

# Economy tracker: Inflation

## Inflation 2000–2013

### UK Economy

- **What is inflation?**

The UK inflation rate as measured by the consumer prices index (CPI) fell to 2.1% in November 2013 from 2.2% the month before, according to the Office for National Statistics (ONS).

It is the lowest CPI figure for four years.

The ONS said the change was caused by slower increases in food and energy prices. The impact of recent increases in energy prices is yet to take effect.

The rate of Retail Prices Index (RPI) inflation, which is calculated differently, remained unchanged at 2.6%.

### Understanding inflation:

- **Inflation** is a rise in the price of goods and services we buy
- The annual rate of inflation shows how much higher or lower prices are compared with the same month a year earlier. It indicates changes to our cost of living
- So if the inflation rate is 3% in January, for example, prices are 3% higher than they were 12 months earlier. Or, to look at it another way, we need to spend 3% more to buy the same things
- We compare this to the annual change recorded in the previous month to get an idea of whether price rises are getting bigger or smaller
- If the annual rate has risen from 3% to 4% from one month to the next, prices are rising at a faster rate
- If the rate is said to have fallen - say from 3% to 2% - prices of the things we buy are still higher, but have not increased by as much
- If the percentage rate is negative - for example, -1% - then prices are 1% cheaper than a year ago

- The figures are compiled by the Office for National Statistics. The inflation rate is calculated every month by looking at the changes in prices of 700 goods and services in 150 different areas across the UK.
- This is known as the basket of goods and is regularly updated to reflect changes in the things we buy. Hence the recent inclusion of tablet computers and Twilight books and the exclusion of casserole dishes and photo printing services.
- There are two main measures: the Consumer Prices Index (CPI) and the Retail Prices Index (RPI). These are, in effect, two baskets comprising different goods and services, and different methods are used to calculate them. There are many differences, but the biggest is that RPI includes housing costs such as mortgage interest payments and council tax, whereas CPI does not

## Background

There have been dramatic changes in the rate of inflation in recent years.

### INFLATION CALCULATOR



In 2008, as the global financial crisis was taking hold, prices were rising at an annual rate of about 5%.

But less than a year later, prices were rising by about 1% on the CPI measure, but were actually falling by about 1.5% on the RPI measure.

What was behind those big swings?

In the middle of 2008, record high oil prices were driving up transport costs, feeding through into the prices of products in the shops and contributing to higher household energy bills.

Food prices were also rising fast. This has been blamed on oil price rises, which make fertiliser and power more expensive, but also due to droughts, rising demand from emerging economies and land being used for biofuel.

A fall in the value of sterling also forced up the cost of imported goods.

But by early 2009, the price of crude oil had slumped, losing two-thirds of its value in just six months.

The global recession had taken hold, meaning there was less demand for fuel to power factories, transport goods to shops and to get staff to work.

In the UK, another major factor in the fall in the rate of inflation between 2008 and 2009 was a temporary cut in VAT from 17.5% to 15%, introduced to try to stimulate spending.

The RPI measure - which includes housing costs - was negative because successive cuts in interest rates meant lower mortgage payments for many.

But those inflation rate falls were short-lived.

VAT went back up to 17.5% at the beginning of 2010 and then was increased again to 20% in the following year.

Big rises in gas and electricity bills, along with transport costs and food prices, pushed prices up further.

Those factors meant that by September 2011, CPI was 5.2%, matching the record high set in September 2008. RPI rose to 5.6%, the highest annual rate since June 1991.

## So what do these changes mean for households?

The changes in the inflation rate over the past couple of years reflect periods when prices have been rising by different amounts.

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On the CPI measure, prices have been going up consistently, so even during periods when the inflation rate was falling, prices were still going up, but at a slower rate.

(There were seven months in 2009 where RPI was negative, indicating falling prices on that measure.)

Crucially for household incomes, wage growth has been well below the rate of inflation for the past four years, **according to the ONS**.

That means that families have not been able to buy as much with the money that comes in.

The former governor of the Bank of England, Sir Mervyn King, described it as a "ferocious squeeze in the purchasing power of take-home pay".

"Since 2007, increases in VAT, import prices and energy prices have together pushed up the price level by as much as 15%, squeezing real wages. As a result, we have now experienced the longest period over which real wages have failed to rise since the 1920s," **he said in a speech in January 2012.**

The Bank of England has consistently said that it believes inflation will fall back to its 2% target. It is pinning its hopes on lower oil prices and import prices.

The Bank also points to the spare capacity in the economy - the people looking for work and unused factory space, for example - that can be brought into use as the economy begins to grow again without pushing up prices.

## **APPENDIX 2**

### **DONATIONS 1 APRIL 2013-31 DECEMBER 2013**

Eisteddfod Llanbedr PS £1,000

Lampeter Carnival £500

Lampeter Round Table £300

National Eisteddfod £100

Urdd Gobaith Cymru £50

Poppy Wreath £20

Leaflets Remembrance Sunday £15.75

Bugler Remembrance Sunday £25.00

Microphone Remembrance Sunday £60

Young at Heart Insurance £238

Young at Heart: Hall Payment £262

Lampeter Agriculture Show £150

Lampeter Theatre Group £250.00

Campaign for the Protection of Rural Wales £20

Shelter Cymru £50.00

Longwood Community Woodland £1,100.

Lampeter Chamber of Trade Christmas Fair £200

**TOTAL £4,340.75**

Donations are expected to be made, amongst others, to the Citizens' Advice Bureau, Chamber of Trade Christmas Lights' Electricity Costs (£750), Lampeter Music Club, School Disco; Hunger Lunch, Cangen yr Urdd Llambod, Lampeter Food Festival & to Marie Curie Cancer Care

## **PREVIOUS FINANCIAL YEAR**

**DONATIONS 1 APRIL 2012-31 MARCH 2013**

**Victoria Hall Project £15,000 (£5,000 had been donated during the previous year)**

**Lampeter Food Festival £1,500**

**Eisteddfod Llanbedr PS £1,000**

**SWALEC Christmas Lights £745.00**

**CAB 500.00**

**Lampeter Food Festival £500**

**Lampeter Carnival £500**

**Lampeter Round Table £300**

**National Eisteddfod £100**

**Urdd Gobaith Cymru £50**

**Poppy Wreath £20**

**Leaflets Rem. Sunday £11**

**Microphone Remembrance Sunday £60**

**Insurance of the Young at Heart £203**

**Cangen yr Urdd Llambod £300**

**Lampeter World Sacred Music £500**

**Jubilee Mugs £2,708**

**NSPCC Childline £25**

**Marie Curie Cancer Care £50**

**Ray Ceredigion £100**

**Children in Need £25**

**Walkers are Welcome £50**

**Young Farmers Club 50.00**

**Sweden Trip, Ysgol Bro Pedr 100.00**

**Hunger Lunch £45.00**

**Air Ambulance Wales £50.00**

**D J DISCO Bro Pedr £100.00**

**Refreshments for Disco £114.50**

**CPRW £20.00**

**Lampeter Breastfeeding Group £25.00**

**Hire of Victoria Hall for the Young at Heart Teas £400.00**

**TOTAL £25,151.50**