

Reined in inflation a gift for deer NI this Christmas

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Inflation has been one of the key economic stories of the last seven years, with the annual UK rate of CPI (Consumer Prices Index) peaking at 5.2% in September 2011, before falling steadily since. What is often forgotten though is that different regions experience inflation in different ways and at different rates.

The latest figures for family spending from the ONS give us some insight into this, highlighting that in Northern Ireland we spend much more on items such as heating, food and petrol than elsewhere in the UK.

Whilst this led to a bigger squeeze on households here when prices were going up, we stand to benefit more now that they are going down. And if the ONS figures for alcohol spending are anything to go by - with Northern Ireland spending the highest in the UK - all of this will combine for a merrier Christmas here than we have seen for a few years.

Indeed, whilst we in Northern Ireland have endured the narrative of austerity over the last 4-5 years, it has actually been inflation that has wreaked havoc with the household finances.

Throughout 2014, however, inflationary pressures have been easing with the annual rate of consumer price inflation falling below the Monetary Policy Committee's target rate of 2% for every month this year. It is hard to get used to this recent trend, given the MPC's sustained period of overshooting its target. Indeed, consumer prices rose above the 2% target every single month for 4 years between December 2009 and December 2013 and averaged 3.3%.

Consumer prices have risen in 2014 by the weakest rate since 2003, and 2015 should be even better, with consumer prices forecast to rise by just 1%, their weakest rate since 2000. Of course, for households to feel better off, they will need to see their wages / incomes rise at a faster rate than inflation. However, on this front, the bar has been set very low, and for an increasing number of households, 2015 will be the year that their household finances improve.

Now, inflation rates can vary considerably with the average concealing significant disparities. Not all households will experience the same rates of inflation. The ONS's research revealed significant variations in the rates of inflation depending on different household types. These included households with or without children and retired versus non-retired households. In particular, those households on lower incomes have experienced higher rates of inflation than those on higher incomes. When you consider that Northern Ireland has the lowest level of household disposable income of all the UK regions, this implies that Northern Ireland has been more adversely affected from inflation than elsewhere within the UK.

Over the 6-years (2008-2013) the annual inflation rate for those households in the bottom 10% of household incomes was 4.6%. This compared with 3.2% for those households in the top decile.

The above differences can be explained by the fact that consumer price inflation has been most marked within food and energy. Over the period (2008-2013), food increased at an average annual rate of over 5%, with energy increasing by over 8% per annum on average over that period. Meanwhile petrol & diesel prices rose at an annual average rate of almost 7% over the 6-year period.

Food and energy costs are necessities and account for a greater share of household spending in low income households. For instance, households within the lowest 10% income group spent on average 27% of their household budget on food and non-alcoholic drinks. This was almost four times the share of the wealthiest

10% of households. It is also interesting to note that the lowest income households spend the largest proportion of their household spending on alcohol and tobacco.

Earlier this month, the ONS also published its annual Living Costs & Food Survey (LCF) which highlights household spending by region. This survey is interesting from a couple of perspectives, and offers up some interesting insight into consumer behaviours.

For one, Northern Ireland spends more than any other UK region on petrol / diesel prices and 44% more than the UK average. Therefore when prices were going up, we were squeezed more than elsewhere, and now that they are going down, Northern Ireland households will be celebrating more than any other UK region.

Northern Ireland households also spend some 13% of their average weekly expenditure on food and non-alcoholic drinks - a larger share than any other UK region. After the South East of England, Northern Ireland spends the most amount of money per week on food and non-alcoholic drinks and some 10% above the UK average. However, analysis of Northern Ireland's food expenditure perhaps points to some rather unhealthy behaviours such as having a sweet tooth. Northern Ireland households spend more than any other UK region on buns, cakes, chocolate and confectionery. We also spend some 14% less than our UK counterparts on fresh vegetables.

When it comes to household expenditure on alcohol and tobacco, Northern Ireland again displays some unhealthy tendencies. Local households spend almost 75% more than the UK average on cigarettes. We also spend 10% more than the UK average on beer. But we lag behind Yorkshire & the Humber and the North East. After Scotland, Northern Ireland households spend the most on spirits and some 40% above the UK average. We do however spend less than the national average on wine, but more than any other UK region on gambling. Given our penchant for tobacco, alcohol and gambling, Northern Ireland households tend to be more adversely affected by the inflation busting rises in 'sin' taxes than elsewhere at Budget time.

On a positive note, however, Northern Ireland households are more generous than any other region when it comes to charitable giving. Over the last three years the average Northern Ireland family donated £16.30 per week which was almost 60% above the UK average.

Overall, this is the context in which our political leaders are having to make policy decisions that will potentially significantly affect the budgets of Northern Ireland households. For the last six years or so, households have faced the stiff headwind of high inflation - particularly energy and food - and fiscal austerity was relatively tame during this period. Now the roles are reversed, with the biggest support to household incomes coming from low inflation and falling food and energy costs.

Richard Ramsey
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