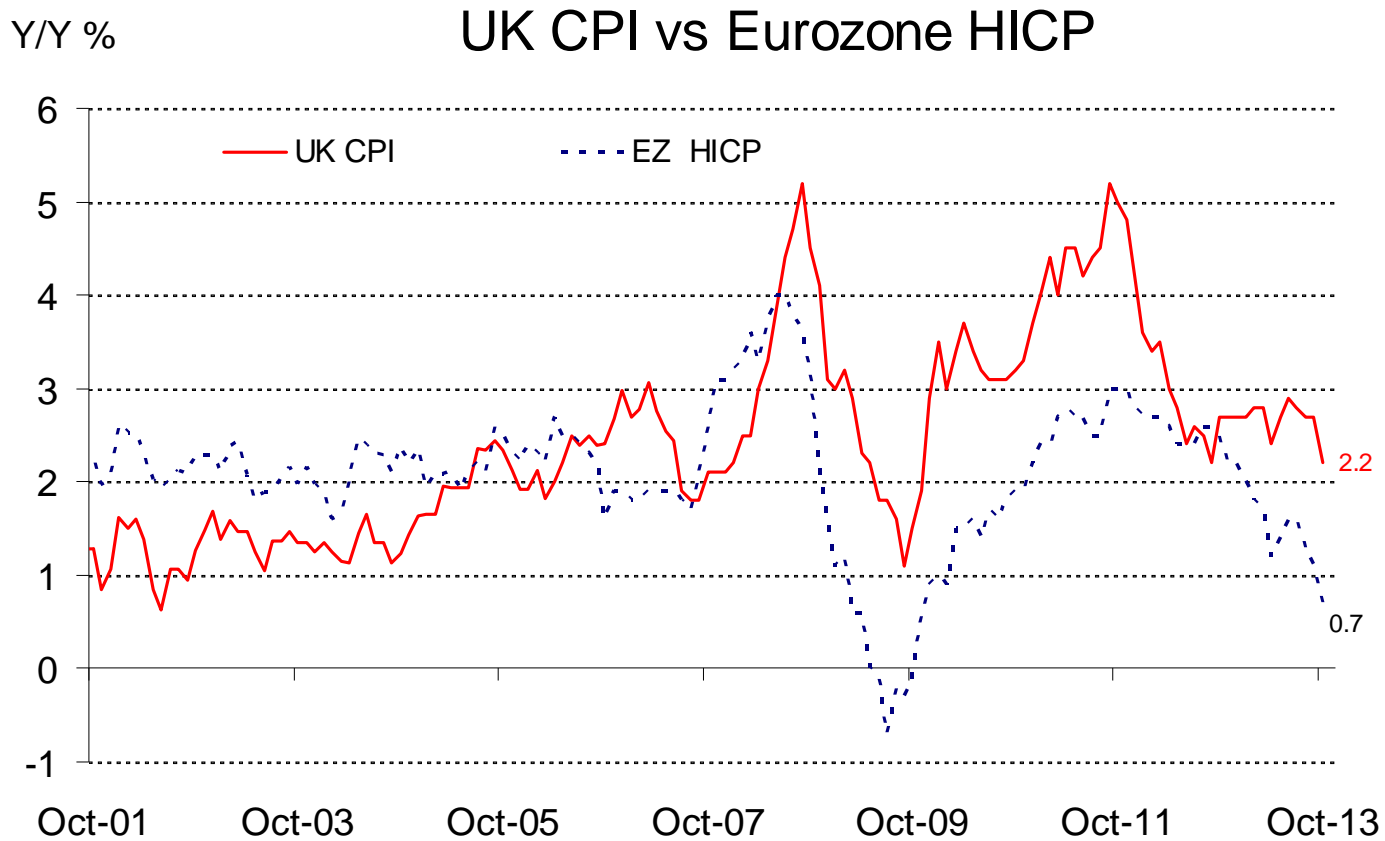
since 'Credit Crunch' began (Aug 07 to Oct 13)



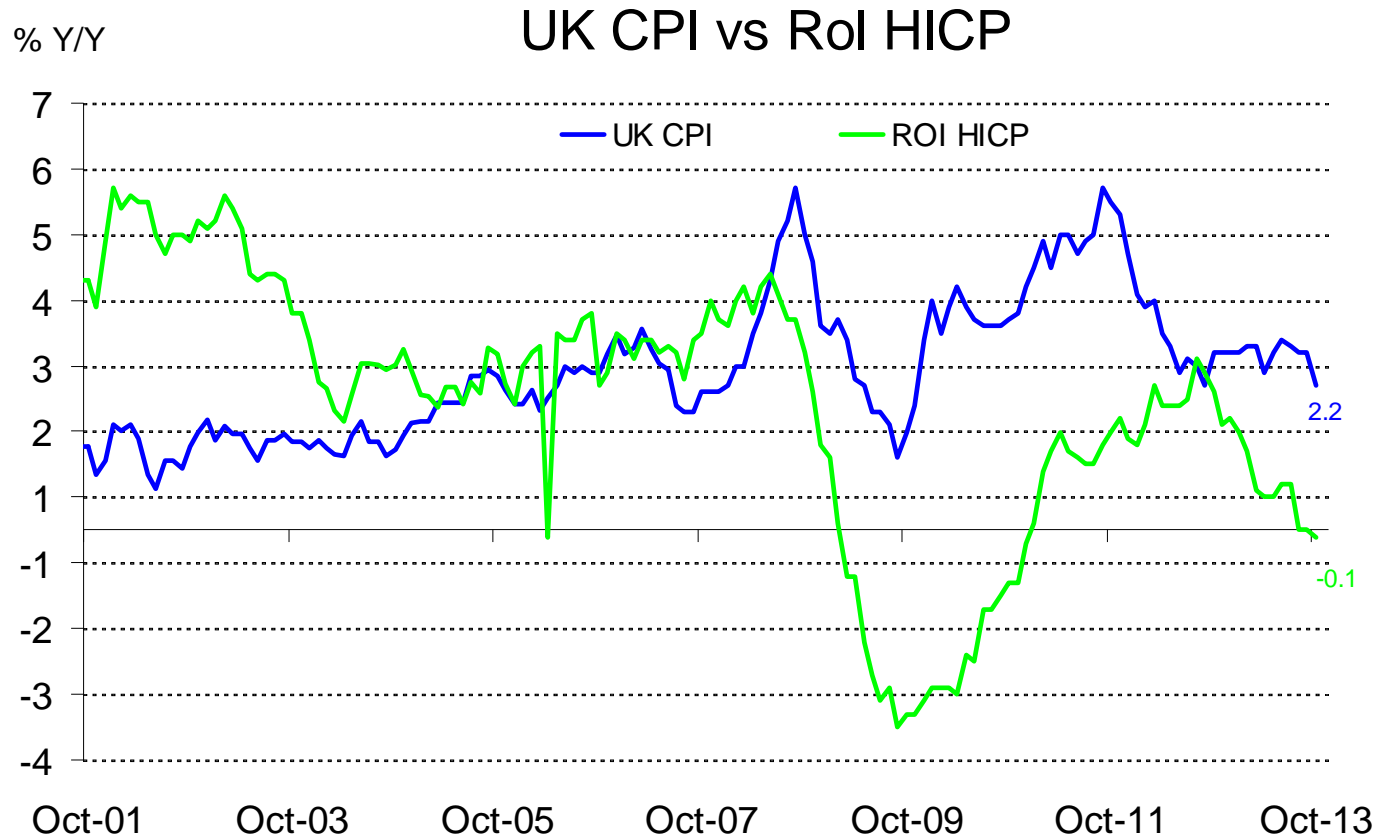
---

*International  
Consumer Price Inflation  
Comparisons*

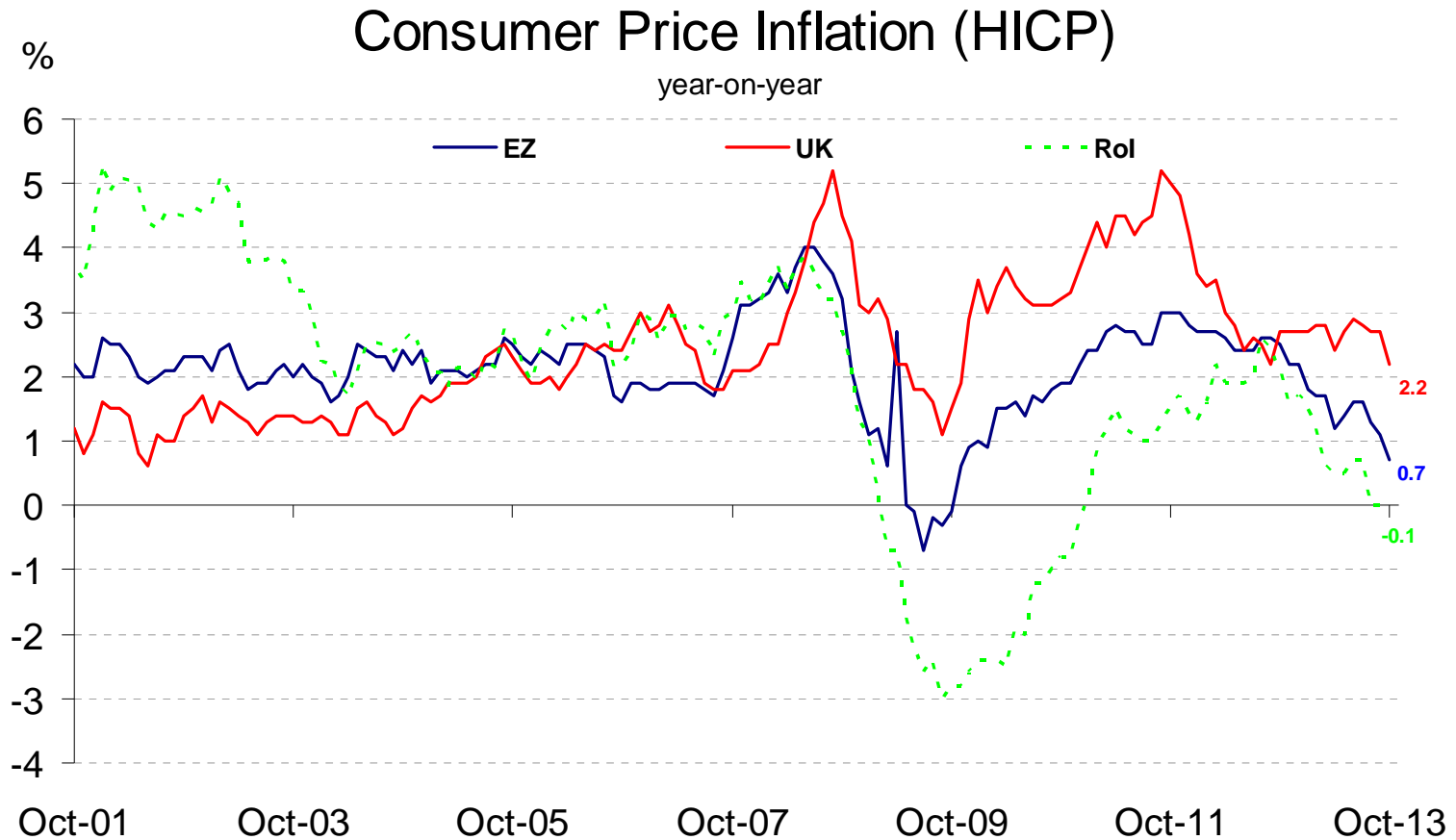
# Inflation has been more pronounced in the UK than in the Eurozone...



...and even more pronounced relative to the Republic of Ireland



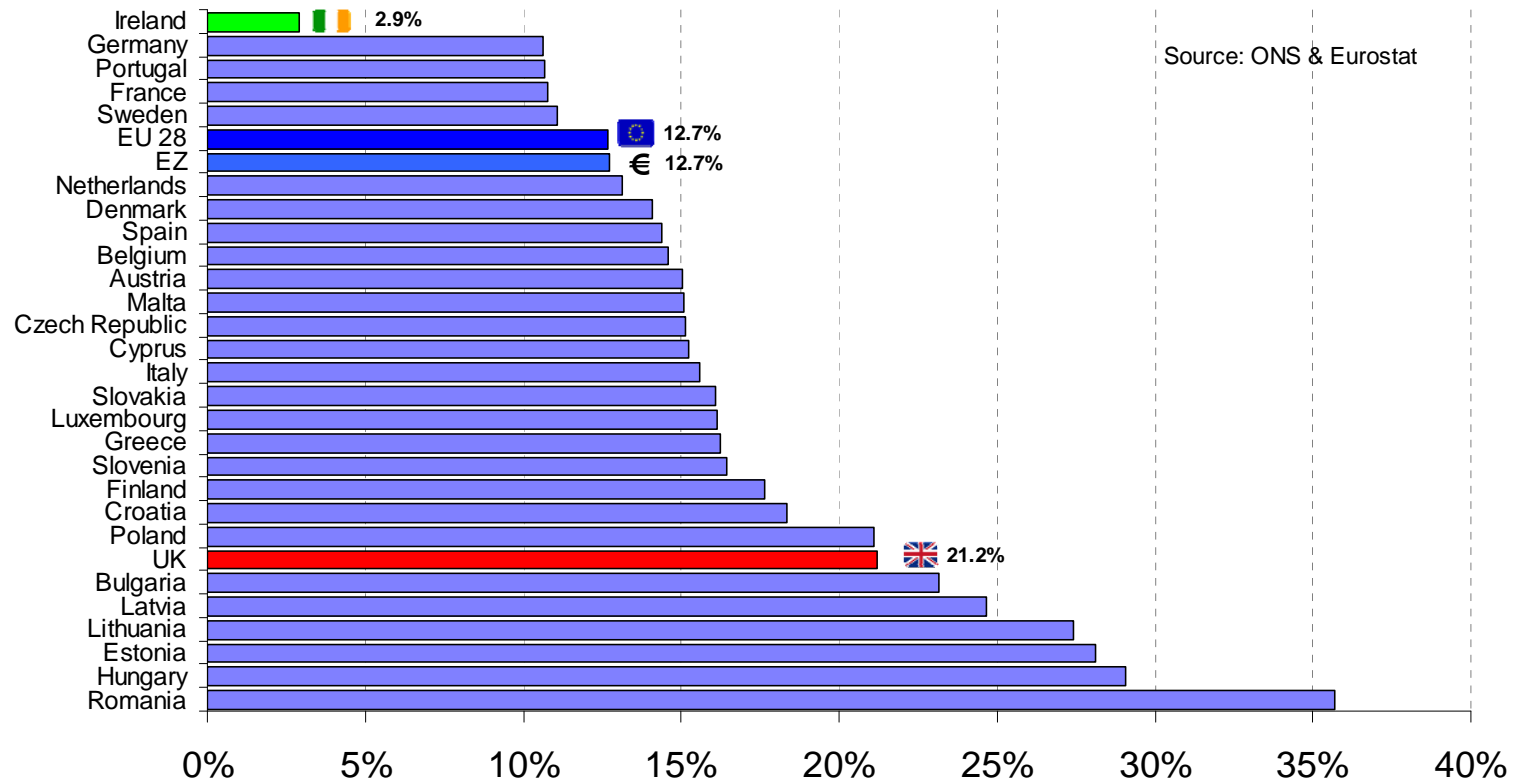
# The RoI has gone from having the highest annual rates of inflation to the lowest



Ireland has become the poster child of low inflation with the UK experiencing the highest rises outside of Eastern Europe

## EU-28 Cumulative % Rise in Consumer Prices (HICP)

August 2007 to October 2013



# The UK has experienced a cumulative rise in consumer prices 7 times greater than the RoI since August 2007

## UK & RoI CPI Inflation by Sub-Category

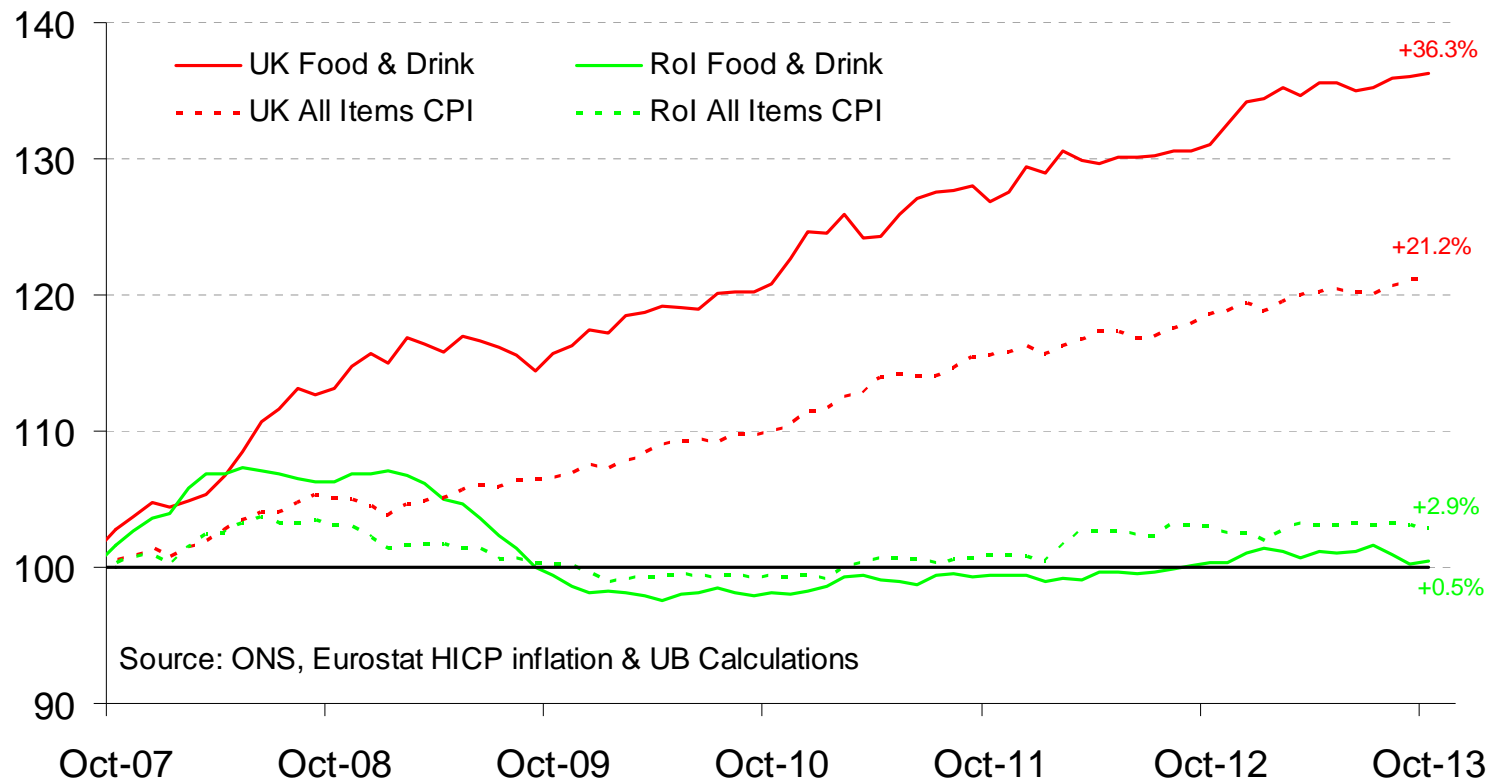
CPI by main categories	UK October 2013 % Y/Y	RoI October 2013 % Y/Y	UK % Change Since August 2007*	RoI % Change Since August 2007*
Food & non-alcoholic beverages	3.9	0.1	36.3	0.5
Alcohol & Tobacco	5.4	5.3	41.2	18.4
Clothing & Footwear	1.0	-4.1	-7.1	-24.3
Housing & household services (includes water & fuel)	4.1	3.0	32.1	9.0
Furniture & Household Equipment	1.0	-4.0	19.3	-16.6
Health	2.6	0.6	19.1	14.3
Transport	-0.3	-3.5	24.2	5.3
Communication	2.7	-3.8	15.2	-2.9
Recreation & Culture	0.7	0.0	4.5	-2.8
Education	10.3	4.7	88.6	43.2
Restaurants & Hotels	2.8	1.7	21.3	0.5
Miscellaneous Goods & Services	0.7	-1.5	14.3	13.4
<b>Overall CPI</b>	<b>2.2</b>	<b>-0.1</b>	<b>21.2</b>	<b>2.9</b>

Source: ONS & CSO using HICP measure, \* denotes when credit crunch officially began

**UK Food & Drink prices have risen by 36% since the credit crunch started whereas in RoI they are almost unchanged**

## UK (NI) & RoI Consumer Price Inflation Levels

(August 2007 = 100)

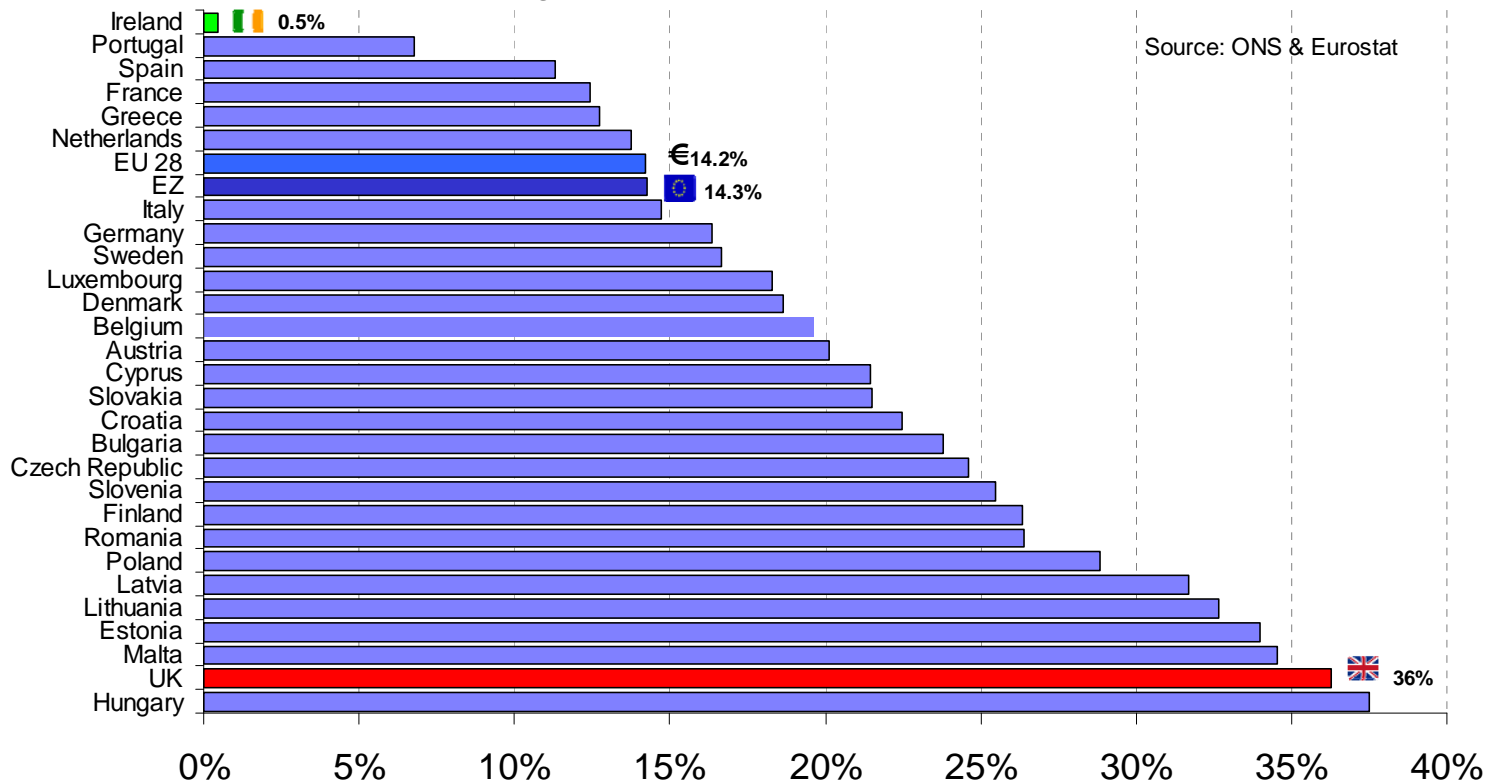




# After Hungary, the UK has posted the largest rise in food & drink prices (& the *Rol the least*) within the EU-28 since Aug-07

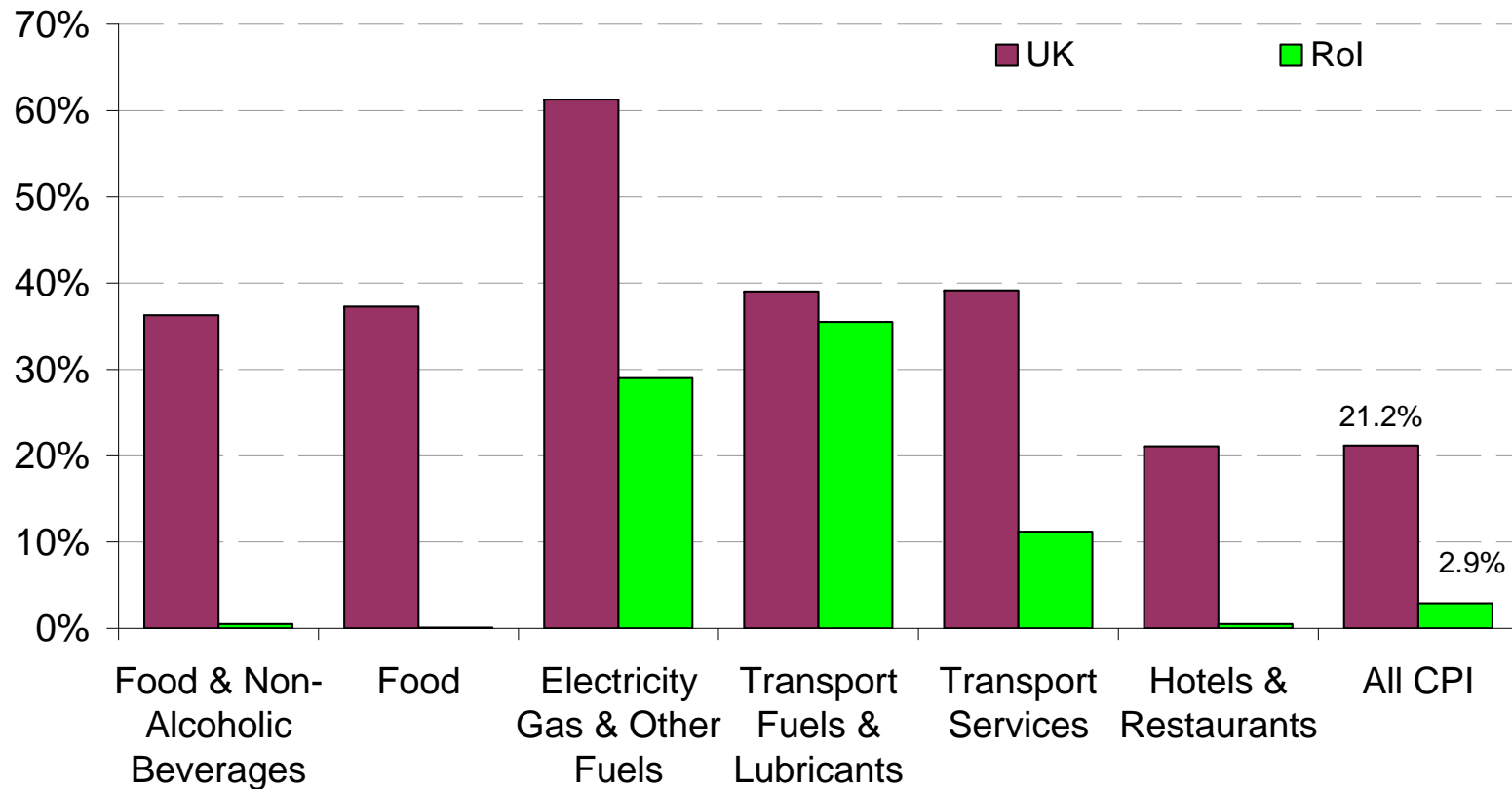
## EU-28 Cumulative % Rise in Food & Drink Prices

August 2007 to October 2013 (HICP)



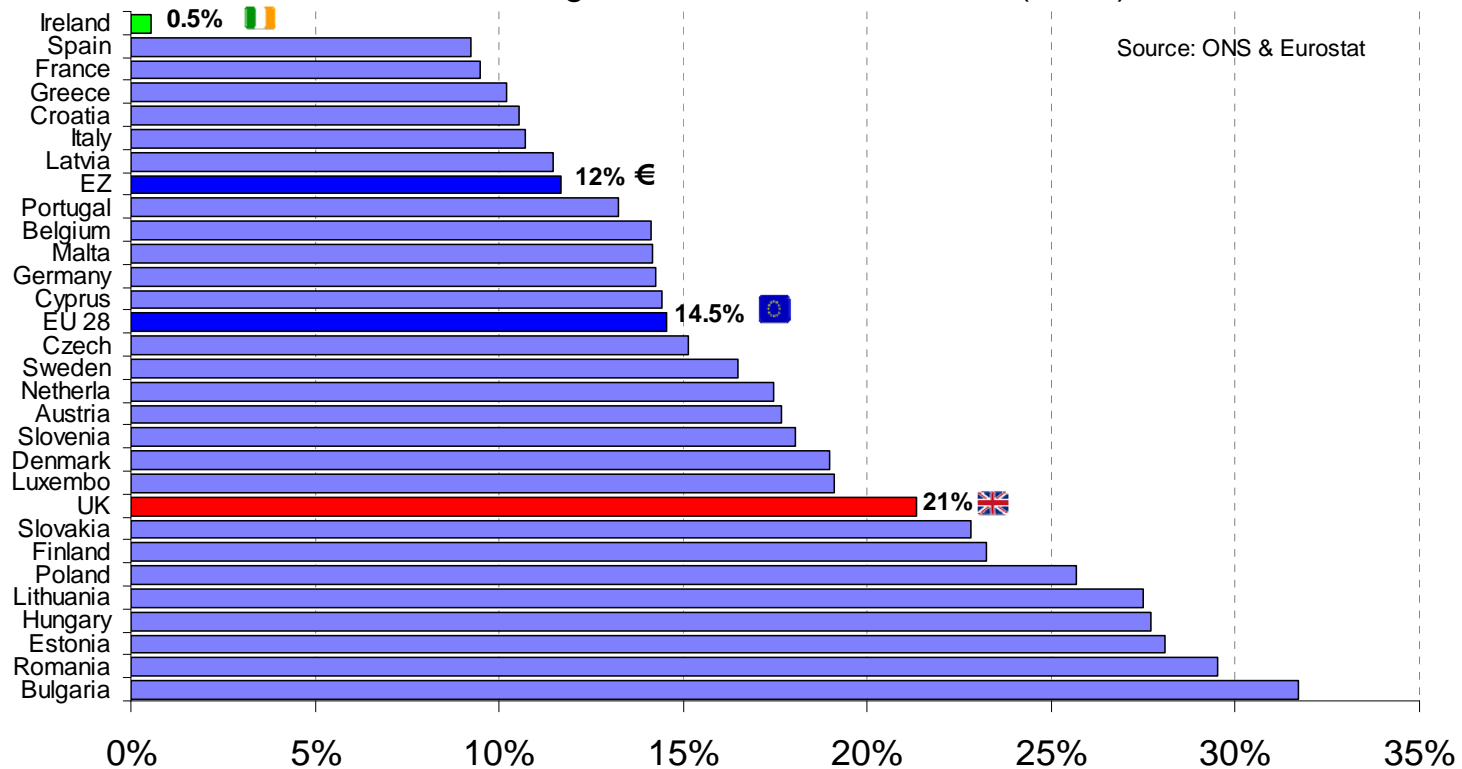
# Food prices in the RoI were no higher in October 2013 than they were when the credit crunch began!

UK v RoI Cumulative % Change in Consumer Prices  
since 'Credit Crunch' began (Aug 2007 to Oct 2013)



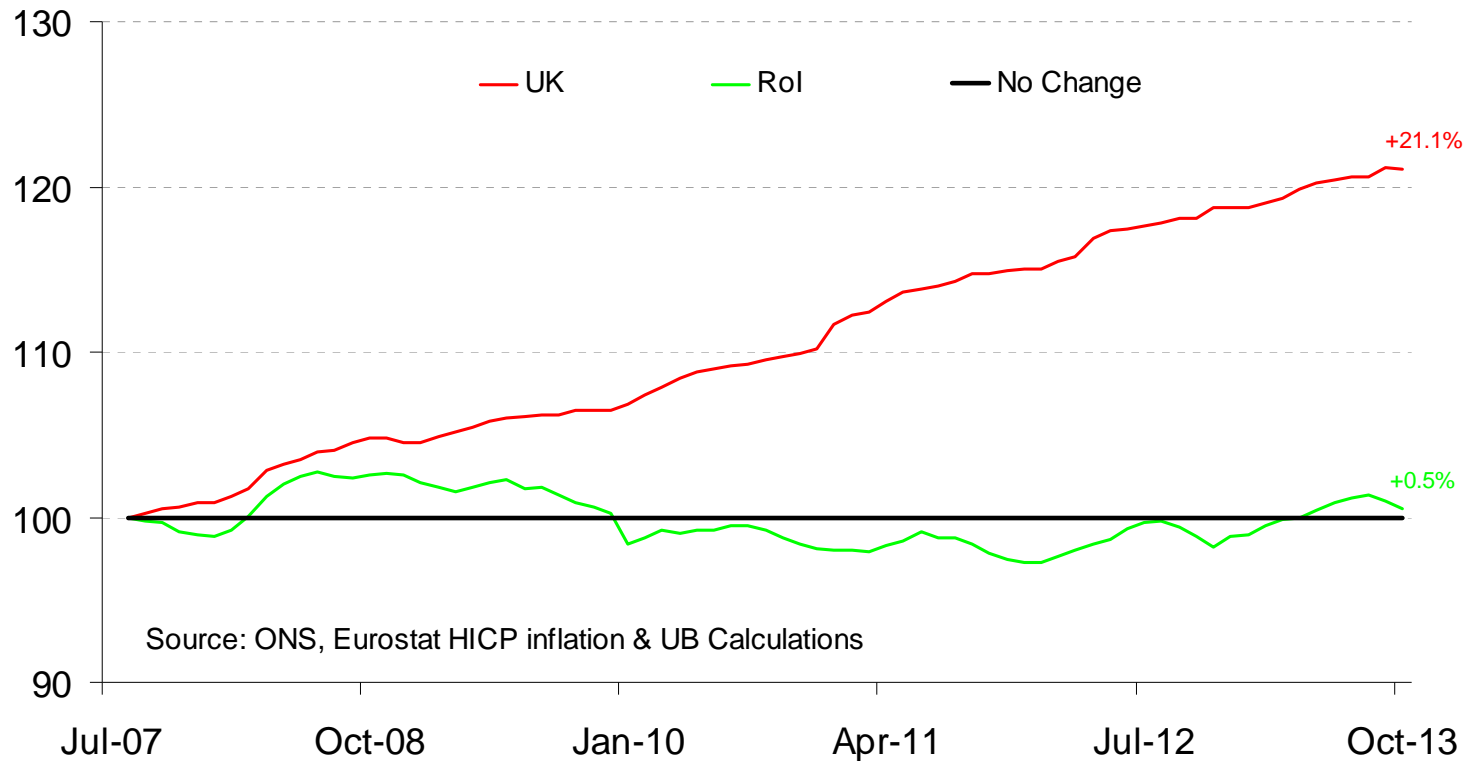
# Consumers in the RoI have benefited from almost no Hotel & Restaurant inflation over the last 6 years too

## EU-28 Cumulative % Rise in Hotel & Restaurant Prices August 2007 to October 2013 (HICP)



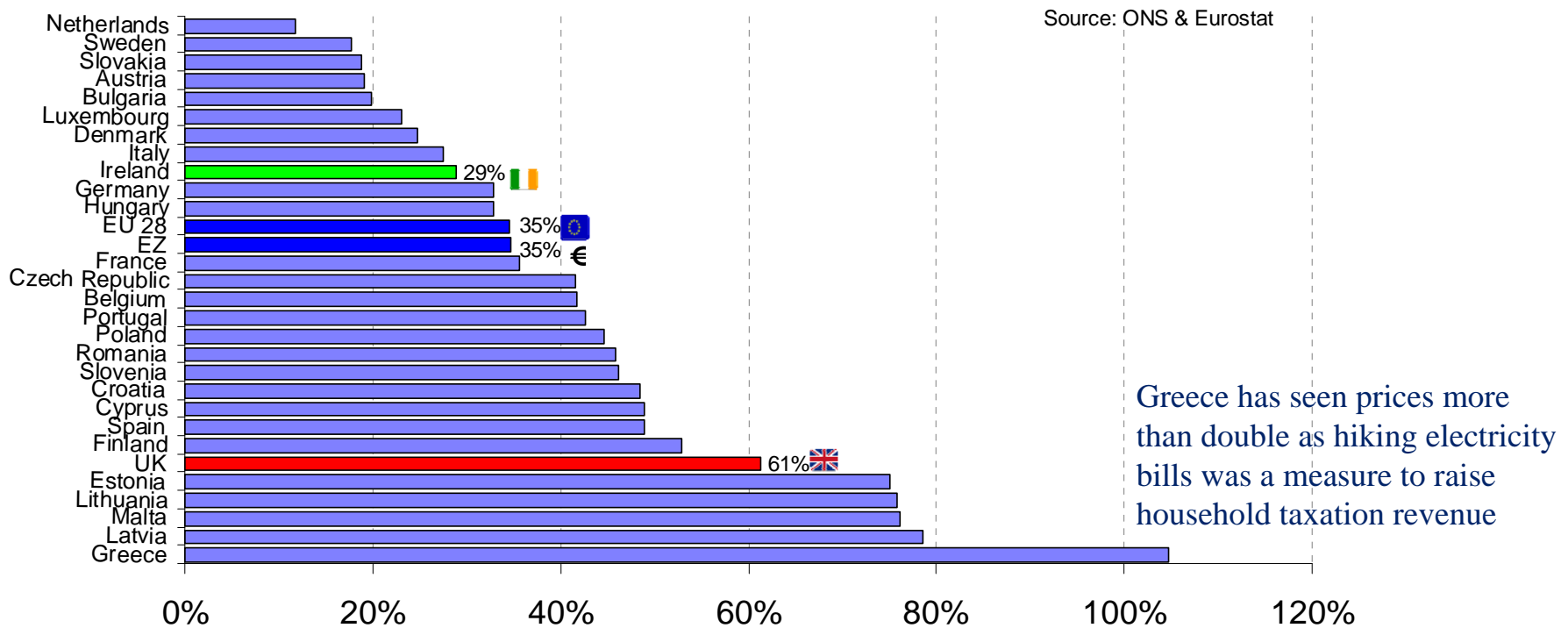
# Northern Ireland's tourist industry has experienced fierce price competition from its nearest competitor

**UK (NI) & RoI Hotel & Restaurant CPI Levels**  
(August 2007 = 100)



# Consumers in the RoI have seen energy inflation below that in the EZ & half of that in the UK

Cumulative % Rise in Electricity, Gas & Other Fuels Prices  
August 2007 to October 2013 (HICP)

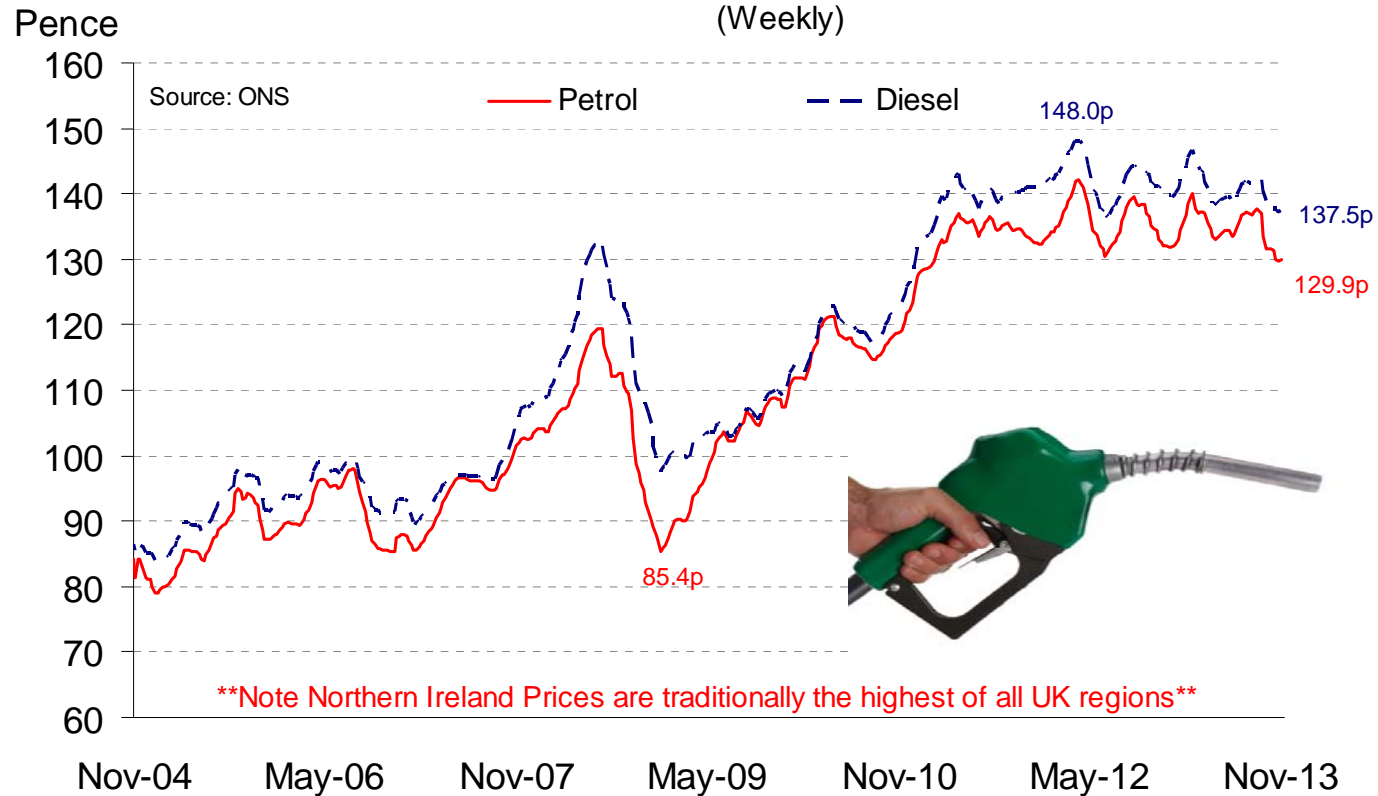


---

*UK Oil, Petrol  
& Diesel Prices*

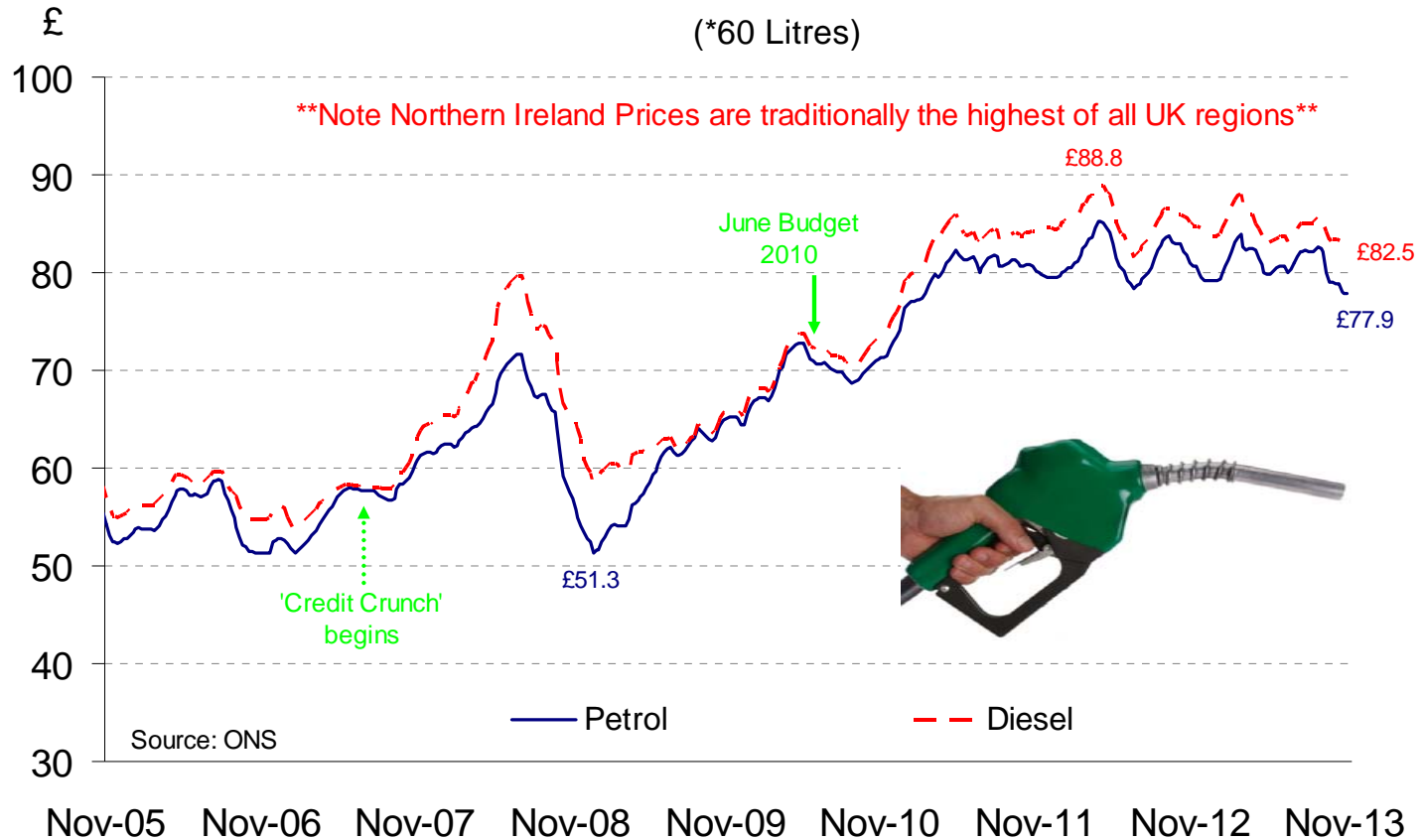
# Petrol & diesel prices have fallen from their recent highs

## UK Fuel Prices - Pence per litre (Weekly)



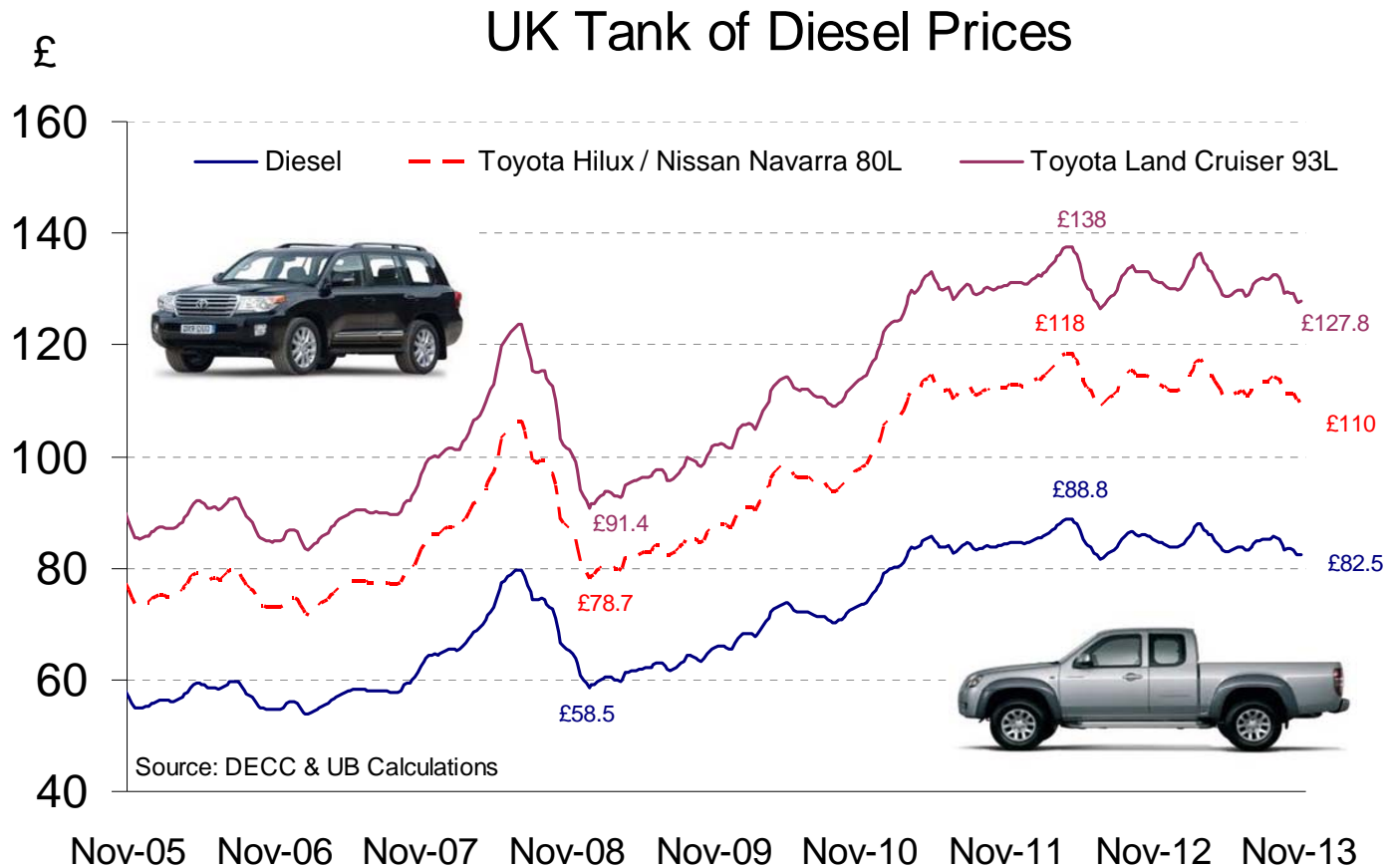
Filling up an average family car with petrol or diesel has fallen by 7-8% relative to last April's peak

## UK Fuel Prices - Tank\* of Petrol / Diesel





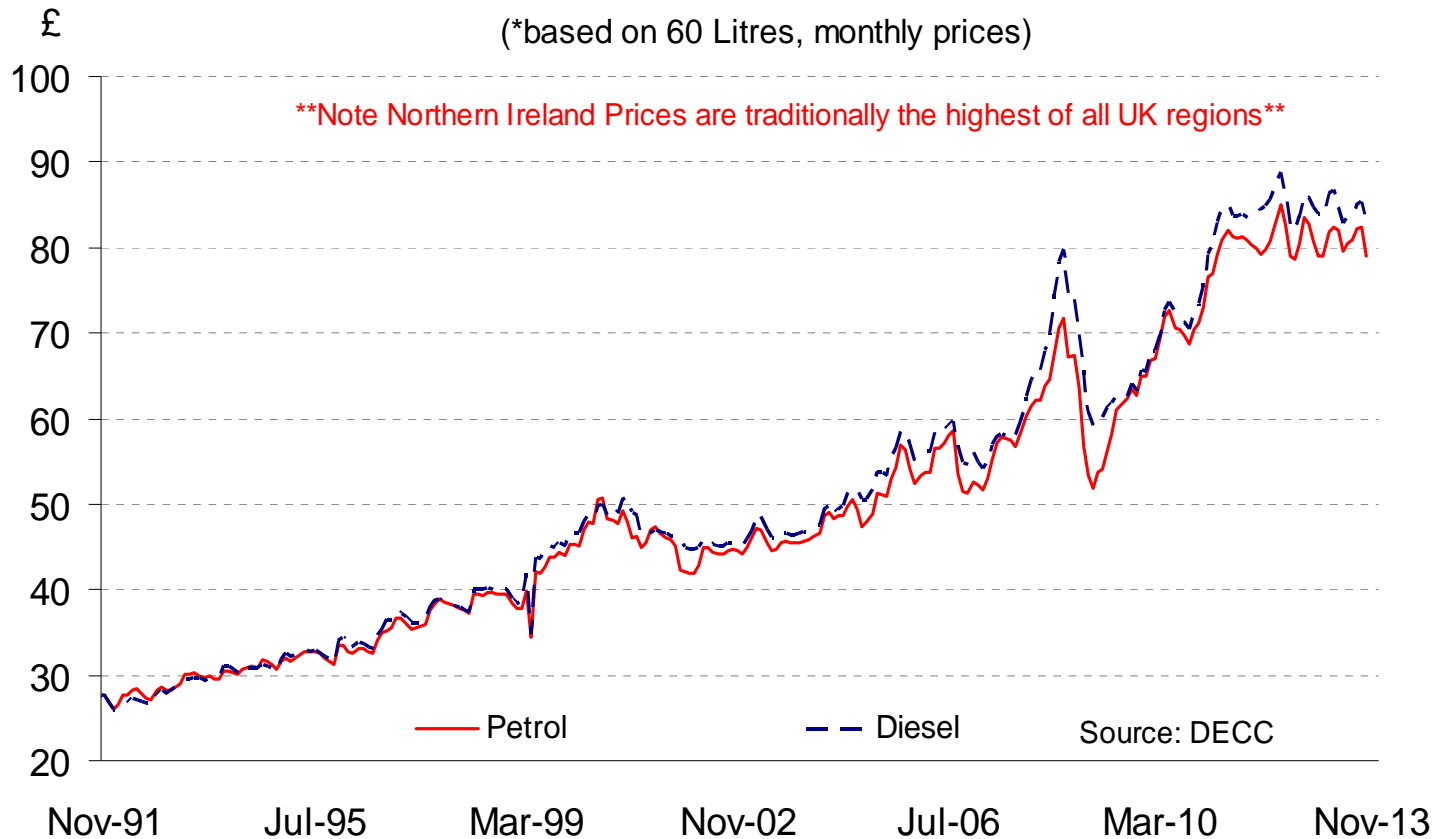
# Filling up some vehicles still costs well over £100



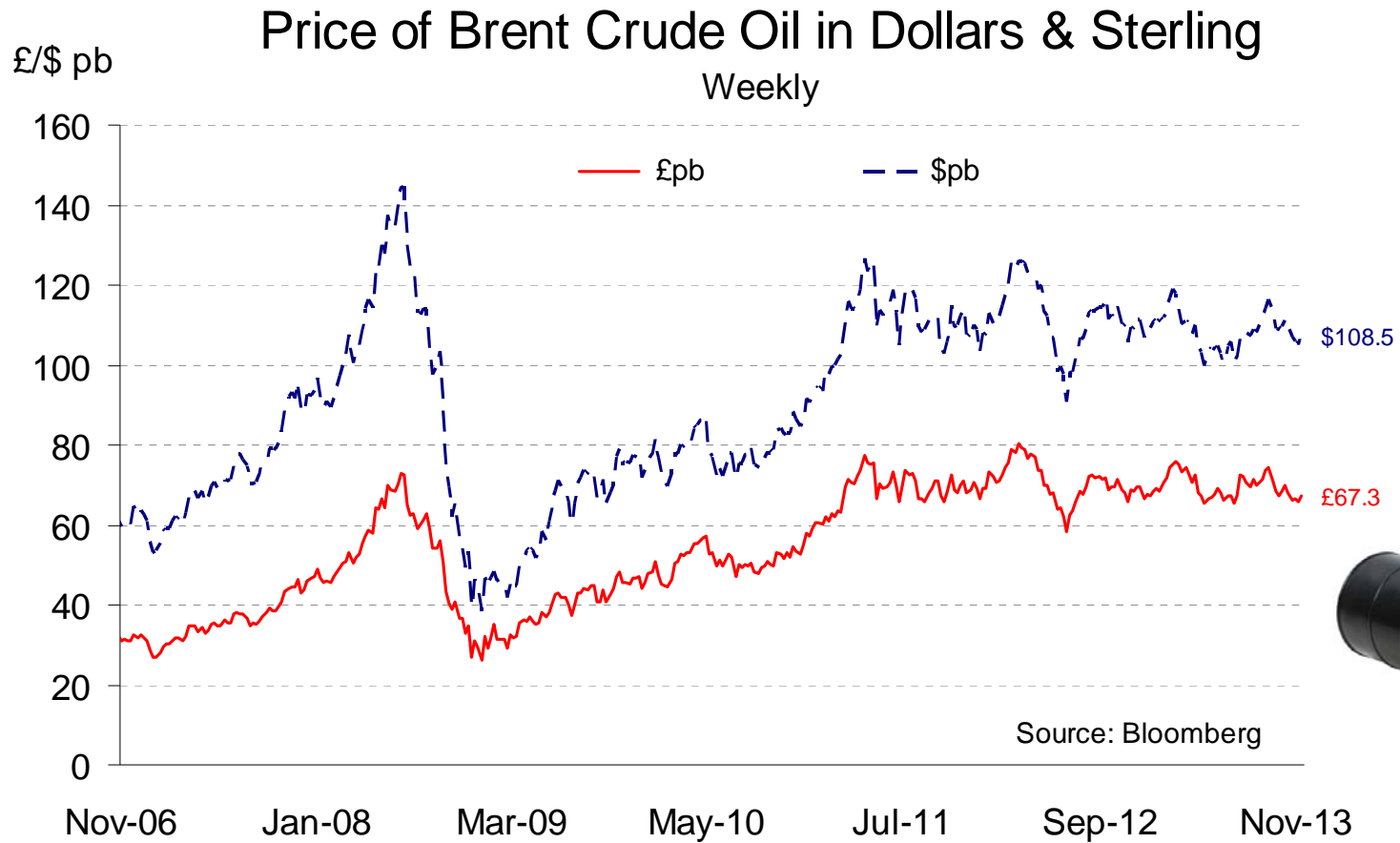
It cost < £30 for a tank of fuel 20 years ago

## UK Fuel Prices - Tank\* of Petrol / Diesel

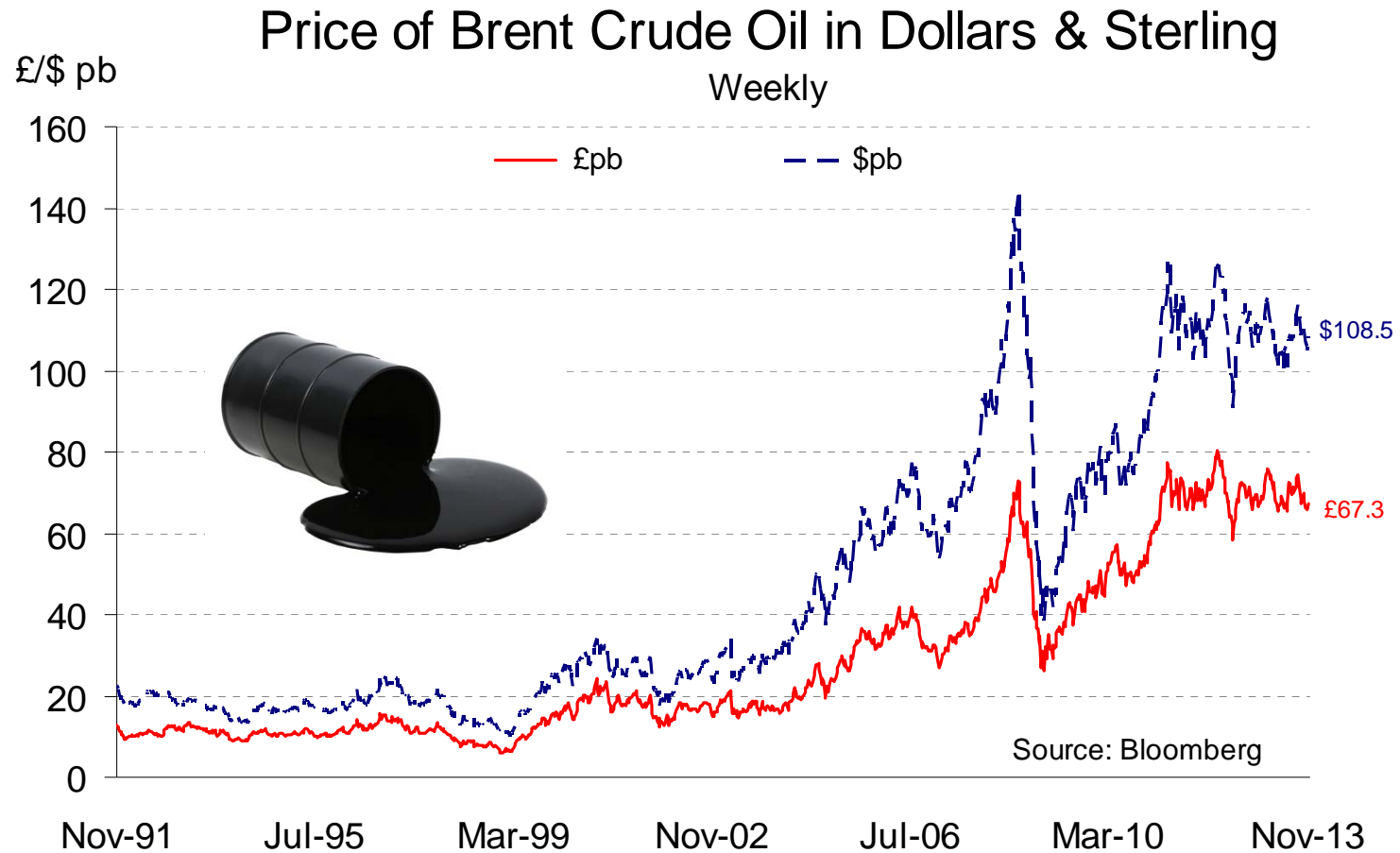
(\*based on 60 Litres, monthly prices)



# Remember it is the price of oil in sterling that matters



It was £12.50 for a barrel of Brent crude just over 20 years ago. Now it is £67pb having hit £80pb last year



# Forecourt petrol prices will broadly follow oil price (in £)

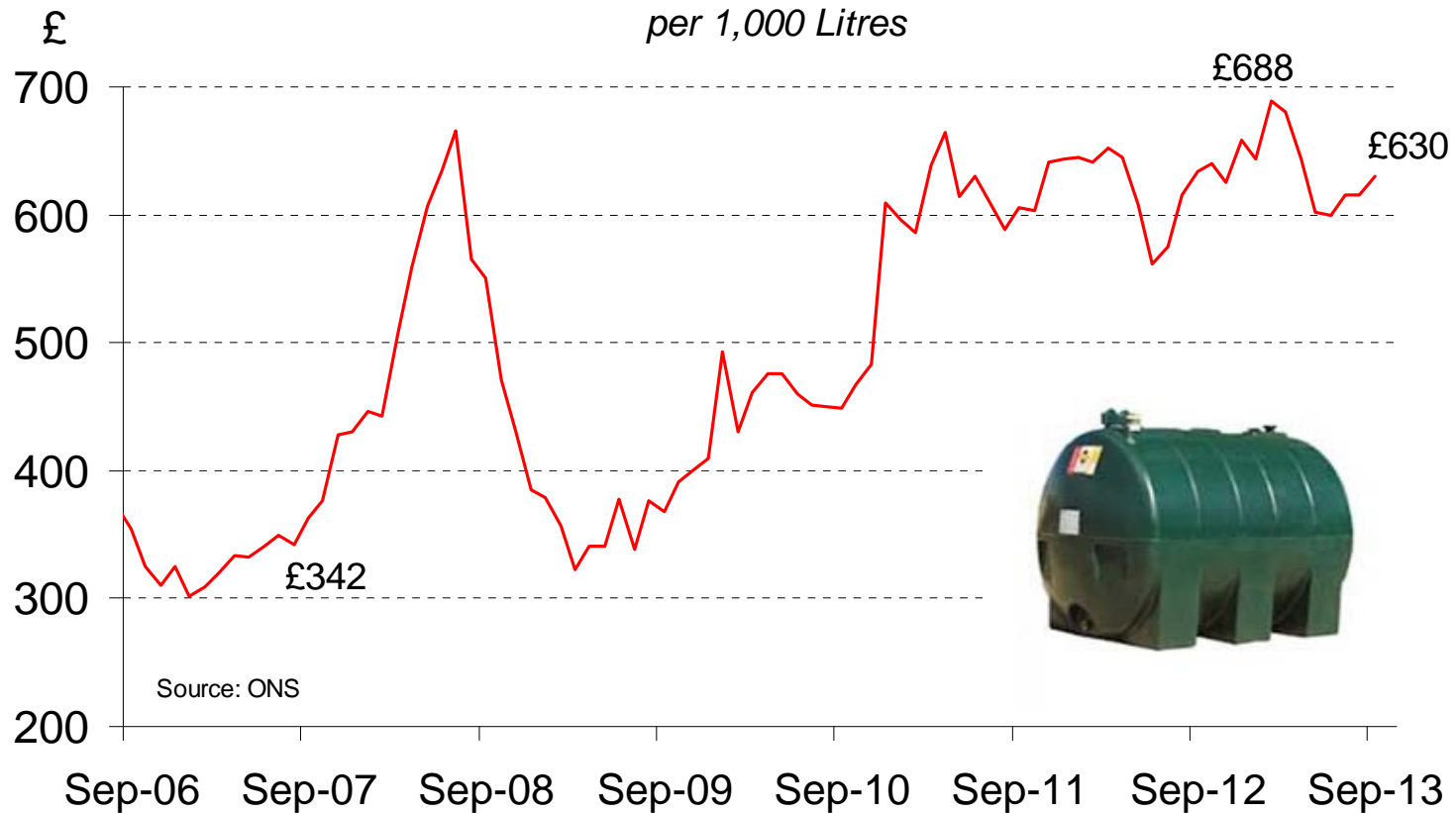
## Brent Crude Oil (in £pb) versus UK Petrol Prices



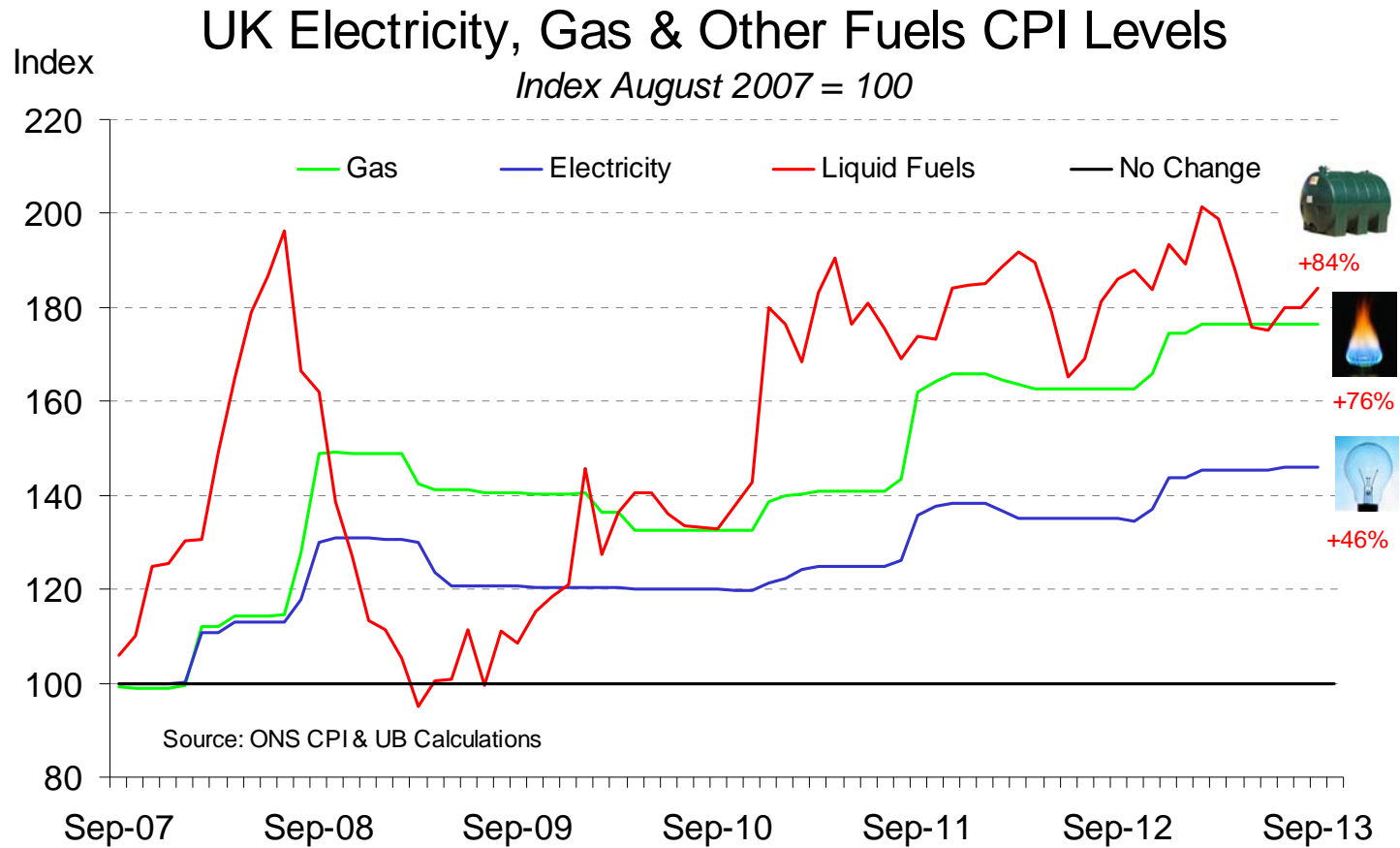
Domestic heating oil has fallen by 9% since Feb-13 peak but prices still up 84% in 6 years

### UK Price of Domestic Heating Oil

per 1,000 Litres



# Electricity and gas prices have also posted significant rises since the credit crunch began (Aug-2007)



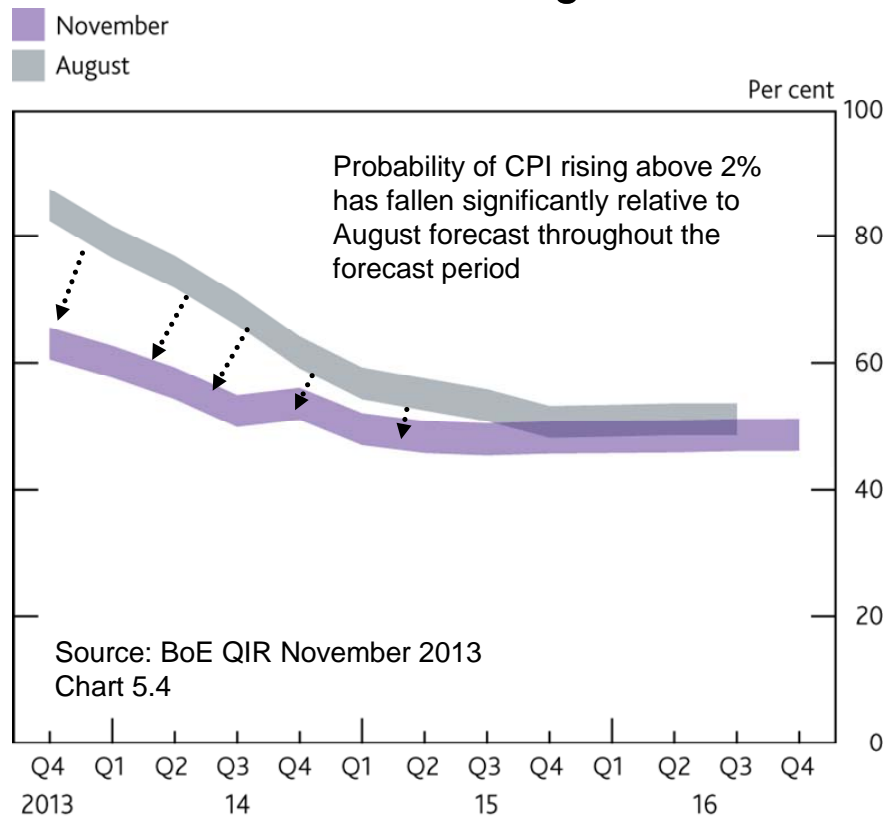
---

*UK Inflation  
Forecasts*



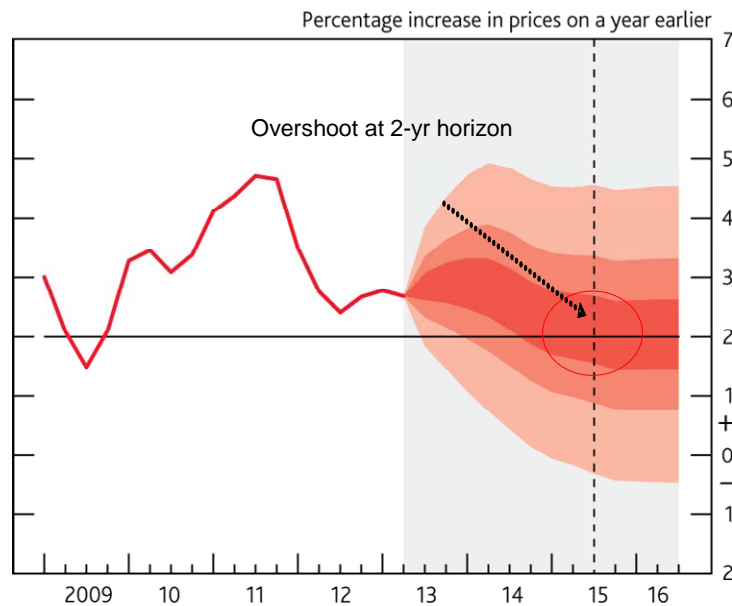
# Probability of an inflation overshoot has fallen significantly since the last Quarterly Inflation Report (Aug 2013)

Probability of an inflation overshoot based on market interest rate expectations has fallen throughout the forecast period

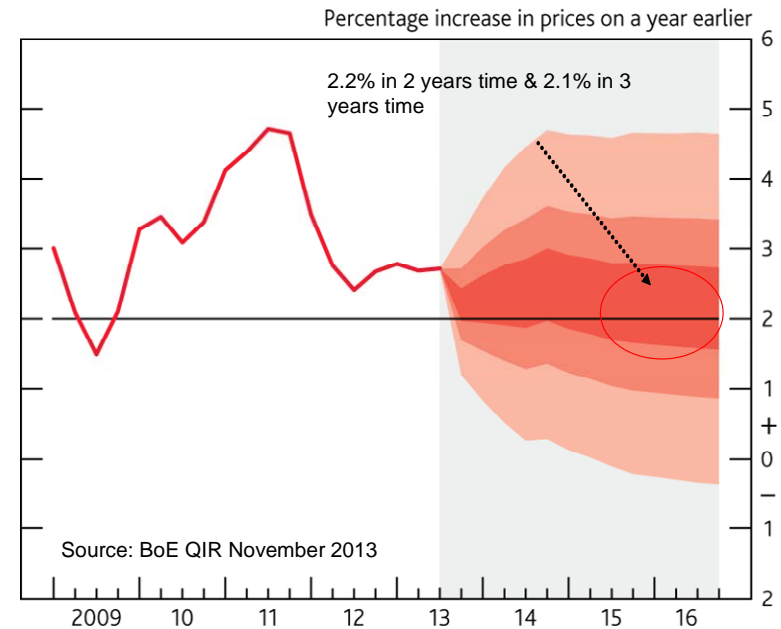


# BoE expects CPI to remain above its 2% target until 2016 (i.e. 10 years of an annual average CPI overshoot)

CPI inflation projection based on constant nominal interest rates at 0.5% and £375 billion asset purchases



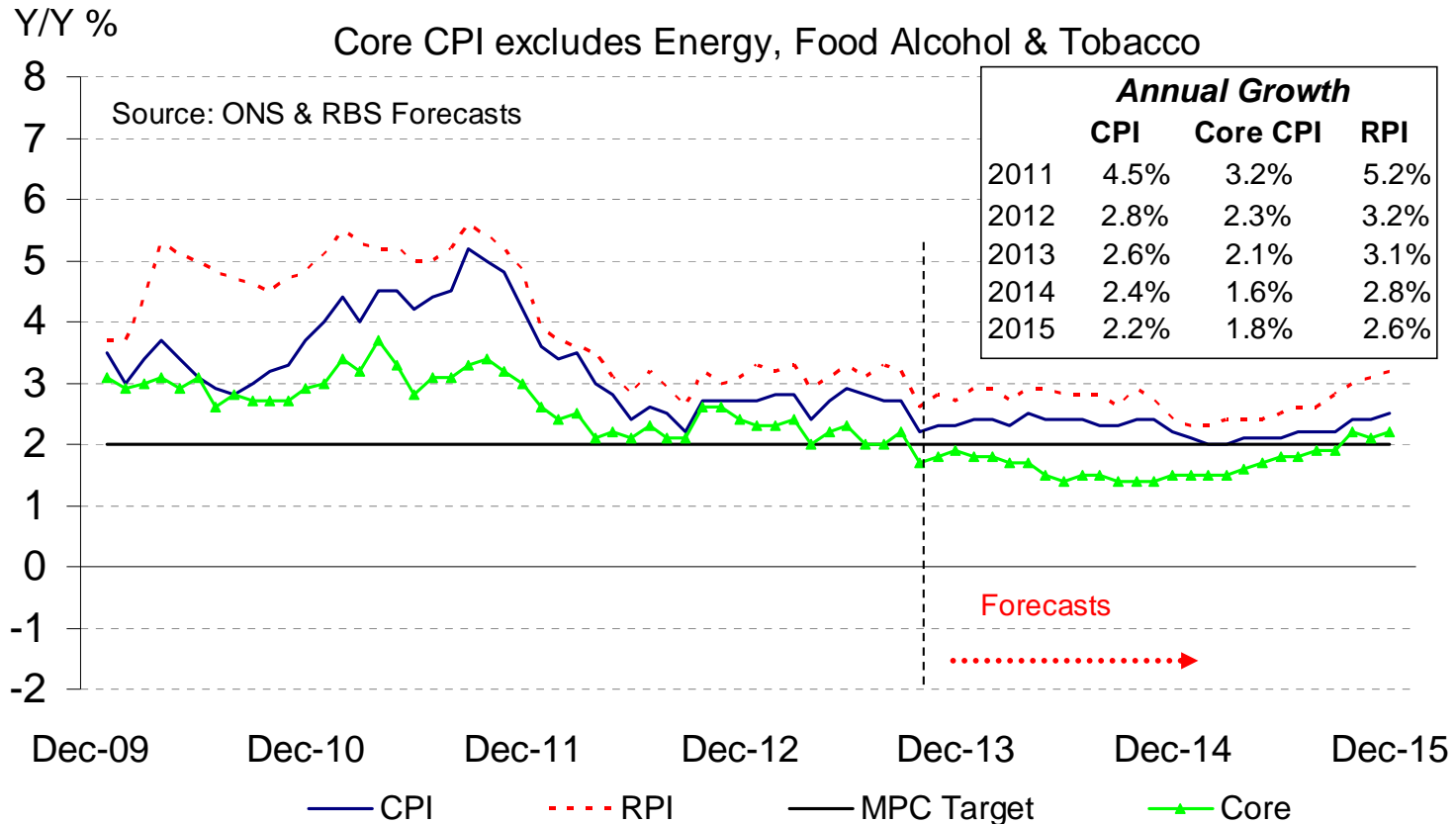
(August 2013)



(November 2013)

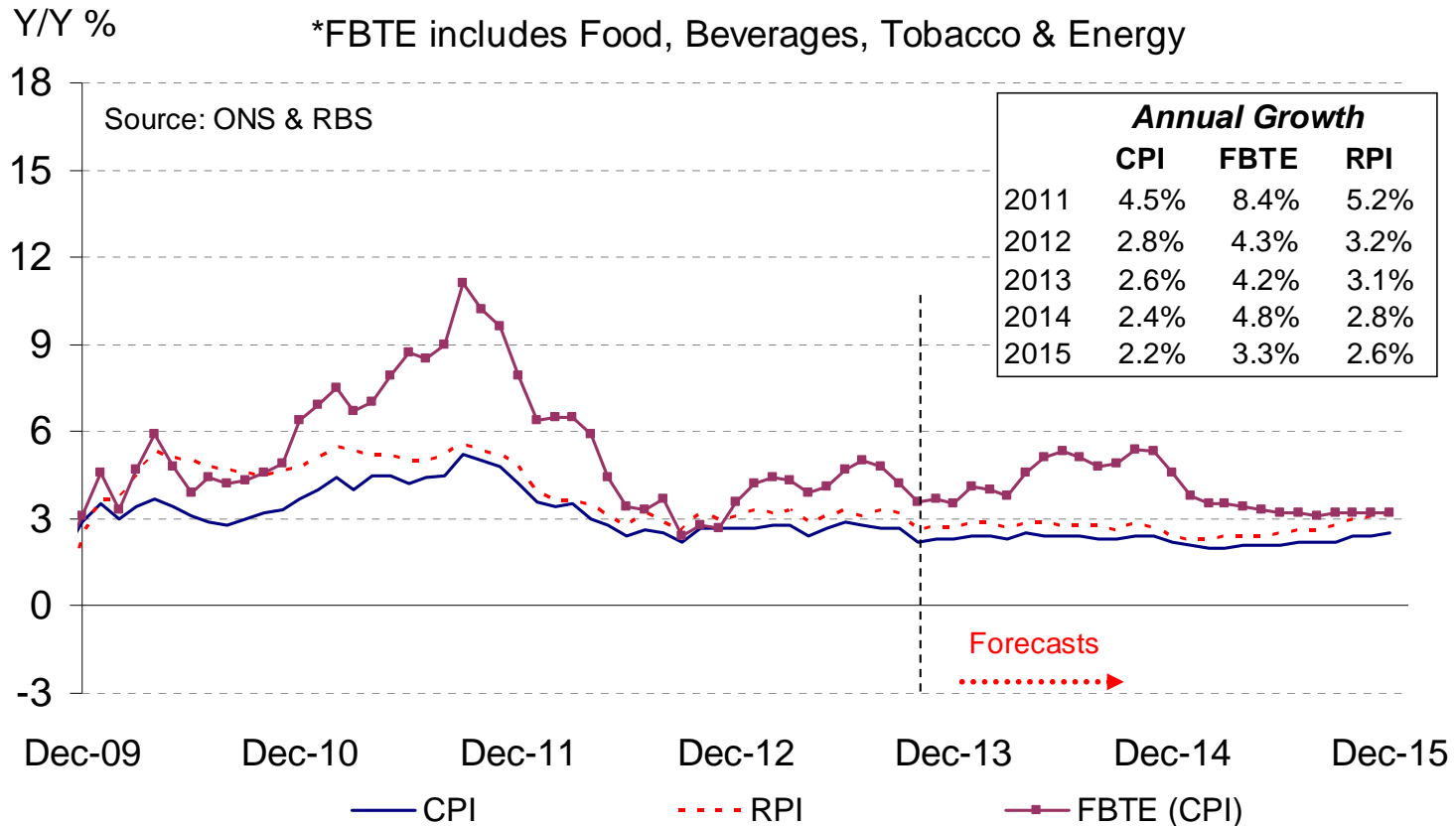
# CPI inflation set to average 2.4% in 2014 & 2.2% in 2015. RPI even higher at 2.8% in 2014 & 2.6% in 2015

## UK Consumer Price Inflation



# FBTE inflation to average 4.8% in 2014 & 3.3% in 2015 at a time when some welfare benefits capped at 1% p.a

## UK Consumer Price Inflation



# Disclaimer

---

This document is issued for information purposes only for clients of Ulster Bank Group who are eligible counterparties or professional customers, and does not constitute an offer or invitation to purchase or sell any instrument or to provide any service in any jurisdiction where the required authorisation is not held. Ulster Bank and/or its associates and/or its employees may have a position or engage in transactions in any of the instruments mentioned.

The information including any opinions expressed and the pricing given, is indicative, and constitute our judgement at time of publication and are subject to change without notice. The information contained herein should not be construed as advice, and is not intended to be construed as such. This publication provides only a brief review of the complex issues discussed and readers should not rely on information contained here without seeking specific advice on matters that concern them. Ulster Bank make no representations or warranties with respect to the information and disclaim all liability for use the recipient or their advisors make of the information. Over-the-counter (OTC) derivatives can involve a number of significant and complex risks which are dependent on the terms of the particular transaction and your circumstances. In the event the market has moved against the transaction you have undertaken, you may incur substantial costs if you wish to close out your position.

Ulster Bank Limited Registered Number: R733 Northern Ireland. Registered Office: 11-16 Donegall Square East, Belfast BT1 5UB. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Member of The Royal Bank of Scotland Group.

Calls may be recorded.