

Economic indicators at a glance – October 2011

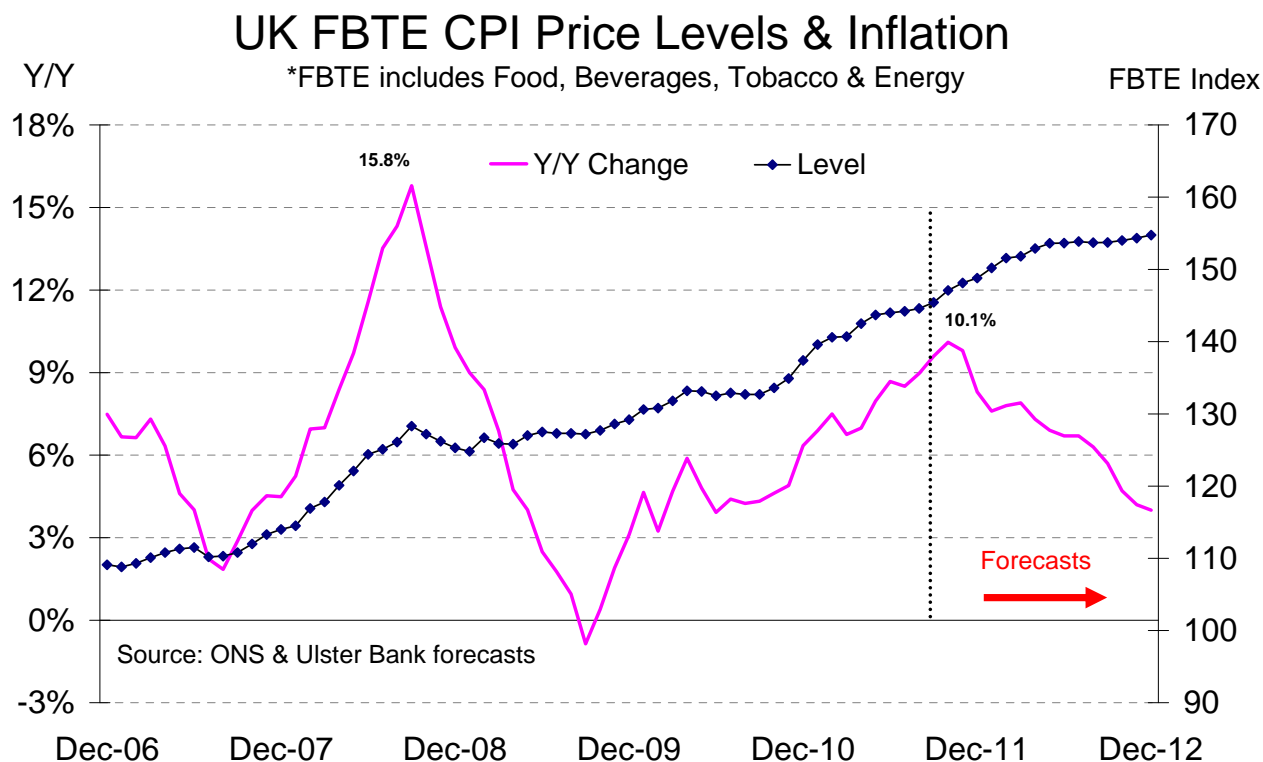
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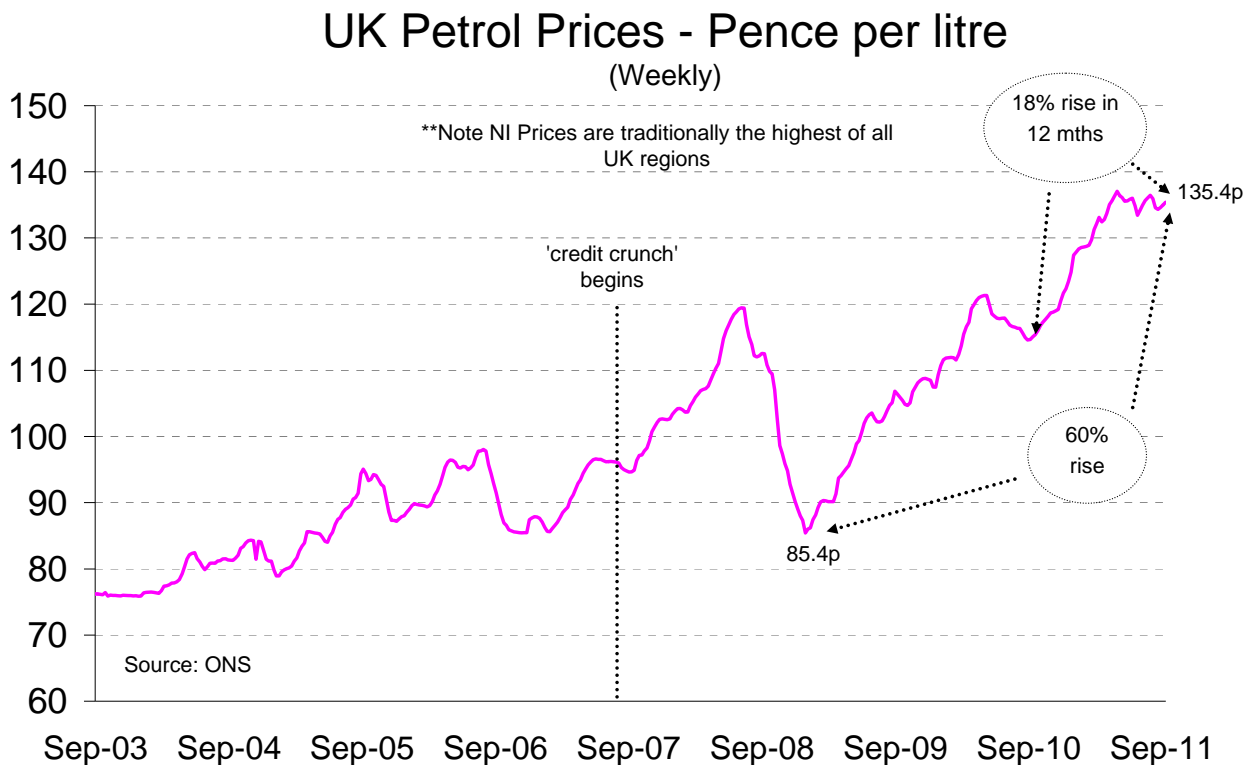
Chart of the Month – Squeeze on household incomes intensifies

Households are experiencing what can be best described as a pain deferred recession. During the most intense phase of the recession, inflationary pressures were relatively mild. For example, June - November 2009 is the only period since the credit crunch began that the annual CPI rate was below the MPC's inflation target of 2%. Meanwhile, the RPI measure averaged -0.5% for 2009 as a whole. Therefore any individual receiving a wage freeze in 2009 actually saw their cost of living fall. Since then, inflationary pressures have been building with the annual CPI & RPI rates recently hitting 4.5% and 5.2% respectively. This is occurring against a backdrop of wage freezes and pay cuts. The net result is household incomes are being squeezed like never before. However, this is only part of the story. Those individuals on low incomes spend a much greater share of their incomes, relative to higher income individuals, on necessities such as food, heat and light etc. Inflation within these categories of consumer spending has increased at a much faster rate than the headline CPI / RPI rates. The FBTE CPI measure (*includes food, beverages, tobacco and energy*) has risen by 9% over the last year and is set to reach double-digits. The rates of FBTE inflation were much higher back in 2008 (15.8% y/y), however, the problem is the cumulative rise in the FBTE price level. Over the last 4 years FBTE consumer prices have risen by 31% which is more than twice the rise in the headline CPI / RPI rates. Furthermore, FBTE CPI is projected to rise by a further 6.5% by the end of 2012 – a cumulative rise of 40% since August 2007. Conversely, household incomes will have risen by a fraction of this amount.



Petrol prices increasing cost base for businesses and consumers alike

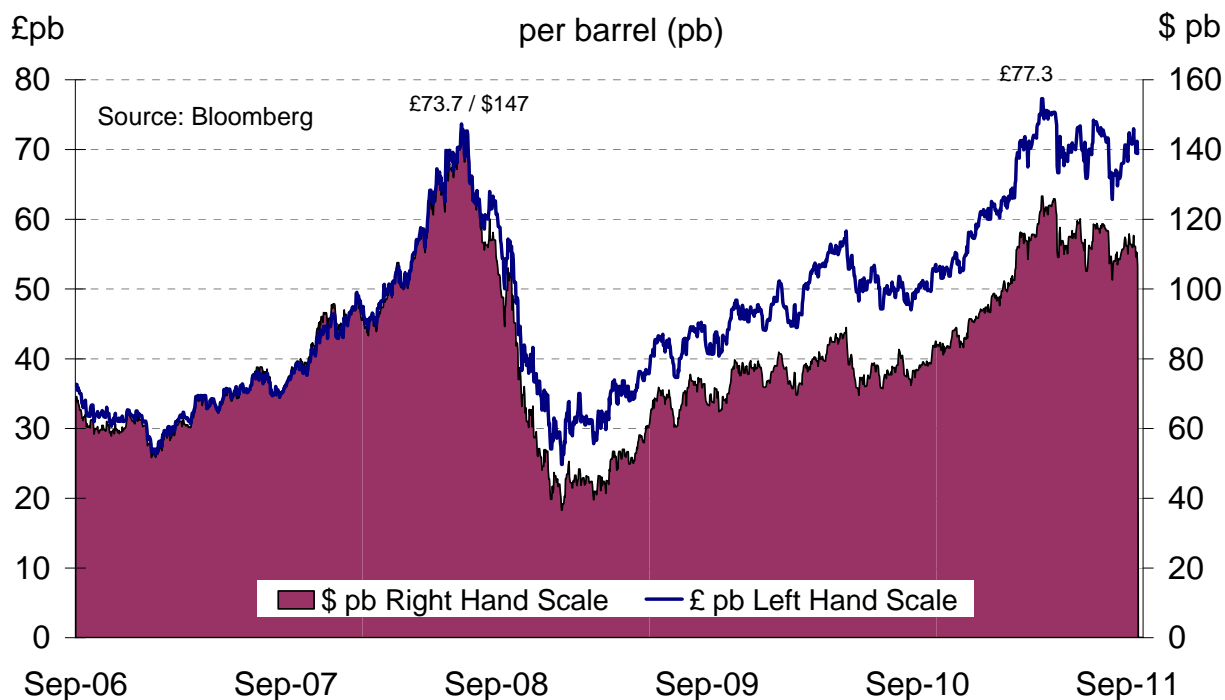
Within financial markets there have been concerns that we are returning to the conditions that prevailed in September 2008. Unfortunately, however, there are no signs of a return to 2008 petrol prices (123p per litre). The average UK price of a litre of petrol (*as at 20 September*) stood at 135.4p which follows a third consecutive weekly rise. The current price is just 1p below the record high recorded in May 2011 and has risen by some 18% over the last 12 months. At the start of 2009, when the recession was approaching its most intense phase, petrol prices were some 60% lower than they are today. It should be noted that Northern Ireland petrol prices are traditionally the highest of all the UK regions and have hit 140p per litre earlier this year.



Oil price has been falling but petrol prices have remained high?

The fact that petrol prices are some 30-60% higher now than they were during the most intense phase of the downturn is another example of the deferred pain from the recession. It should be remembered that the exchange rate has a significant bearing on oil prices. For example, back in July 2008, the price of a barrel of Brent crude oil hit \$147pb. At this time, sterling was trading around the \$2 mark which put the cost of oil in sterling at £73.7. Since then, sterling has weakened considerably with oil hitting a record high in April of £77.3pb (\$127) as sterling was worth just \$1.64. Now, oil has fallen to around \$106pb but the fall in sterling to \$1.53 has limited the decrease in sterling terms. On 22nd September oil was trading at £69 pb.

Brent Crude Oil Price



Richard Ramsey,
26 September 2011

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