
UK Consumer Price Inflation

February 2013 Update

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UK Inflation Summary

- ❑ The annual rate of UK consumer price inflation (CPI) remained unchanged in January 2013 at 2.7% for the 4th consecutive month. UK CPI has now been above the 2% Bank of England target for 38 months in a row. Meanwhile the Retail Price Index (RPI) inflation measure saw its annual inflation rate accelerate to 3.3% in January 2013.
- ❑ UK CPI has exceeded the Bank of England's Monetary Policy Committee (MPC) of 2% in 58 out of 65 months since the credit crunch began (August 2007). During this time, the Governor of the Bank of England (BoE) has written 13 'Dear Chancellor Letters' (a 14th letter was written in April 2007 before the credit crunch), to 3 different Chancellors, explaining why CPI has deviated from the 2% target by more than one percentage point.
- ❑ Since August 2007, UK CPI has increased **cumulatively** by 18.8%. This compares with a rise in average earnings of just over 10%. 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 60% between August 2007 and January 2013. Over the same time period food has risen by 35% and *Transport Fuels & Lubricants (i.e. petrol & diesel)* have risen by 40%.
- ❑ 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 7.5 times greater than that of the RoI (+2.5%). The divergence is even starker when comparing some items of consumer spending. For example, UK food prices have risen by 35% since August 2007, whereas RoI food prices in November 2012 (*latest data available*) were no higher than they were when the credit crunch began.
- ❑ The BoE's latest Quarterly Inflation Report (Feb-13) projected a peak in CPI of around 3.2% in mid-2013. This would require the existing Governor, or his successor Mark Carney, to pen another 'Dear Chancellor Letter'. The BoE also expects UK CPI to remain above the 2% target until 2016. 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

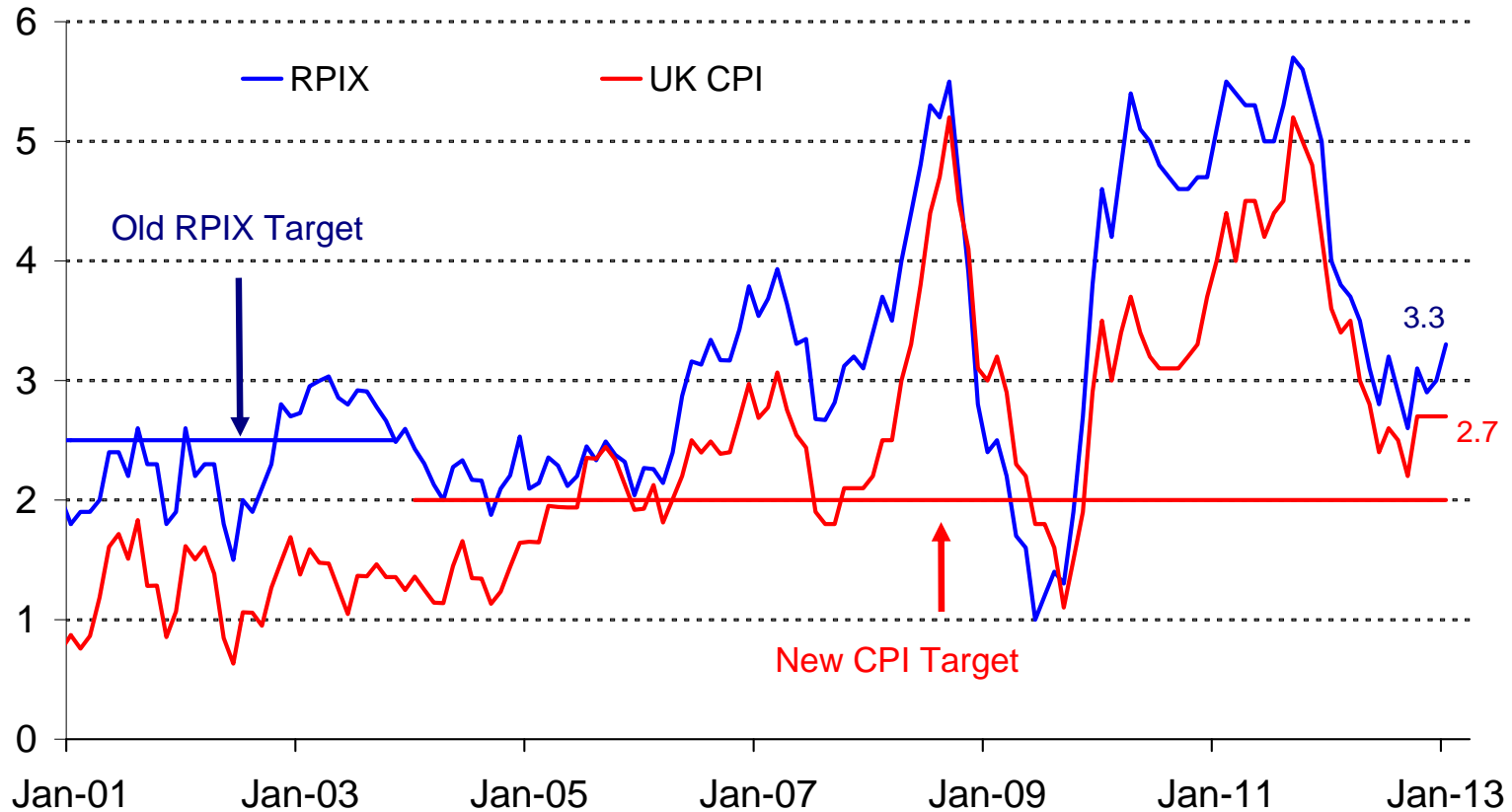
UK CPI Inflation by Sub-Category

CPI by main categories	January 2013 % Y/Y	January 2013 % M/M	% Change Since August 2007*
Food & non-alcoholic beverages	4.2	0.1	34.4
Alcohol & Tobacco	8.5	4.3	37.5
Clothing & Footwear	0.2	-5.4	-13.7
Housing & household services <i>(includes water & fuel)</i>	3.5	-0.1	30.2
Furniture & Household Equipment	0.8	-2.3	16.8
Health	2.2	0.2	16.5
Transport	1.3	-0.6	23.4
Communication	3.5	1.0	12.9
Recreation & Culture	0.5	-0.1	3.6
Education	19.7	0.0	71.1
Restaurants & Hotels	3.2	0.0	18.7
Miscellaneous Goods & Services	1.4	-0.7	13.3
Overall CPI	2.7	-0.5	18.8

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

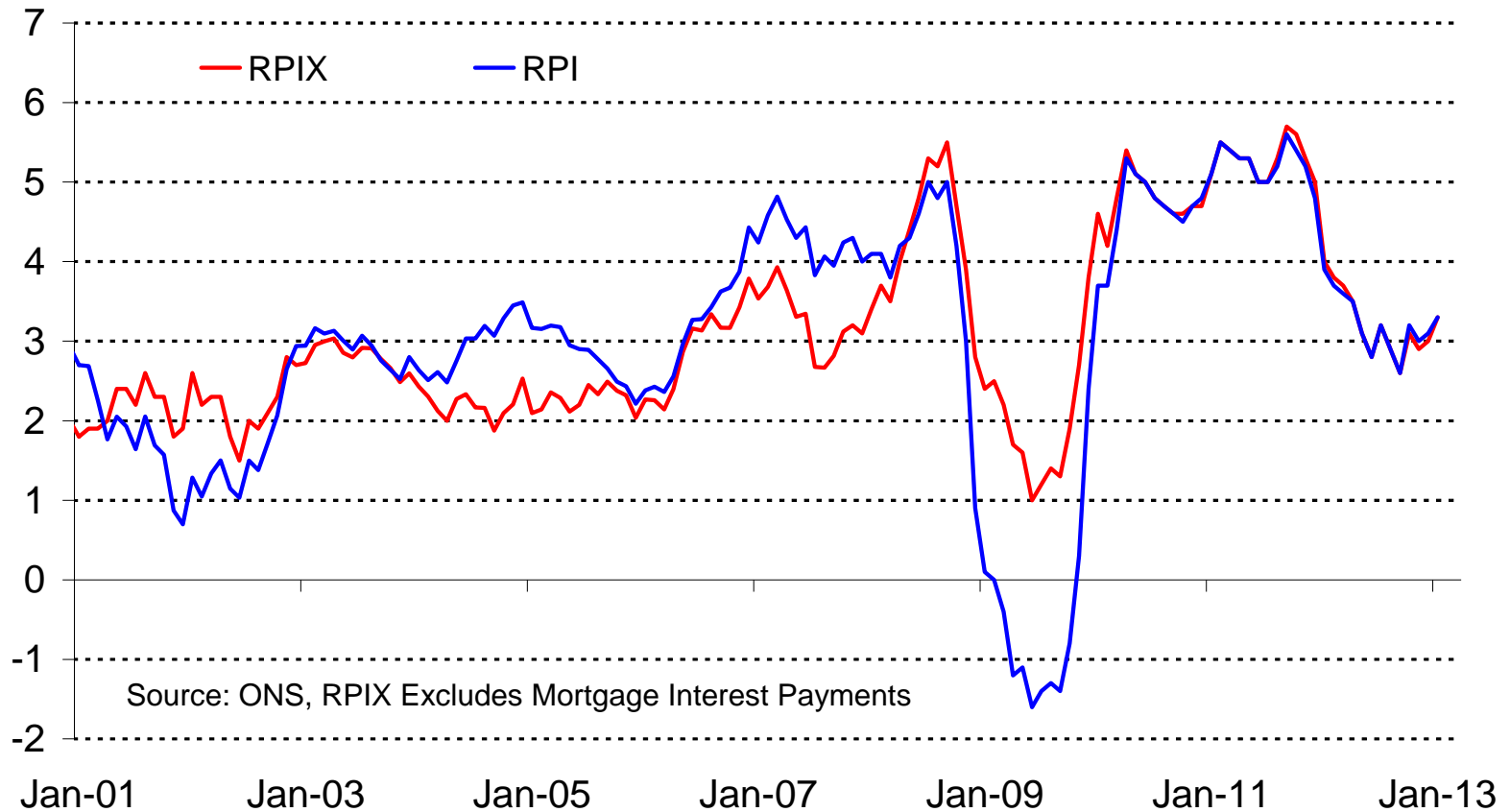
UK CPI has exceeded the MPC's 2% target in 58 out of 65 months since the credit crunch began (*August 2007*)

UK CPI vs RPIX

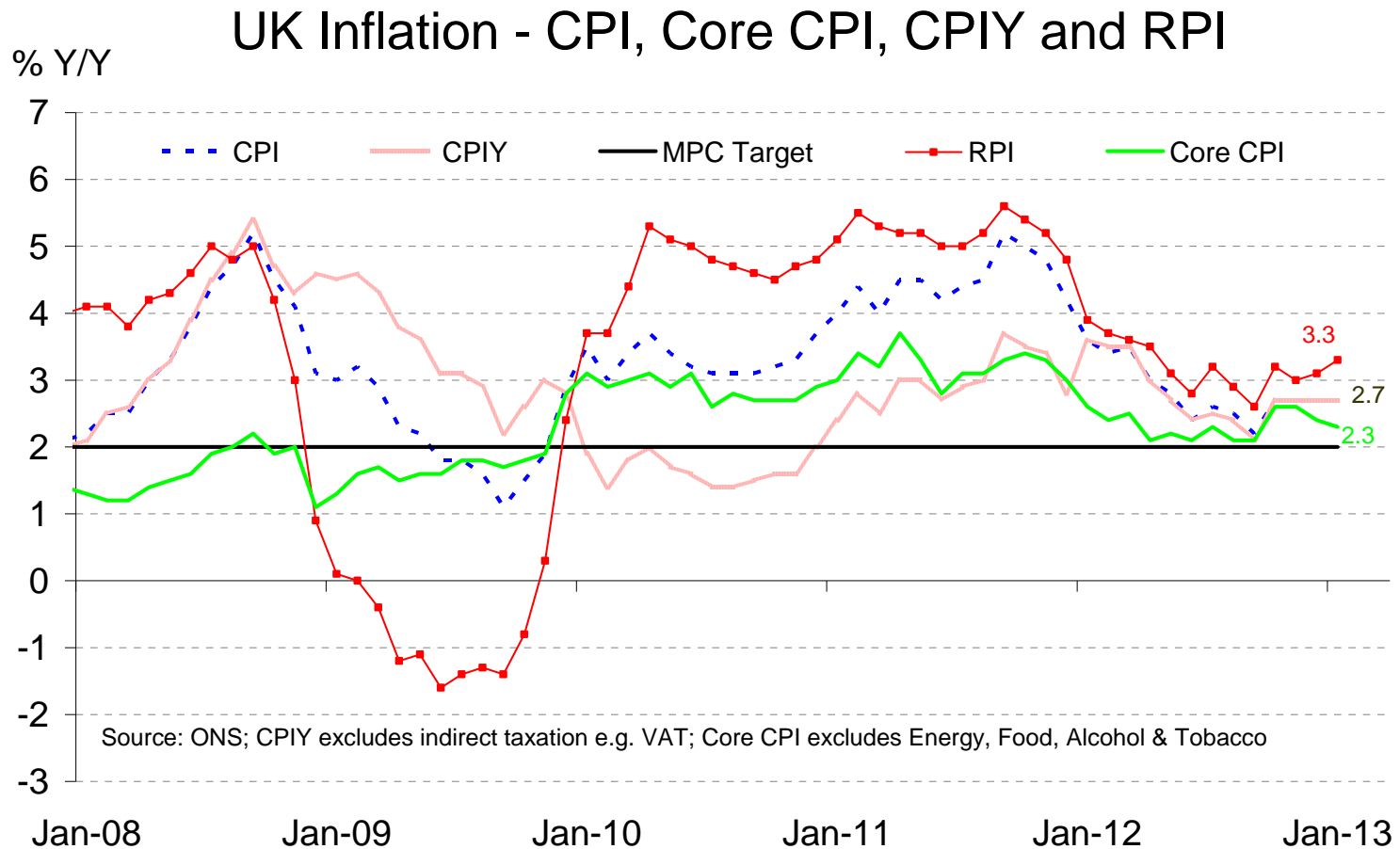


RPI & RPIX both hit 3.3% y/y in January 2013. RPI has averaged 3.1% over the last 4 years

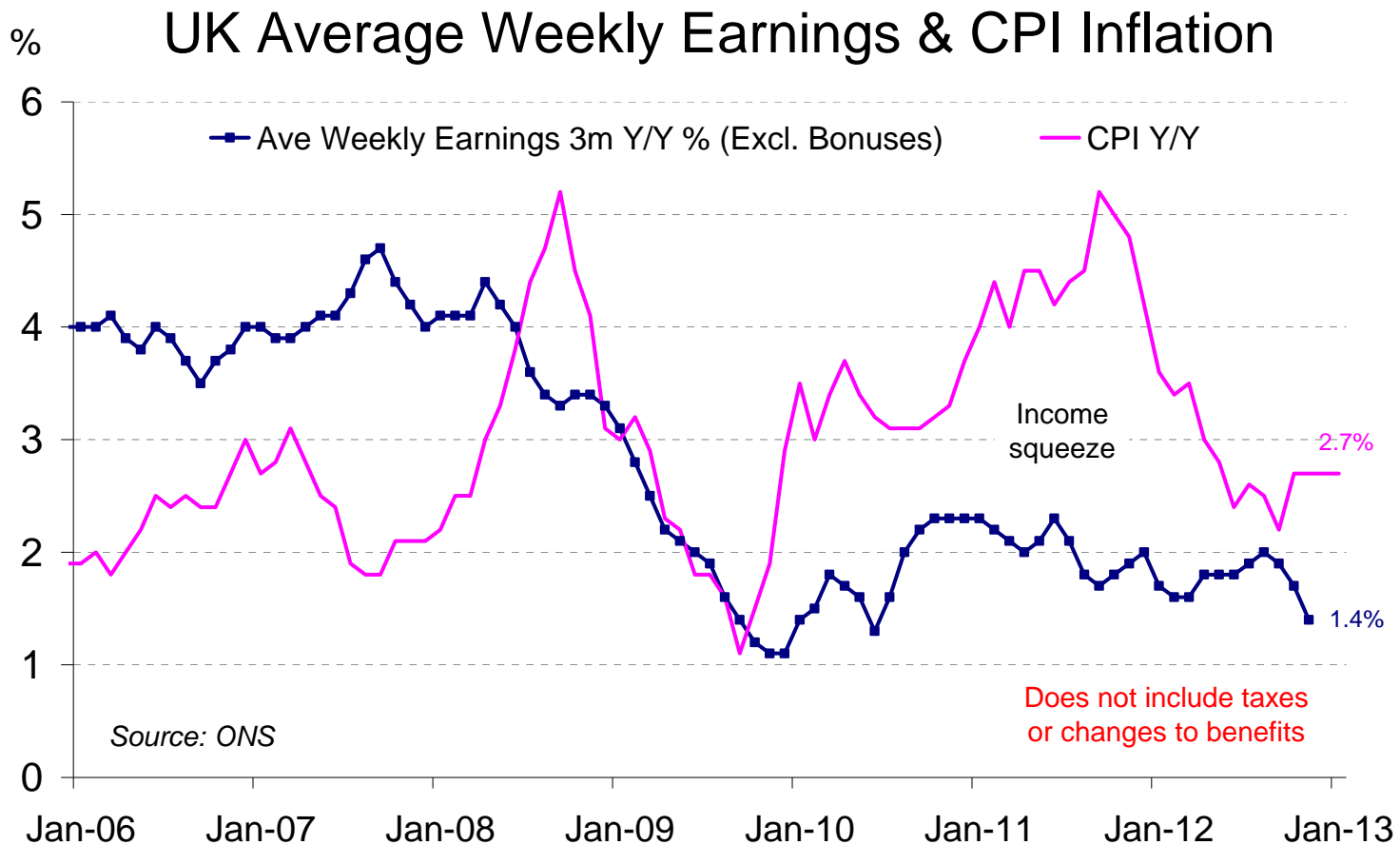
UK RPI vs RPIX



Annual rate of RPI inflation accelerates in January. CPI & CPIY remain unchanged while core CPI inflation rate eases

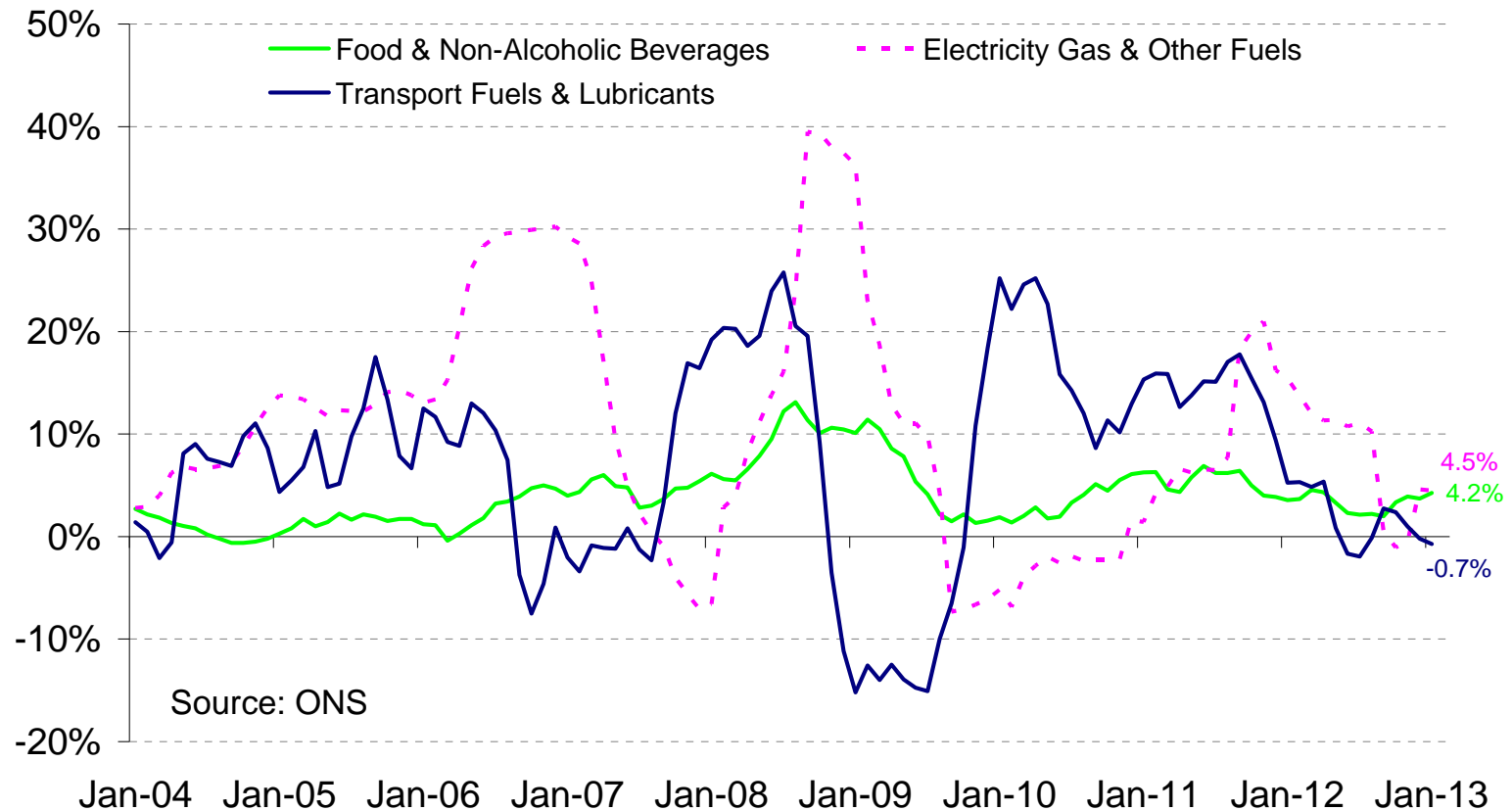


UK inflation still rising at a faster rate than earnings and prolonging the income squeeze



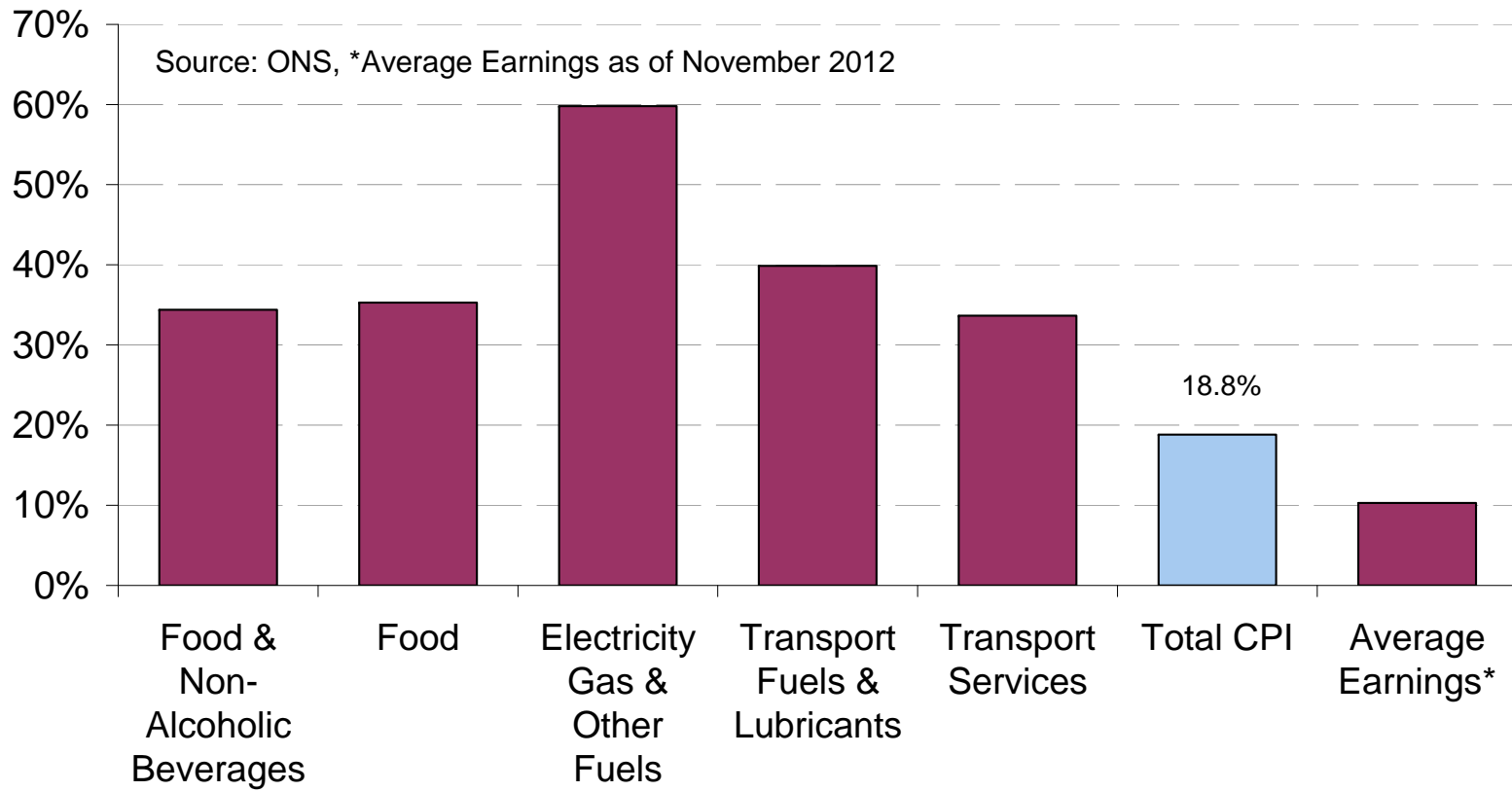
The annual rate of energy & food inflation has eased markedly since peaks in 2008 & 2009 but it's the cumulative impact...

UK CPI Inflation Year-on-Year



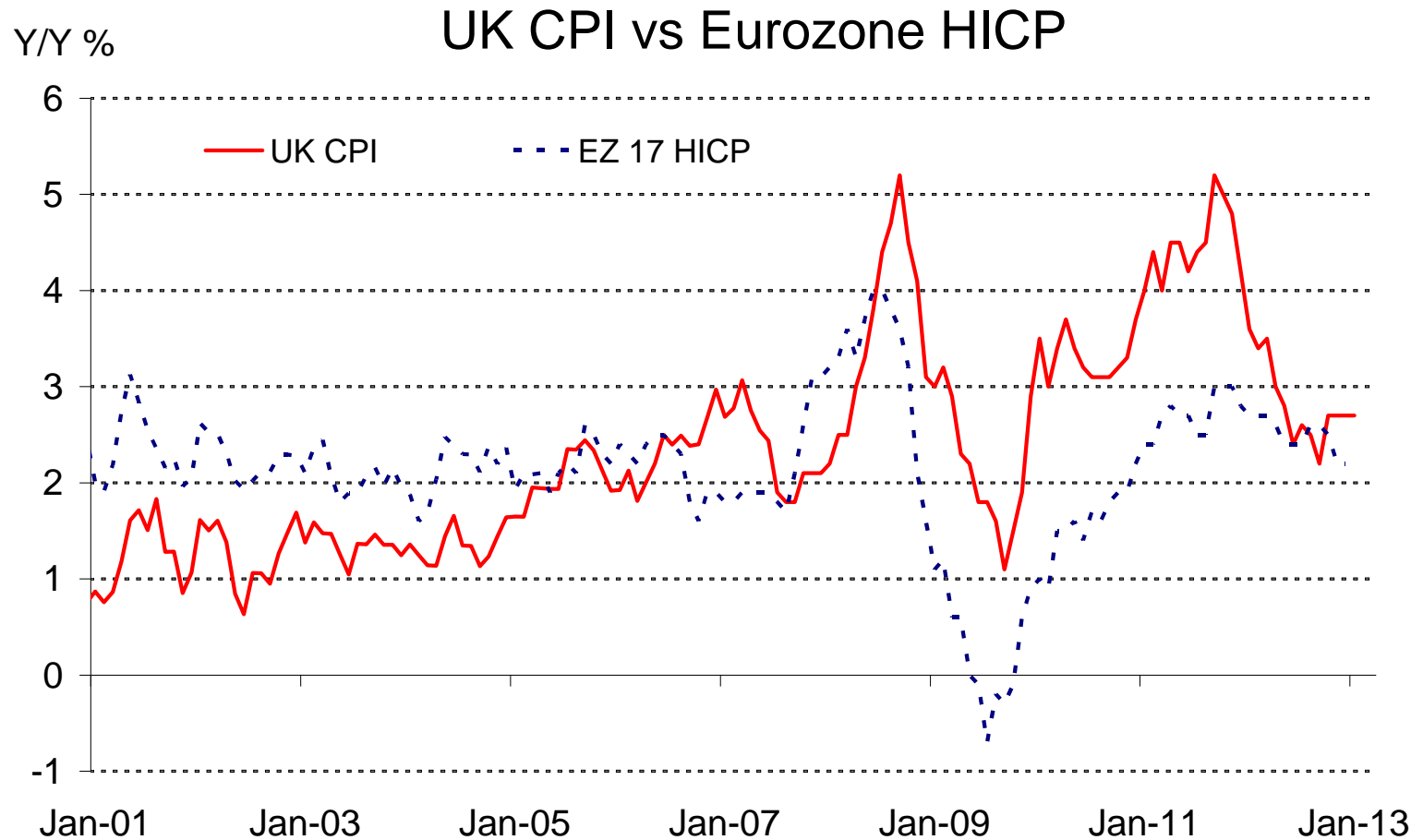
Since Aug-07 CPI has risen by almost 19% which compares with a rise in average earnings of just over 10%

Cumulative % Change in UK Consumer Prices since 'Credit Crunch' began (Aug 07 to Jan 13)

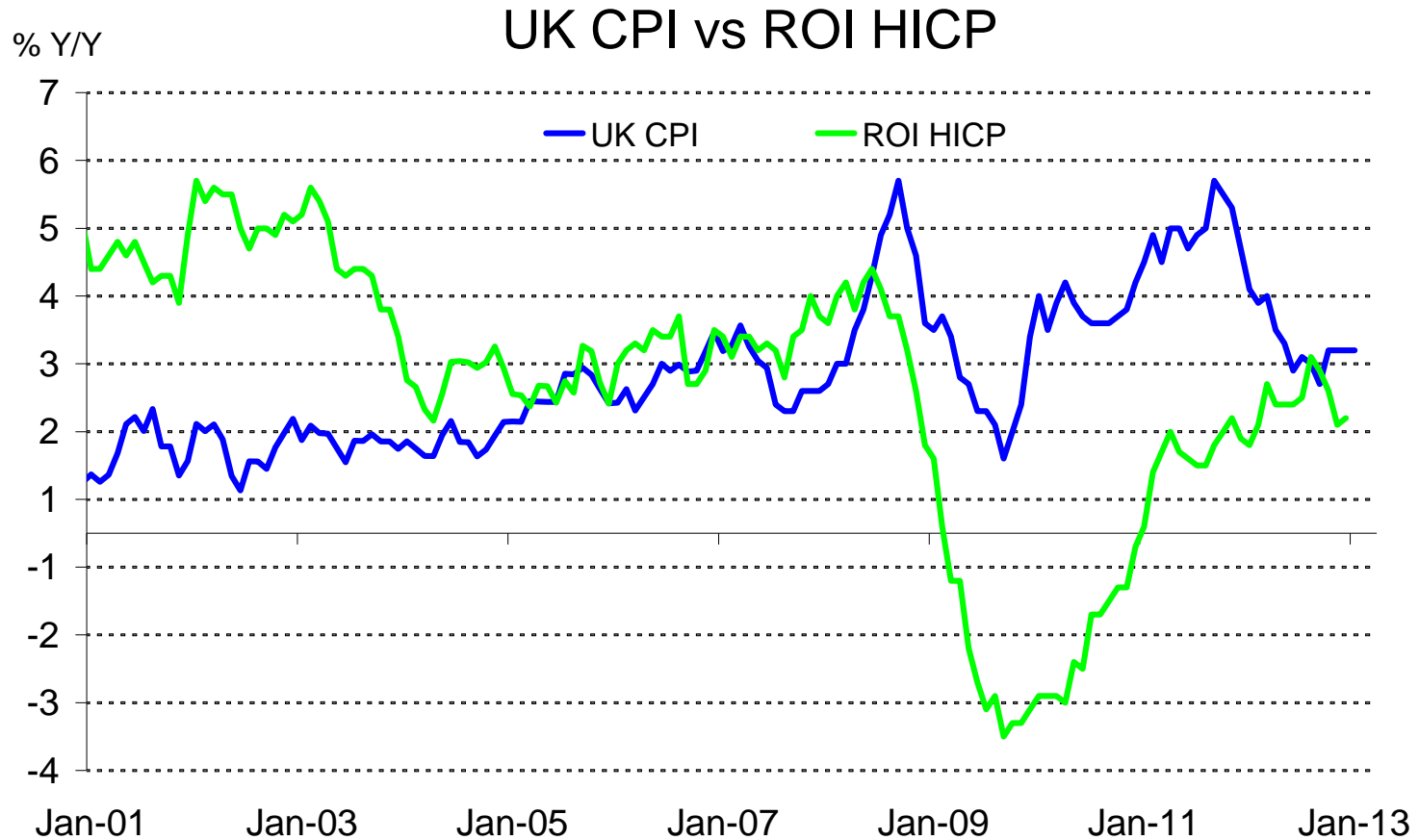


*International
Consumer Price Inflation
Comparisons*

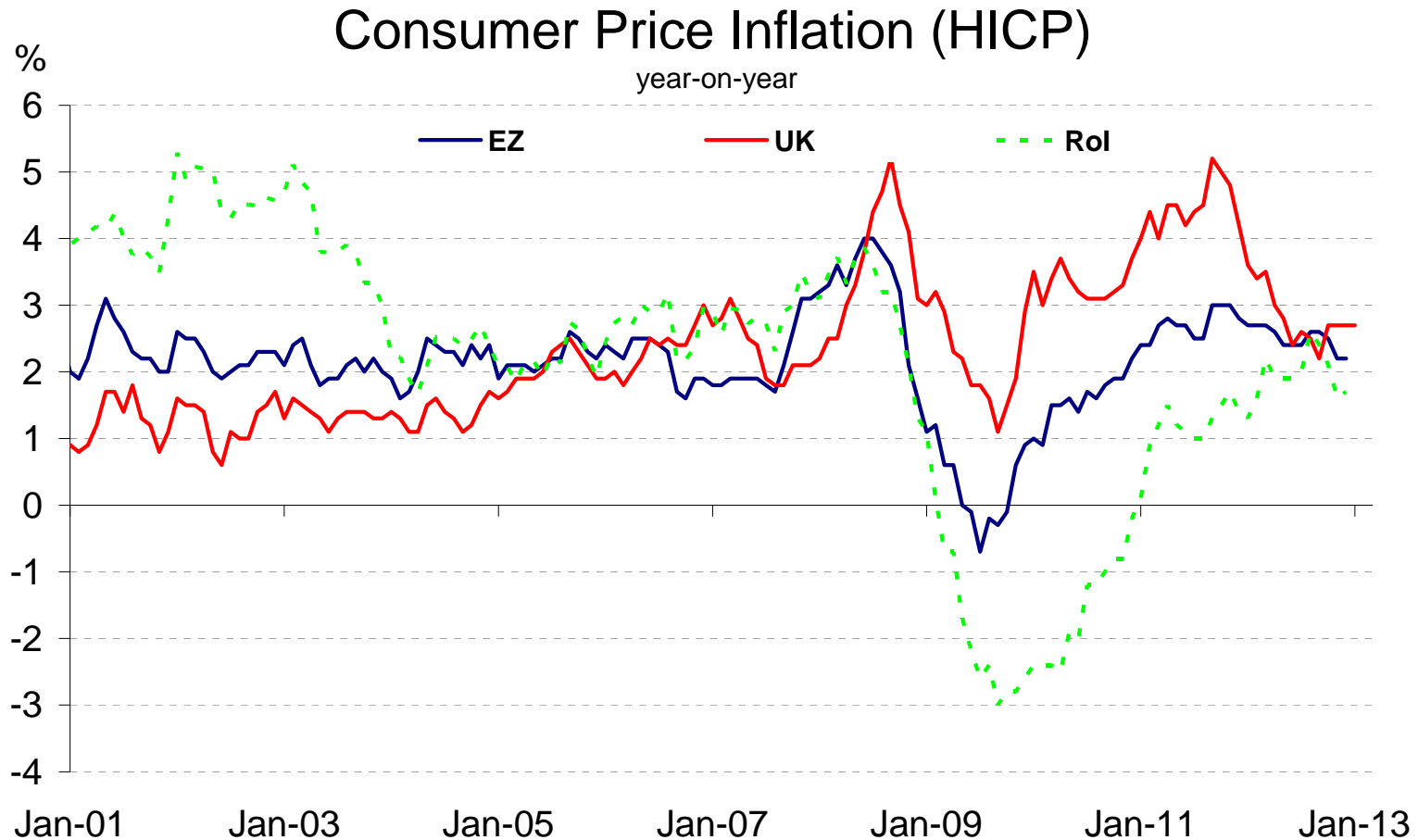
Inflation has been more pronounced in the UK than in the Eurozone...



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



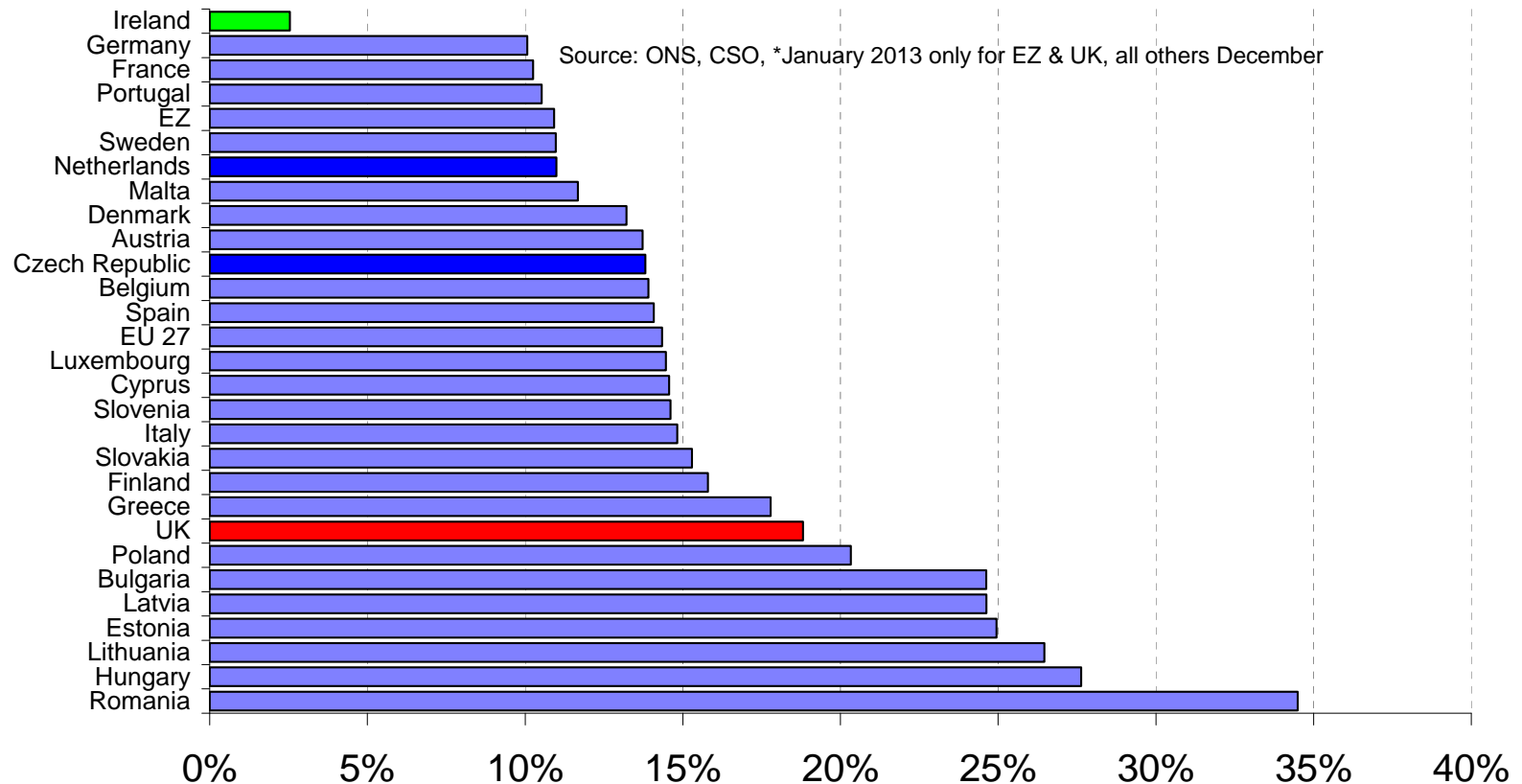
The RoI has gone from having the highest annual rates of inflation to the lowest



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

EU-27 Cumulative % Rise in Consumer Prices (HICP)

since August 2007 to December 2012 / January 2013*



The UK has experienced a cumulative rise in consumer prices 7.5 times greater than the RoI since August 2007

UK & RoI CPI Inflation by Sub-Category

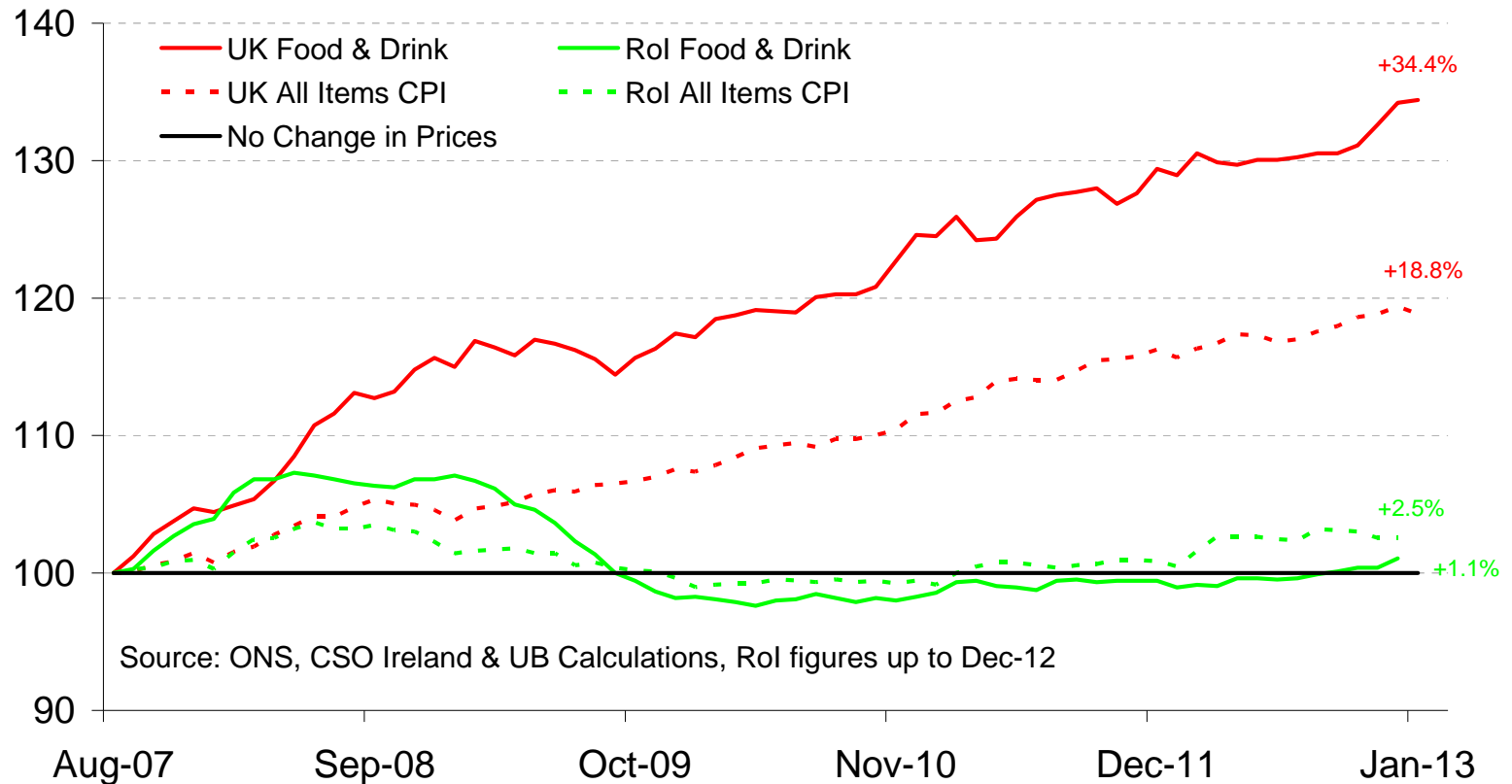
CPI by main categories	UK January 2013 % Y/Y	RoI December 2012 % Y/Y	UK % Change Since August 2007	RoI* % Change Since August 2007
Food & non-alcoholic beverages	4.2	1.6	34.4	1.1
Alcohol & Tobacco	8.5	2.8	37.5	11.6
Clothing & Footwear	0.2	-0.8	-13.7	-22.2
Housing & household services <i>(includes water & fuel)</i>	3.5	4.3	30.2	5.9
Furniture & Household Equipment	0.8	-2.8	16.8	-13.1
Health	2.2	0.2	16.5	13.6
Transport	1.3	3.6	23.4	6.7
Communication	3.5	-5.4	12.9	-1.1
Recreation & Culture	0.5	-0.7	3.6	-2.7
Education	19.7	4.8	71.1	37.1
Restaurants & Hotels	3.2	1.6	18.7	-1.2
Miscellaneous Goods & Services	1.4	3.3	13.3	15.8
Overall CPI	2.7	1.7	18.8	2.5

Source: ONS & CSO using HICP measure, *RoI is up to Dec-12 not Jan-13 as with the UK

UK Food & Drink prices have risen by over 1/3rd since the credit crunch whereas in RoI the figure is just 1%

UK (NI) & RoI CPI Inflation Levels (HICP)

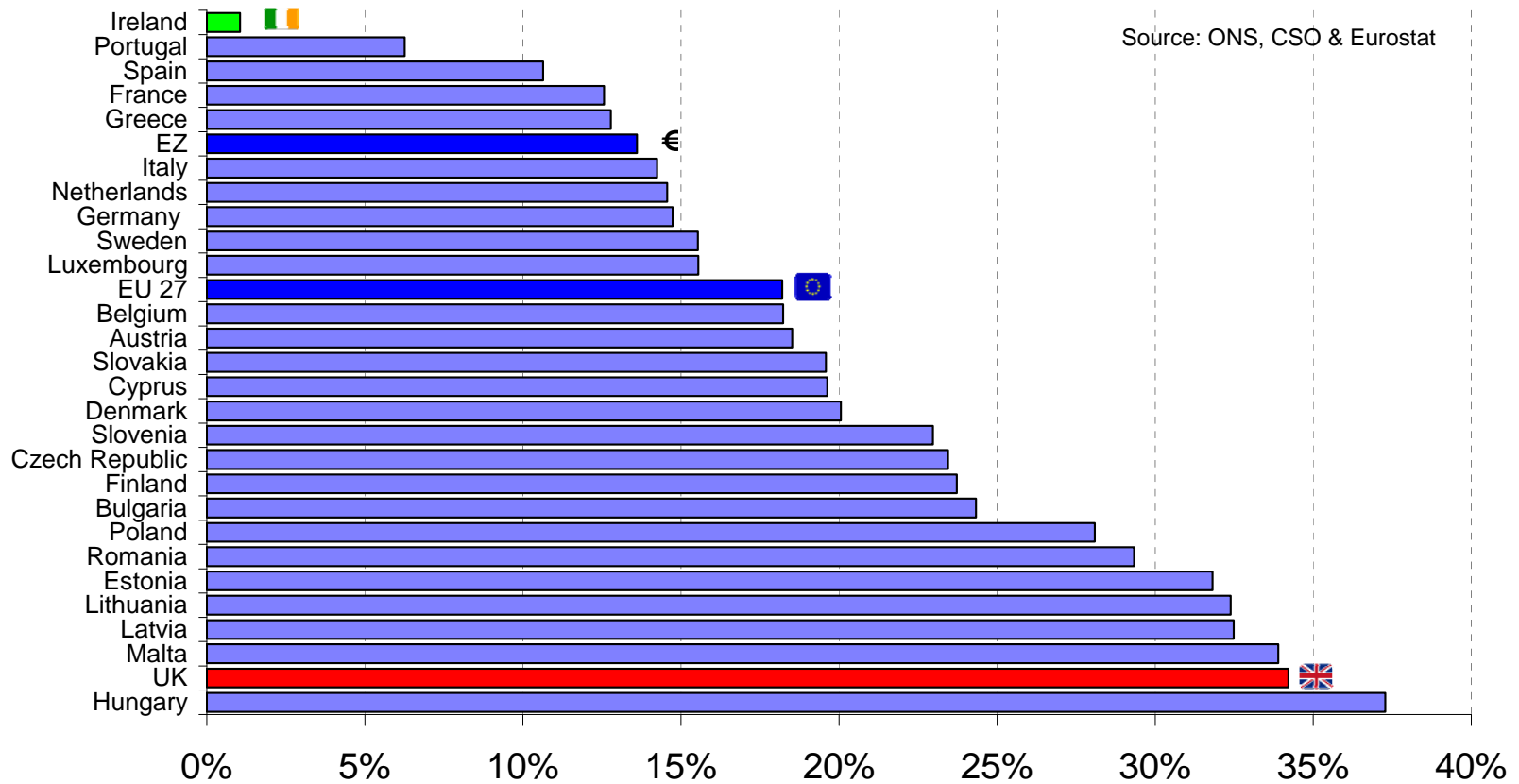
(August 2007 = 100)



After Hungary, the UK has posted the largest rise in food & drink prices (& the *Rol the least*) within the EU-27 since Aug-07

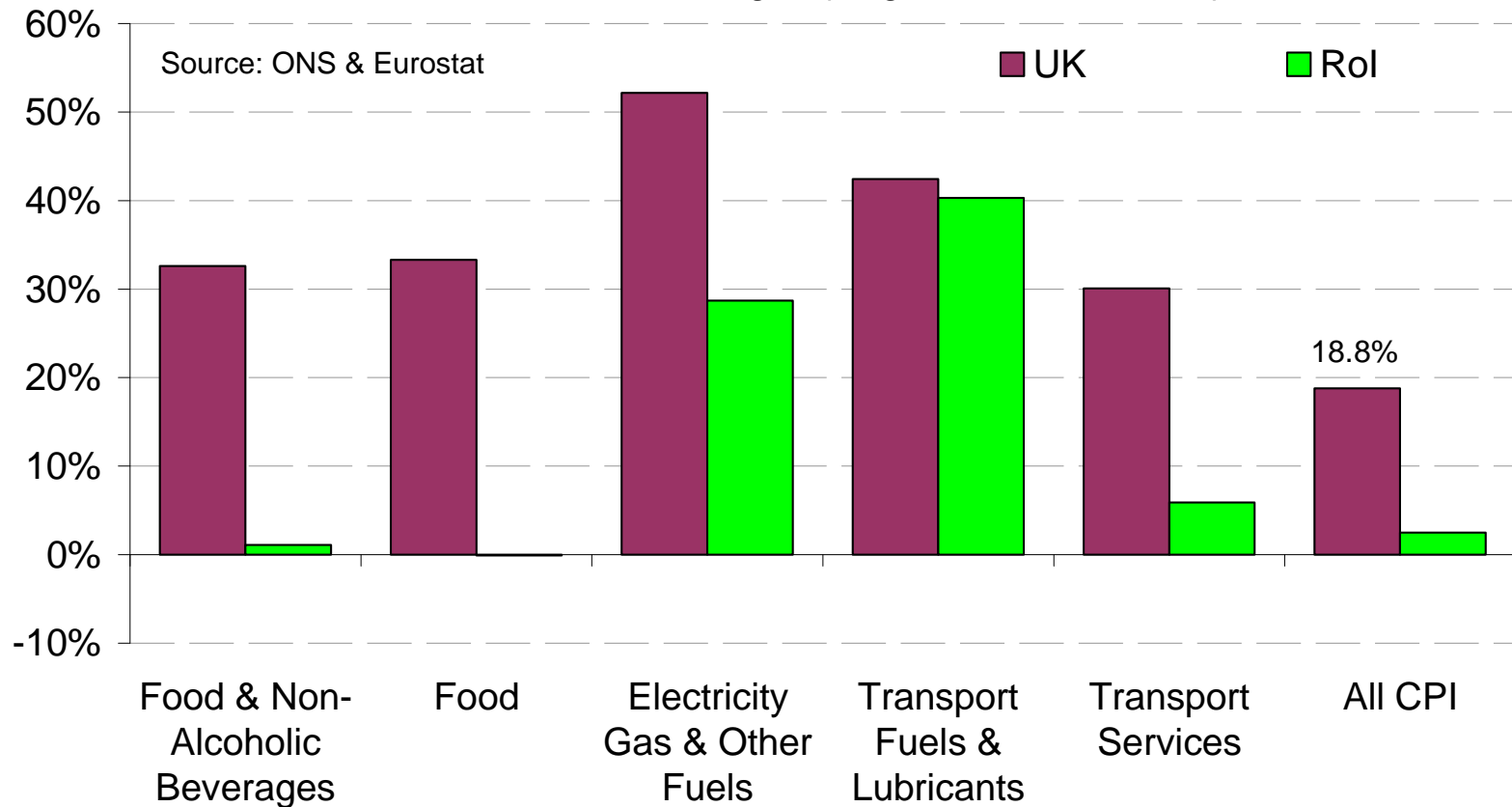
EU 27 Cumulative % Rise in Food & Drink Prices

August 2007 to December 2012 (HICP)



Food prices in the Republic of Ireland were no higher in Nov 2012 than they were when the credit crunch began

UK v RoI Cumulative % Change in Consumer Prices
since 'Credit Crunch' began (Aug 2007 to Nov 2012)

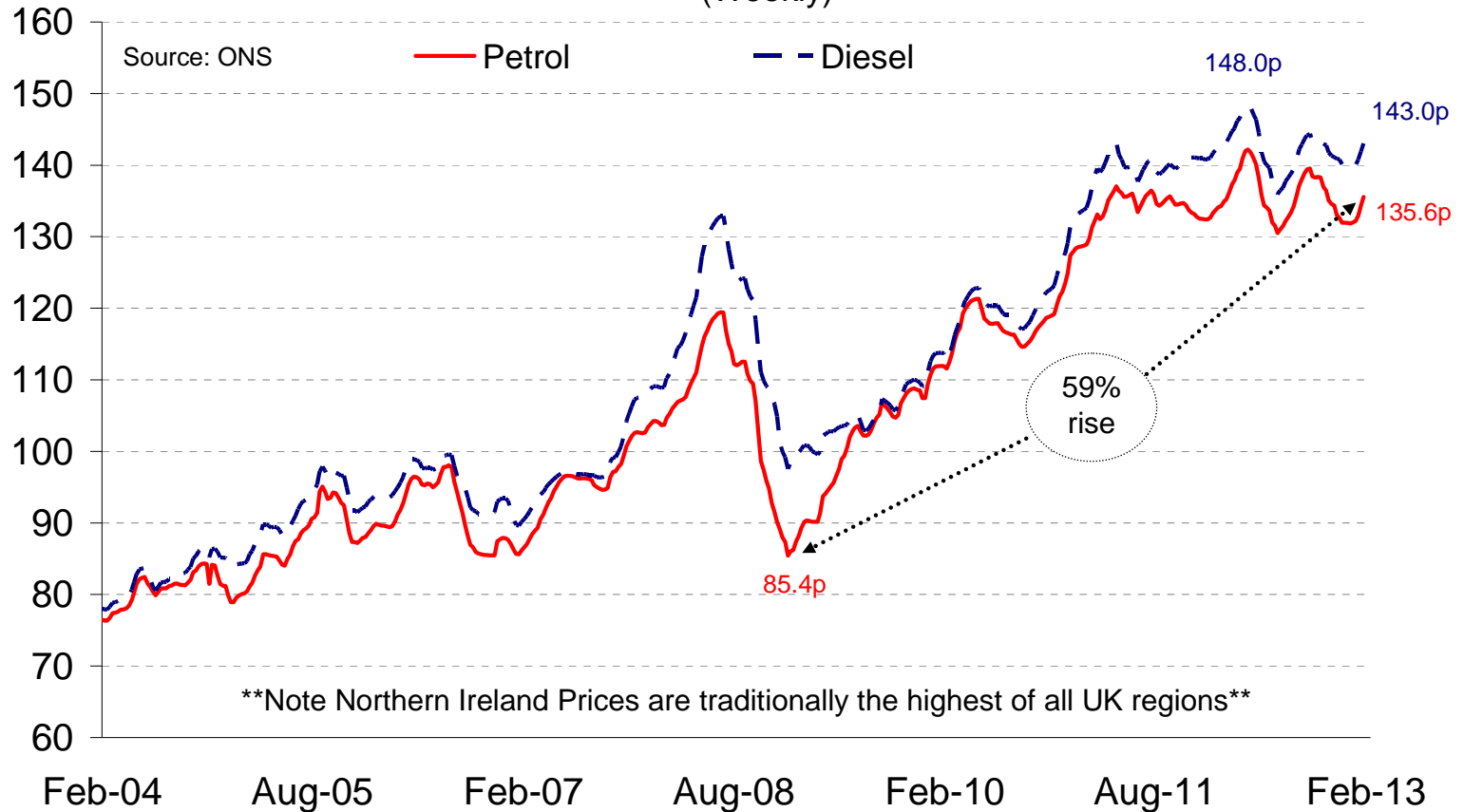


*UK Oil, Petrol
& Diesel Prices*

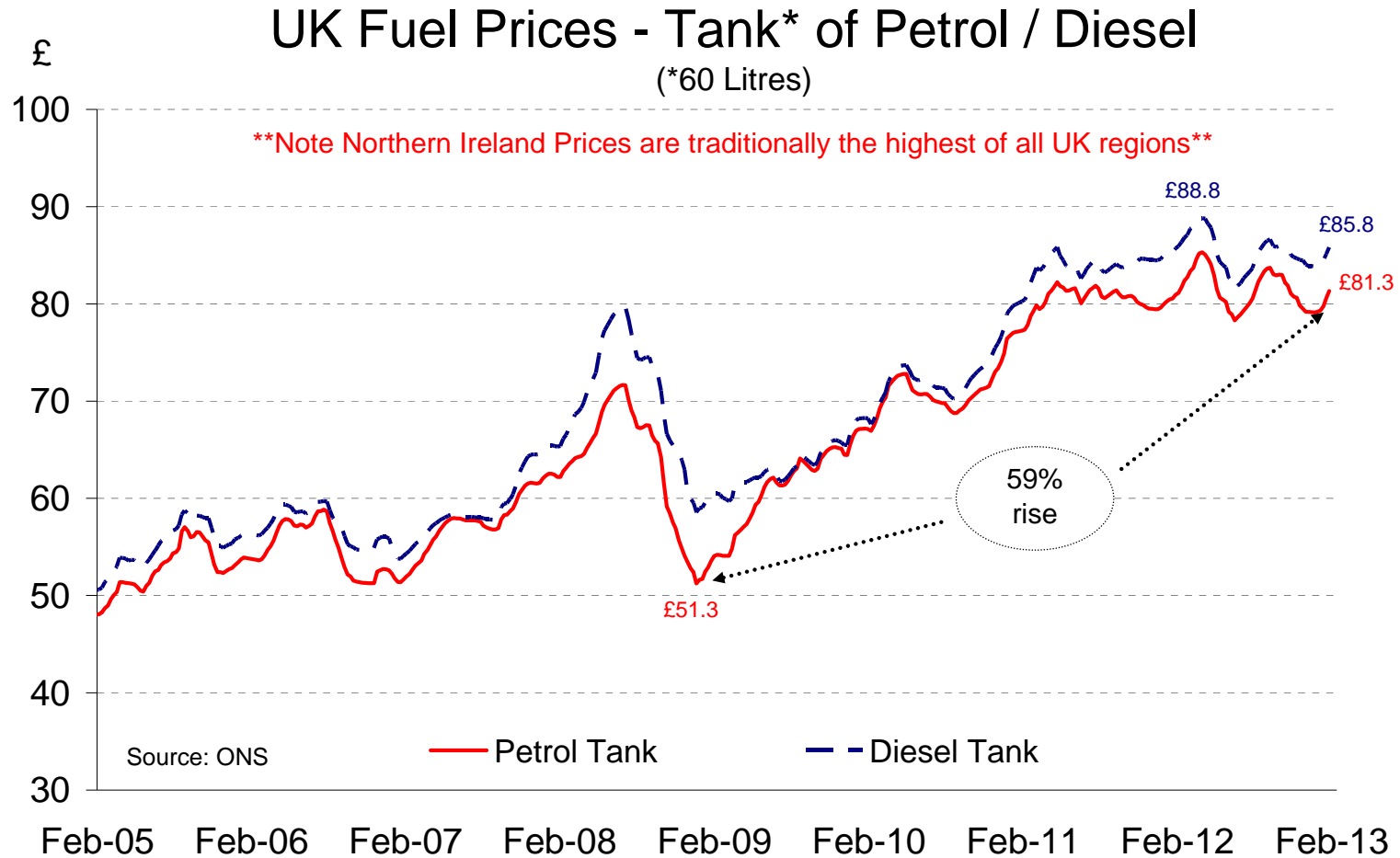
The rise in petrol prices is squeezing disposable incomes

UK Fuel Prices - Pence per litre

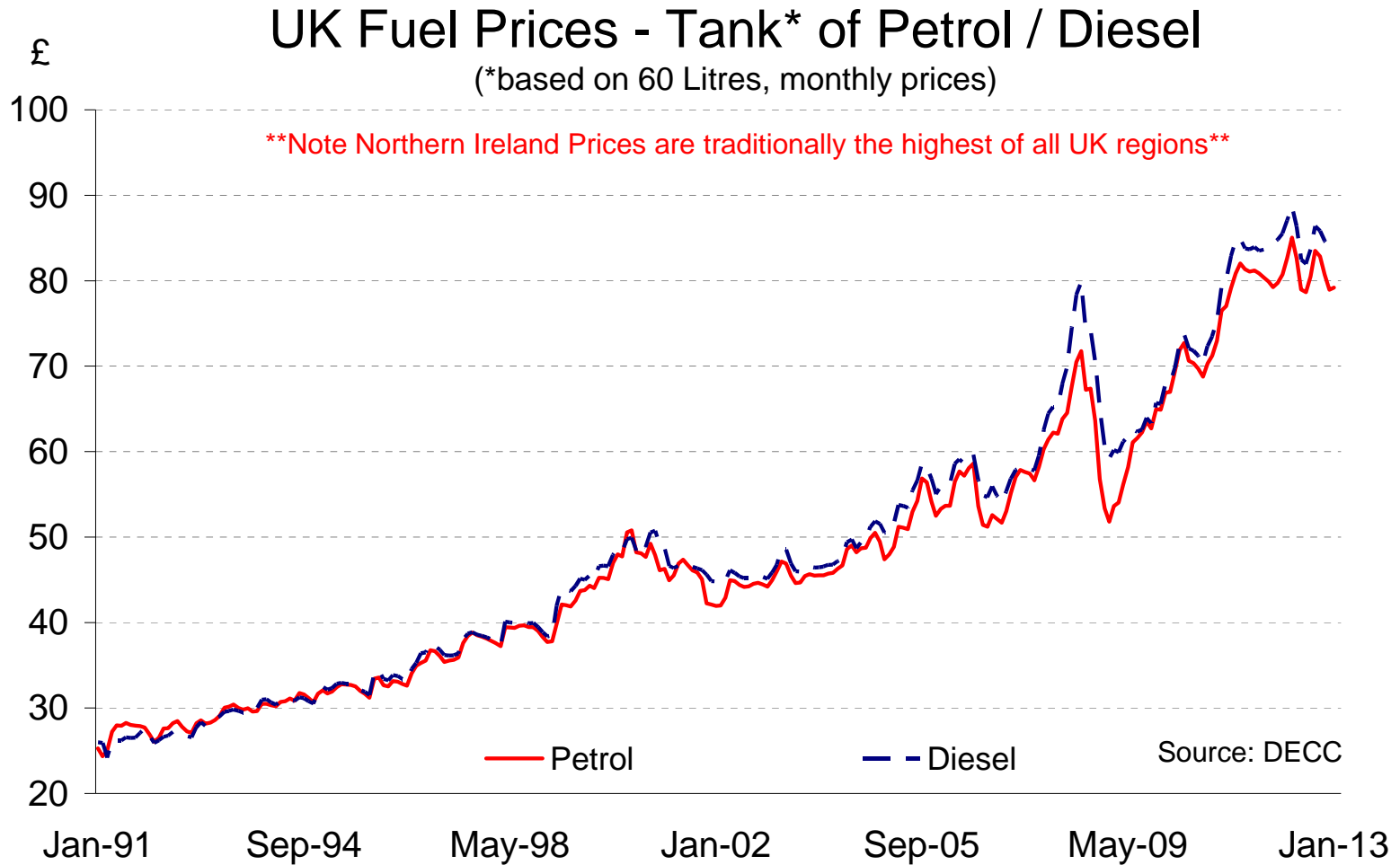
(Weekly)



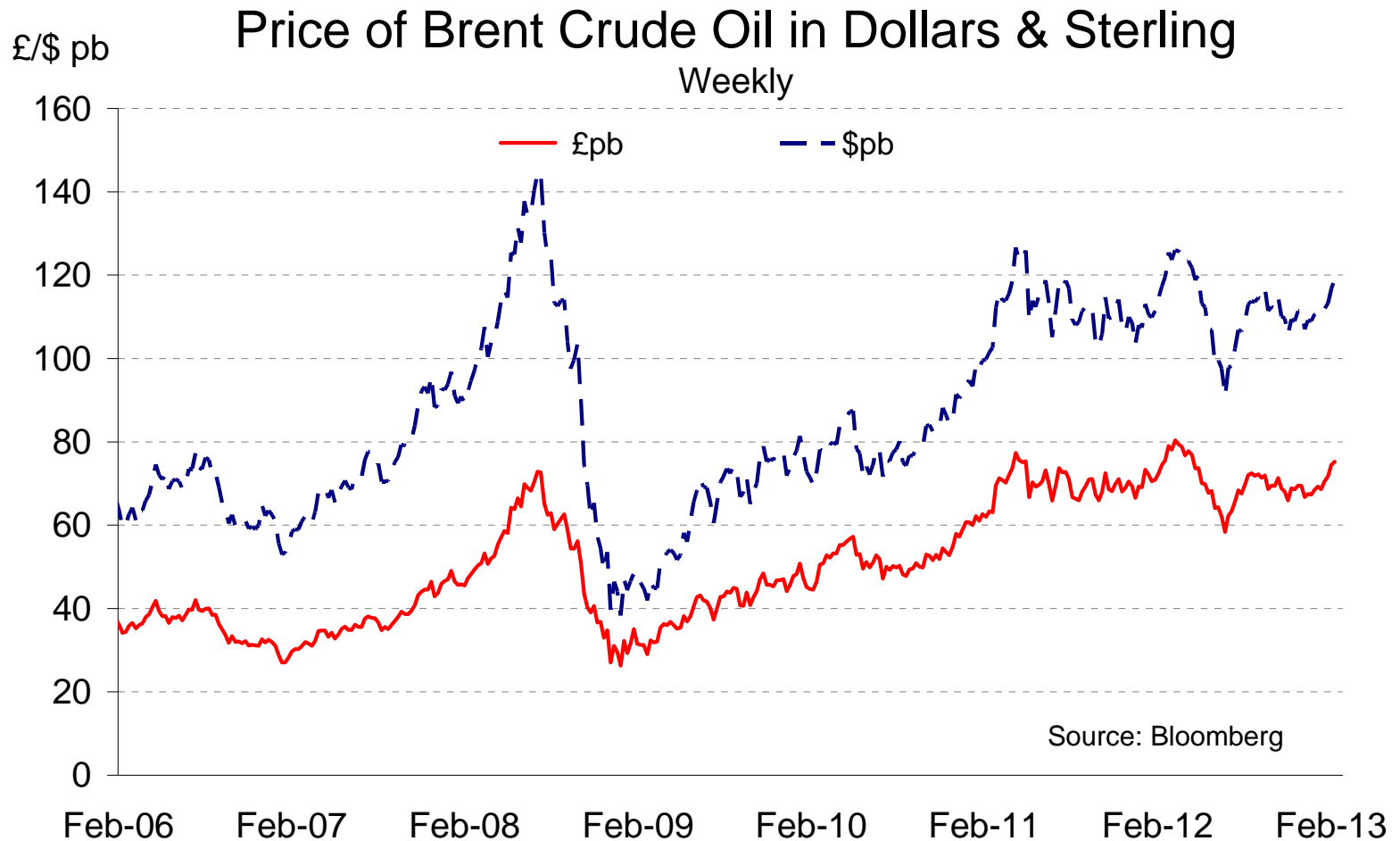
Filling up an average family car with diesel now costs over £85. One of the side-effects of a weak currency



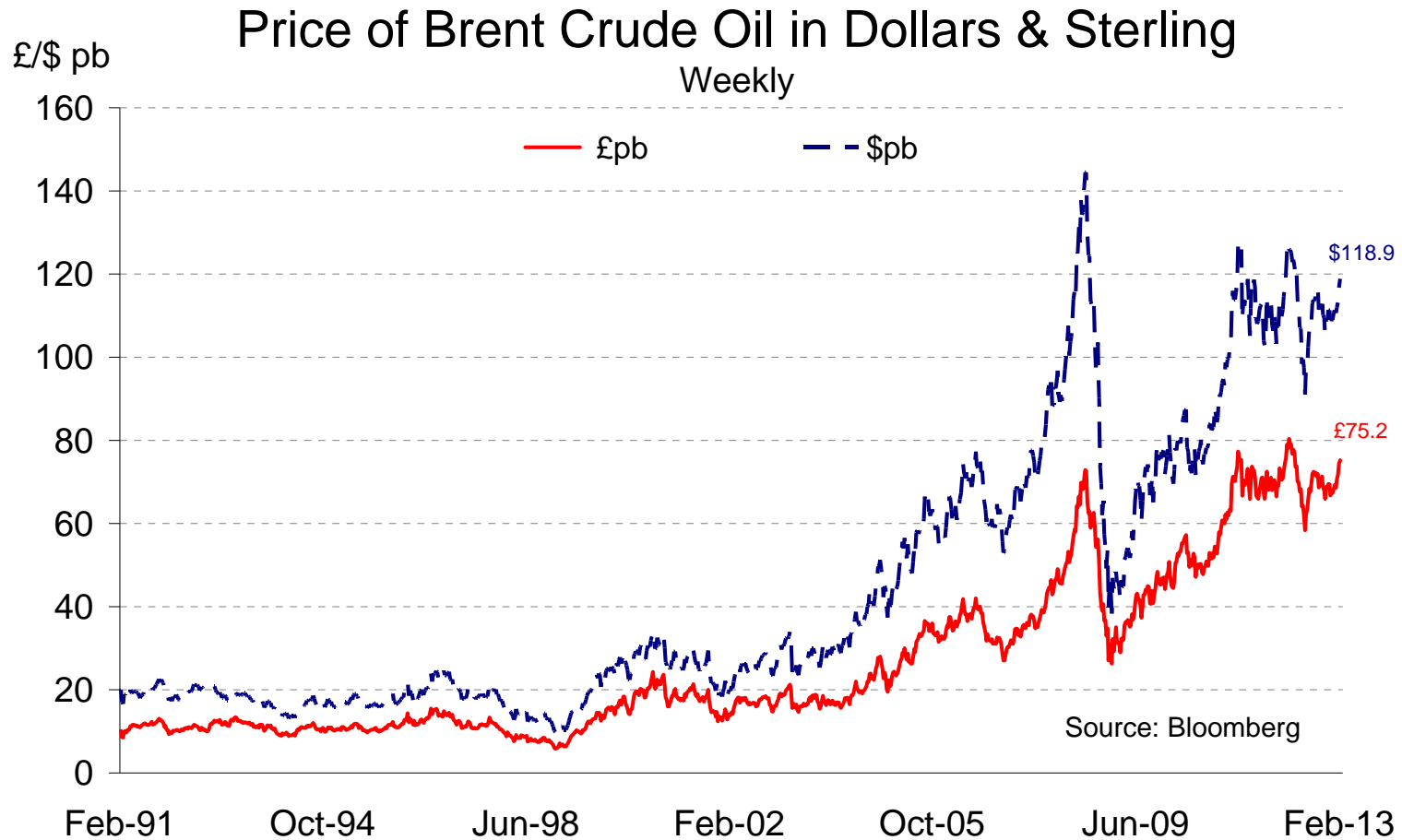
It cost just £28 for a tank of fuel 20 years ago



Remember it is the price of oil in sterling that matters

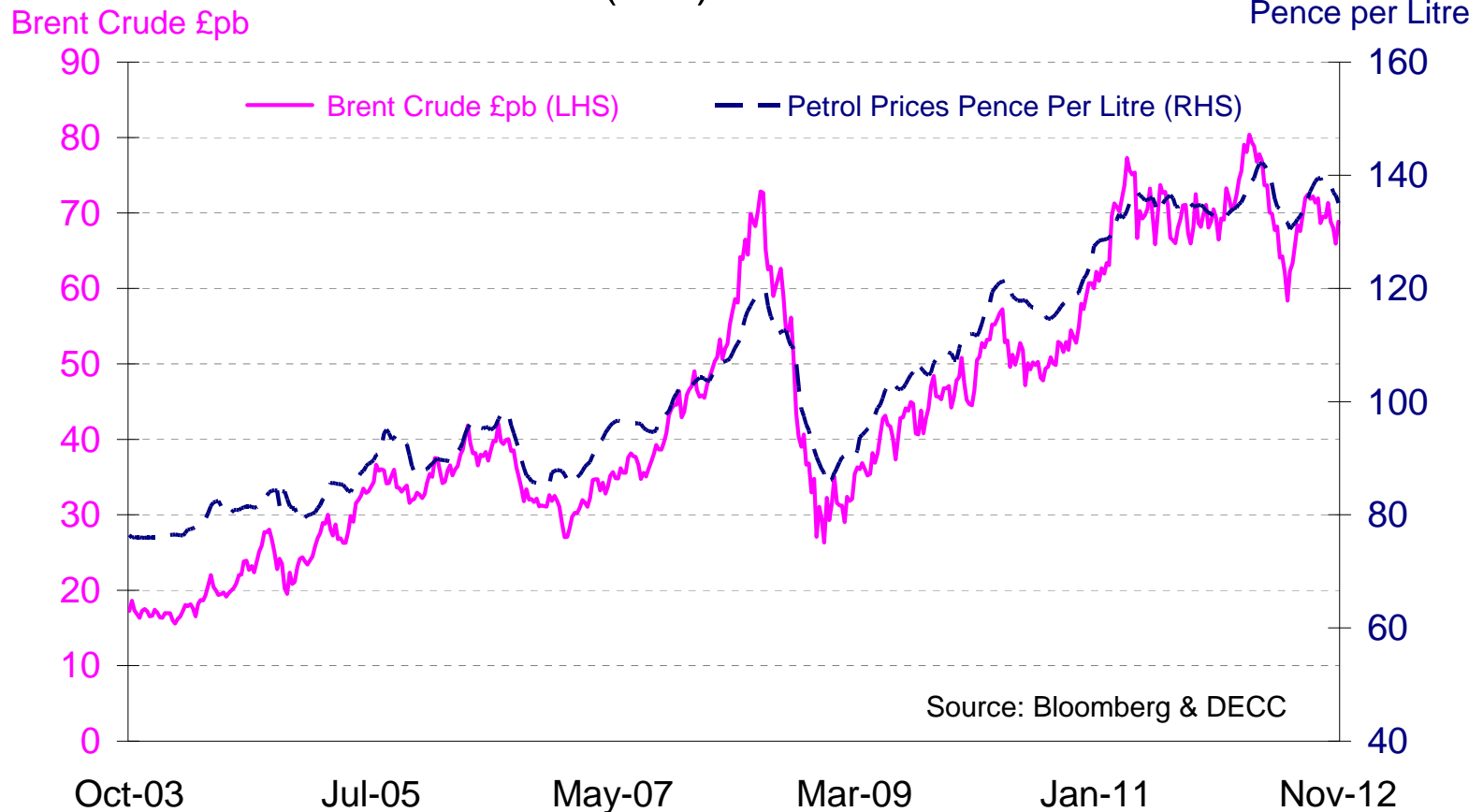


It was £12.50 for a barrel of Brent crude 20 years ago.
Now it is £75pb



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

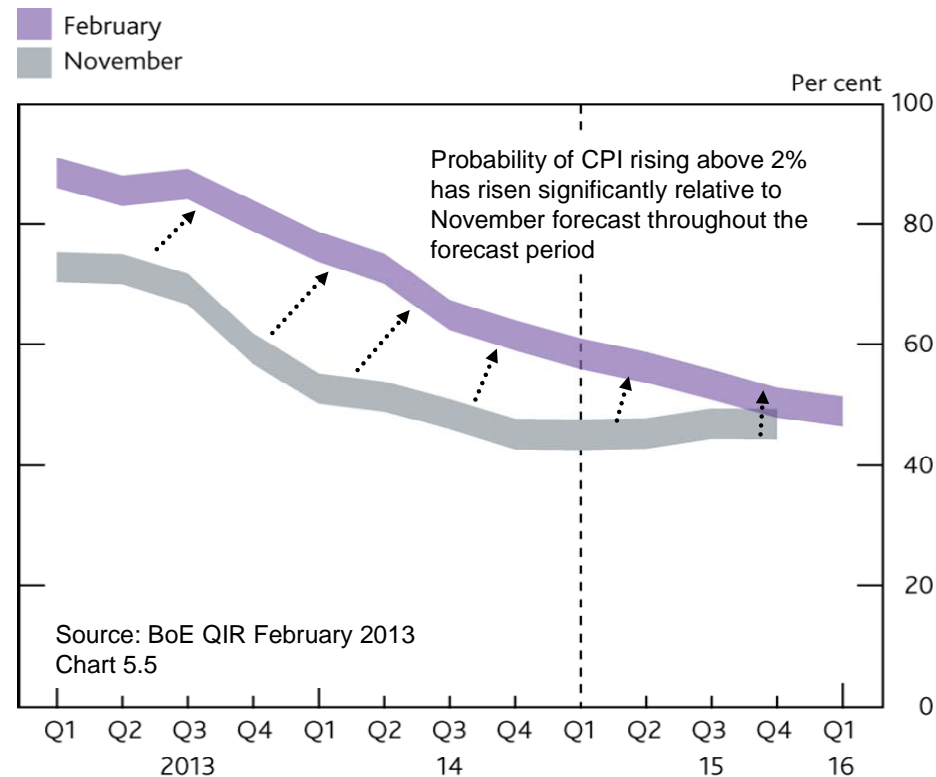
Brent Crude Oil (in £) versus UK Petrol Prices



*UK Inflation
Forecasts*

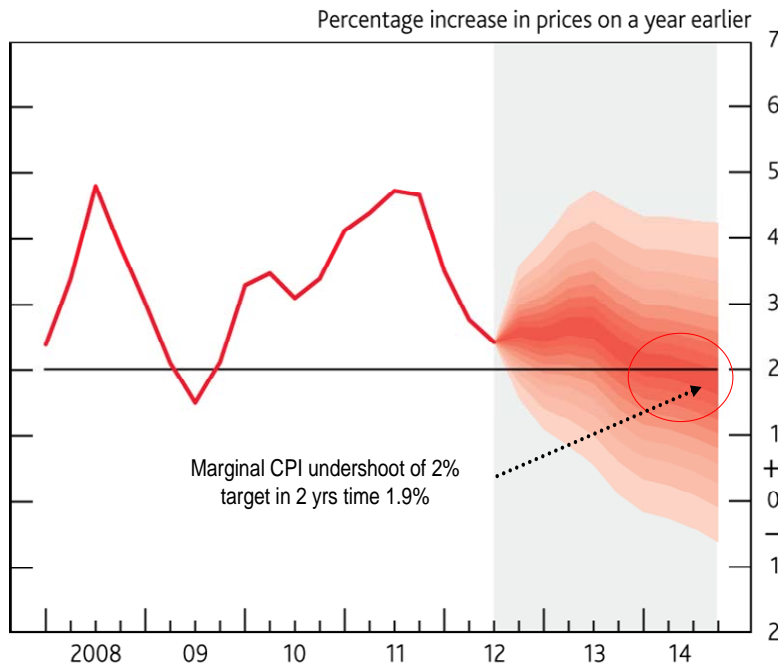
Probability of an inflation overshoot has risen significantly since the last Quarterly Inflation Report (Nov 2012)

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

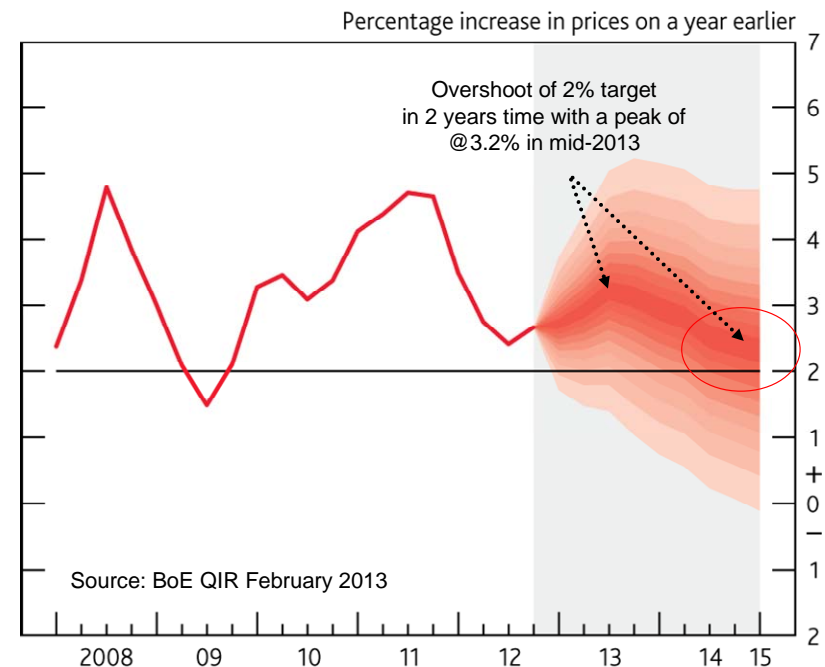


The Bank of England expects UK inflation to remain above its 2% target throughout the forecast period

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



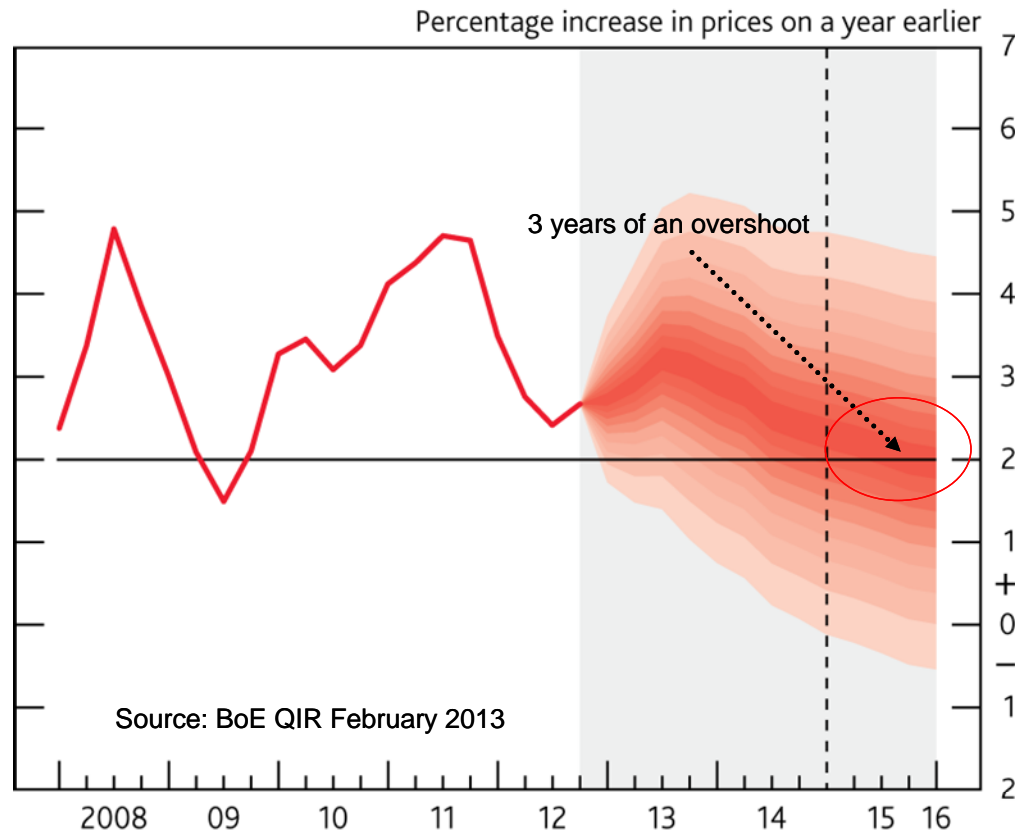
(November 2012)



(February 2013)

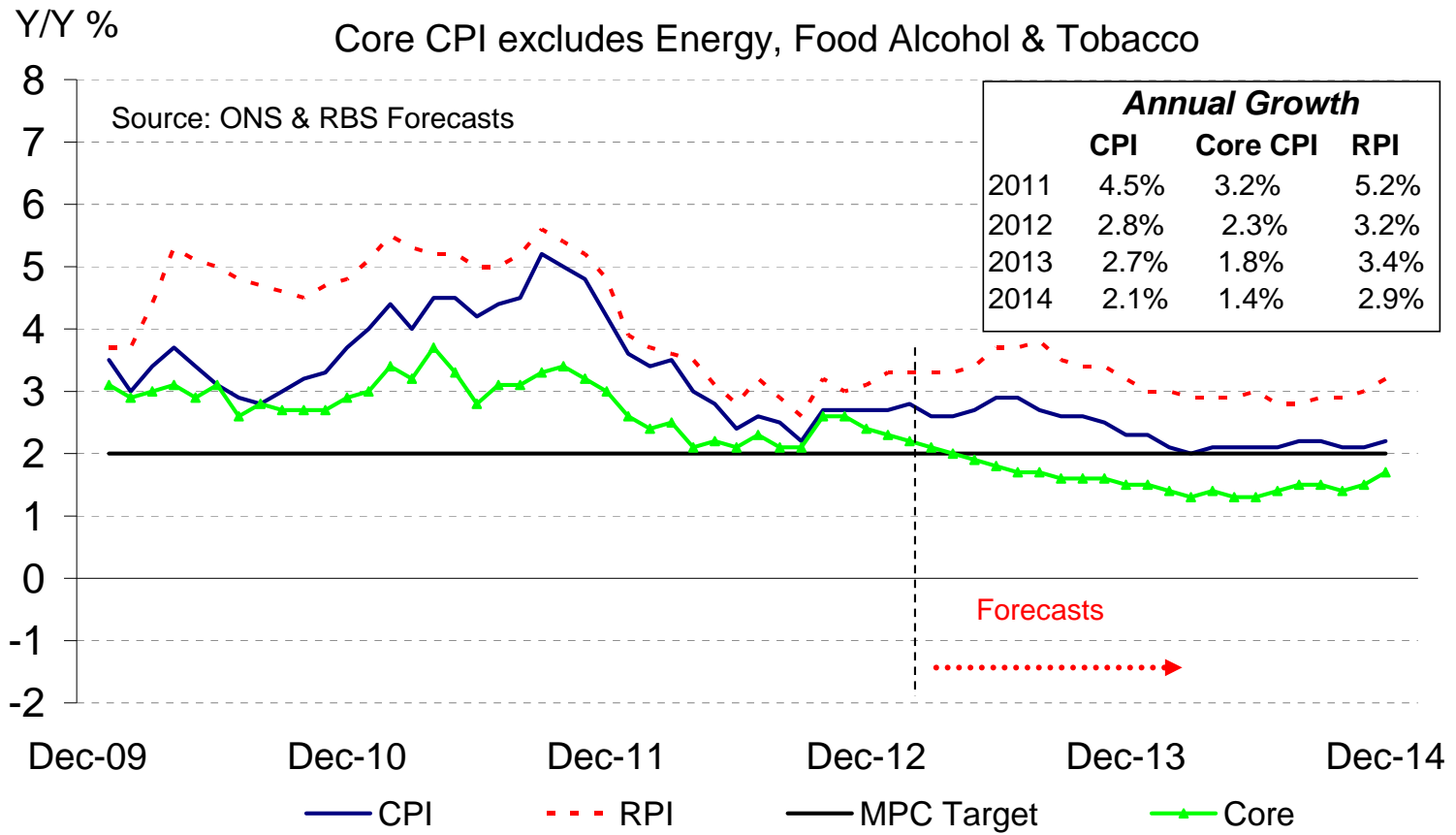
BoE expects UK inflation to remain above its 2% target until 2016 *(i.e. 10 years of an annual average CPI overshoot)*

CPI inflation projection based on market interest rate expectations
& £375 billion asset purchases



CPI inflation set to average 2.7% in 2013 & 2.1% next year. RPI even higher at 3.4% in 2013 & 2.9% in 2014

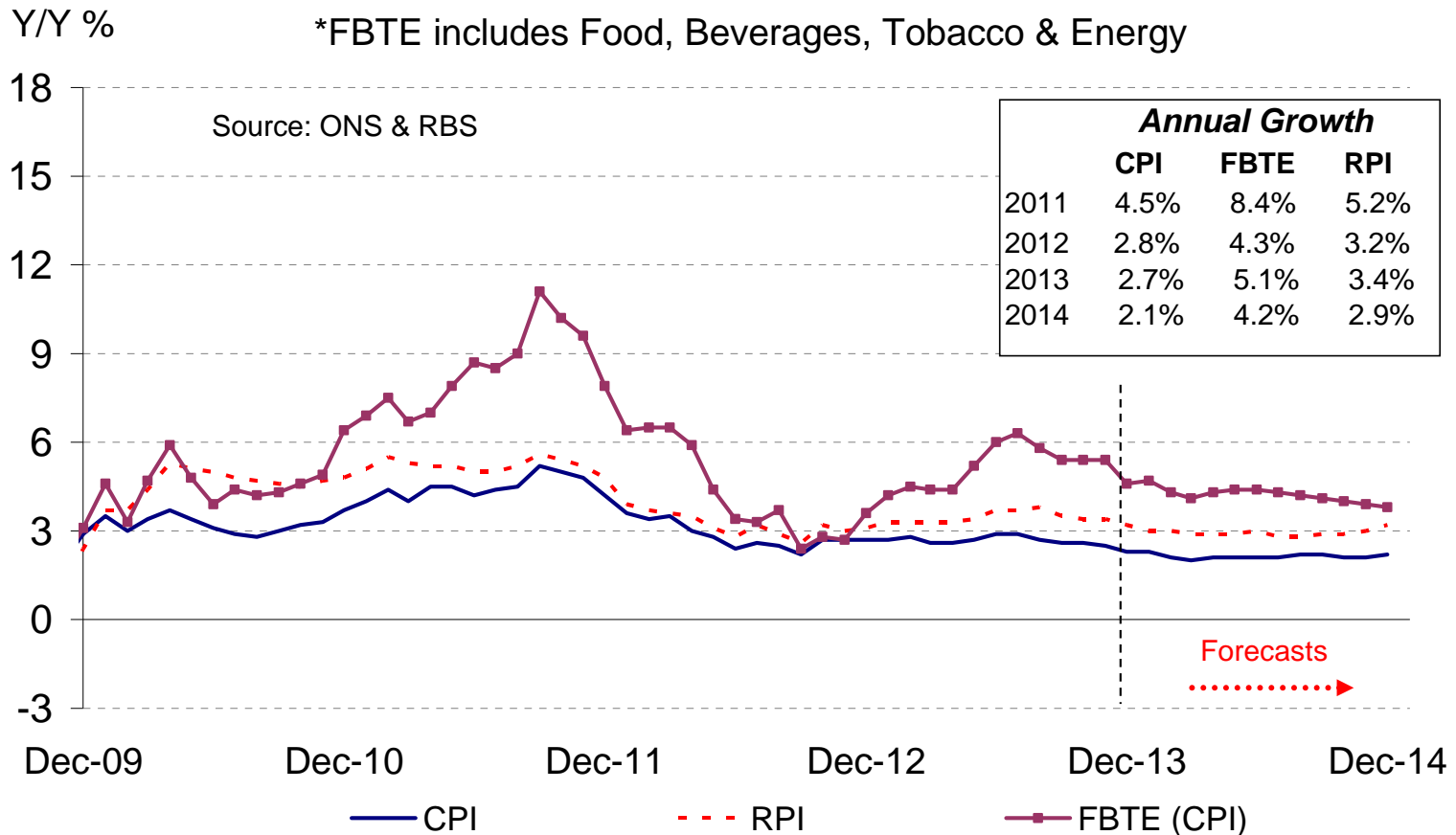
UK Consumer Price Inflation



...with FBTE inflation averaging over 5% in 2013 & 4% in 2014

UK Consumer Price Inflation

*FBTE includes Food, Beverages, Tobacco & Energy



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