

Article

Estimated effect of the budget on consumer price inflation: Spring 2017

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1 . Introduction

This note explains the estimated impact of implementing measures announced in the March 2017 Budget, previous budgets and pre-budget reports on the Consumer Prices Index including owner occupiers' housing costs (CPIH), CPI and the Retail Prices Index (RPI).

It does not include an estimate of the impact of the levy on soft drinks with added sugar content because these changes are not due to come into effect until April 2018.

The estimated contributions in this document assume all announced changes are passed on immediately and in full to consumers as soon as they come into effect. In practice, this is unlikely: for instance, changes to tobacco and alcohol duties generally affect the index over a period of several months as stocks deplete.

2 . Budget and Autumn Statement measures that will impact CPIH, CPI and RPI

Table 1 details the measures announced in the budget and Autumn Statement that will impact on the CPIH, CPI and RPI 1-month rates in the financial year ending 2018, along with the estimated magnitude of the effect. We have not included an estimate for the impact of the minimum exercise tax for cigarettes because the effect on the top level inflation figures is likely to be negligible.

Table 1: Budget announcements

Changes	Percentage points contribution to 1-month change			Timing of effect
	CPIH ₁	CPI	RPI ²	
Changes to excise duties³				
Tobacco				
As announced at the 2017 Budget, duty rates on tobacco products will increase by 2% above the Retail Price Index (RPI) rate of inflation on all tobacco duty rates each year until the end of the current Parliament.	0.07	0.08	0.09	8-Mar-17
Alcohol				
As announced at the 2017 Budget, all alcohol duty rates will increase in line with inflation (based on RPI).	0.04	0.05	0.05	13-Mar-17
Vehicle Excise Duty (VED)				
From the 1 April 2017 VED rates will increase in line with the RPI for cars, vans, and motorcycles registered between 1 March 2001 and 1 April 2017. From 1 April revised VED bands will also come into effect for vehicles first registered after the 1 April 2017.	0.06	0.07	0.07	1-Apr-17
Air Passenger Duty (APD)				
As announced at the 2016 March Budget, airpassenger duty rates will increase in line with RPI from 1 April 2017.	0	0	0	1-Apr-17
The rates (lowest class of travel) are as follows: Band A (0 – 2,000 miles) remains at £13 and Band B (over 2,000 miles) becomes £75.				
The impact of these increases show at 3 decimal places only and round to zero.				
Road Fuel				
The rate for unleaded petrol and heavy oil (diesel) for 2017-18 remained frozen in the 2017 Budget.	0	0	0	NA
Changes to indirect taxes				
Value Added Tax (VAT)				
There were no changes announced in the March 2017 Budget pertaining to the CPI, CPIH or RPI.	0	0	0	NA
Insurance Premium Tax (IPT)	0.01	0.01	0.05	1-Jun-17

As announced in the Autumn Statement 2016 the standard rate of IPT will increase to 12% from 10% from 1 June 2017.

Social Housing Rents	-0.02	-0.03	-0.03	1-Apr-17
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The Summer 2015 Budget announced that rents for social housing would decrease by 1% each year for next four years, starting in April 2016.

Source: Office for National Statistics

Notes:

1. CPIH has been re-assessed to evaluate the extent to which it meets the professional standards set out in the Code of Practice for Official Statistics. The assessment report includes a number of requirements that need to be implemented for CPIH to regain its status as a National Statistic and we are working to address these.

2. The RPI is not a National Statistic.

3. Changes in duty rates are inclusive of VAT, and, for cigarettes, ad valorem tax.

3 . Impact of budget and Autumn Statement measures on the CPIH, CPI and RPI 1-month rate

Table 2 presents a comparison of the impact on the CPIH, CPI and RPI 1-month rates of the budget and Autumn Statement measures that were implemented in the financial year ending 2017 and those that have been or will be implemented in the financial year ending 2018.

The measures that will be implemented in the financial year ending 2017 are estimated to increase the CPIH 1-month rate by approximately 0.16 percentage points, the CPI 1-month rate by approximately 0.18 percentage points and the RPI 1-month rate by approximately 0.23 percentage points.

Table 2: Budget Impact on 1 month rate

Changes	Percentage points contribution to 1-month change					
	CPIH ¹		Consumer Prices Index		Retail Prices Index ²	
	2016/17 ₃	2017/18	2016/17 ³	2017/18	2016/17 ³	2017/18
Excise duties						
Tobacco	0.05	0.07	0.06	0.08	0.06	0.09
Alcohol	0	0.04	0.01	0.05	0.01	0.05
Vehicle excise duty	0.01	0.06	0.01	0.07	0.01	0.07
Air passenger duty	0	0	0	0	0	0
Road Fuel	0	0	0	0	0	0
Indirect Taxes						
Value Added Tax	0	0	0	0	0	0
Insurance Premium Tax	0	0.01	0	0.01	0.01	0.05
Social Housing Rents	-0.02	-0.02	-0.03	-0.03	-0.03	-0.03
Total effect of budget measures⁴	0.04	0.16	0.05	0.18	0.06	0.23

Source: Office for National Statistics

Notes:

1. CPIH has been re-assessed to evaluate the extent to which it meets the professional standards set out in the Code of Practice for Official Statistics. The assessment report includes a number of requirements that need to be implemented for CPIH to regain its status as a National Statistic and we are working to address these.
2. The RPI is not a National Statistic.
3. Historic estimates provided were calculated at the time of the 2016 March budget and have not been revised in light of new information.
4. The overall effect is calculated as the sum of the individual rounded effects shown in the table.

4 . Cumulative effects of the budget and Autumn Statement on the CPIH, CPI and RPI 12-month rate

The following tables show the cumulative effects on the all items CPIH, CPI and RPI 12-month rates of the budget and Autumn Statement measures that were implemented in financial year ending 2017 and those that have been or will be implemented in financial year ending 2018. They also show the likely timing of effects on the CPIH, CPI and RPI 12-month rates, assuming all announced changes are passed on immediately and in full to consumers as soon as they come into effect.

Effects on the CPIH 12-month rate

It is estimated that the budgetary measures implemented in financial year ending 2018 will add 0.16 percentage points to the CPIH 1-month rate. This means that the CPIH 12-month rate is estimated to increase by 0.12 percentage points because the impact of the measures implemented in financial year ending 2017 was 0.04 percentage points.

Table 3: Impact on CPIH 12 month rate

CPIH date¹	Percentage Point Change	Effect₂	Cumulative effect³
Mar-17	Increases in tobacco duties	0.07	
	Increases in alcohol duties	0.04	0.11
	Last year's increases in tobacco duties drop out of the 12 month comparison	-0.05	0.06
Apr-17	Increases in vehicle excise duties	0.06	0.12
	Decreases in social housing rents	-0.02	0.10
	Last year's increases in vehicle excise duties drop out of the 12 month comparison	-0.01	0.09
	Last year's decreases in social housing drop out of the 12 month comparison	0.02	0.11
Jun-17	Increases in insurance premium tax	0.01	0.12

Source: Office for National Statistics

Notes

1. CPIH has been re-assessed to evaluate the extent to which it meets the professional standards set out in the Code of Practice for Official Statistics. The assessment report includes a number of requirements that need to be implemented for CPIH to regain its status as a National Statistic and we are working to address these.

2. Historic estimates provided were calculated at the time of the 2016 Budget and have not been revised in light of new information.

3. The cumulative effect is calculated as the sum of the individual rounded effects shown in the table.

Effects on the CPI 12-month rate

It is estimated that the budgetary measures implemented in financial year ending 2018 will add 0.18 percentage points to the CPI 1-month rate. This means that the CPI 12-month rate is estimated to increase by 0.13 percentage points because the impact of the measures implemented in financial year ending 2017 was 0.05 percentage points.

Table 4: Impact on CPI 12 month rate

CPI date	Percentage Point Change	Effect₁	Cumulative effect²
Mar-17	Increases in tobacco duties	0.08	
	Increases in alcohol duties	0.05	0.13
	Last year's increases in tobacco duties drop out of the 12 month comparison	-0.06	0.07
	Last year's increases in alcohol duties drop out of the 12 month comparison	-0.01	0.06
Apr-17	Increases in vehicle excise duties	0.07	0.13
	Decreases in social housing rents	-0.03	0.10
	Last year's increases in vehicle excise duties drop out of the 12 month comparison	-0.01	0.09
	Last year's decreases in social housing drop out of the 12 month comparison	0.03	0.12
Jun-17	Increases in insurance premium tax	0.01	0.13

Source: Office for National Statistics

Notes:

1. Historic estimates provided were calculated at the time of the 2016 March Budget and have not been revised in light of new information.
2. The cumulative effect is calculated as the sum of the individual rounded effects shown in the table.

Effects on the RPI 12-month rate

It is estimated that the budgetary measures implemented in financial year ending 2018 will add 0.23 percentage points to the RPI 1-month rate. This means that the RPI 12-month rate is estimated to increase by 0.17 percentage points because the impact of the measures implemented in financial year ending 2017 was 0.06 percentage points.

Table 5: Impact on RPI 12 month rate

RPI date ¹	Percentage Point Change	Effect ²	Cumulative effect ³
Mar-17	Increases in tobacco duties	0.09	
	Increases in alcohol duties	0.05	0.14
	Last year's increases in tobacco duties drop out of the 12 month comparison	-0.06	0.08
	Last year's increases in alcohol duties drop out of the 12 month comparison	-0.01	0.07
Apr-17	Increases in vehicle excise duties	0.07	0.14
	Decreases in social housing rents	-0.03	0.11
	Last year's increases in vehicle excise duties drop out of the 12 month comparison	-0.01	0.10
	Last year's decreases in social housing drop out of the 12 month comparison	0.03	0.13
Jun-17	Increases in insurance premium tax	0.05	0.18
Oct-17	Last year's decreases in insurance premium tax drops out of the 12 month comparison	-0.01	0.17

Source: Office for National Statistics

Notes:

1. The RPI is not a National Statistic.
2. Historic estimates provided were calculated at the time of the 2016 March Budget and have not been revised in light of new information.
3. The cumulative effect is calculated as the sum of the individual rounded effects shown in the table.

5 . Background notes

1. CPIH extends the Consumer Prices Index (CPI) to include a measure of the costs associated with owning, maintaining and living in one's own home, known as owner occupiers' housing costs (OOH), along with Council Tax. Both of these are significant expenses for many households, and are not included in the CPI. CPIH is not currently a National Statistic. It has been reassessed by the Office for Statistics Regulation (OSR) against the standards set out in the Code of Practice for Official Statistics. The assessment report published on 3 March 2016 included a number of requirements that need to be implemented for CPIH to regain its status as a National Statistic and we are working to address these.
2. The CPI is a measure of consumer price inflation produced to international standards and in line with European regulations. First published in 1997 as the Harmonised Index of Consumer Prices (HICP), the CPI is the inflation measure used in the government's target for inflation. The CPI is also used for purposes such as uprating pensions, wages and benefits and can aid in the understanding of inflation on family budgets.
3. The Retail Prices Index (RPI) is a legacy measure of UK inflation that continues to be used for purposes such as the indexation of pensions, rents and index-linked gilts.
4. This note is prepared simply as a helpful guide to users of the CPIH, CPI and RPI. The Office for National Statistics accepts no liability whatsoever for losses of any kind arising as a result of reliance on this note.
5. The effects of the budgets shown in this note are estimates only.
6. Percentage point contributions to the CPI, CPIH and RPI 1-month change are based on average retail prices as measured in the February 2017 indices.
7. No estimate has been made of any price changes resulting from other budget measures, direct or otherwise.