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

Estimated impact of implementing measures announced in the November 2017 budget, previous budgets and pre-budget reports on CPI, CPIH and RPI.

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Table of contents

1. [Introduction](#)
2. [Budget measures that will impact CPIH, CPI and RPI](#)
3. [Impact of Budget on the CPIH, CPI and RPI one-month rate](#)
4. [Cumulative effects of the budget on the CPIH, CPI and RPI 12-month rate](#)
5. [Background notes](#)

1 . Introduction

This note explains the estimated impact of implementing measures announced in the November 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 due to come into effect in April 2018. This is because there are likely to be changes in producer and consumer behaviour as a result of the new measures, which make it difficult to predict the impact on consumer price inflation. There are also numerous practical issues with identifying which products from our basket of goods will be eligible for the tax and to what extent they will be affected. These factors combine to make it difficult to produce an estimate within any useful degree of accuracy.

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 measures that will impact CPIH, CPI and RPI

Table 1 details the measures announced in the Budget that will impact on the Consumer Prices Index including owner occupiers' housing costs (CPIH), CPI and Retail Prices Index (RPI) one-month rates in the financial years ending 2018 and 2019, along with the estimated magnitude of the effect. We have not included an estimate of the impact of the minimum excise tax for cigarettes because the effect on the top-level inflation figures is expected to be negligible.

Table 1: Budget announcements, UK, financial years ending 2018 and 2019

Changes	Percentage points contribution to one-month change			Timing of effect
	CPIH	CPI	RPI ¹	
Changes to excise duties²				
Alcohol				
As announced at the 2017 November Budget, all alcohol duty rates will remain frozen at previous rates.	0.00	0.00	0.00	NA
Tobacco				
As announced at the 2017 November Budget, duty rates on tobacco products will increase by 2% above the Retail Price Index (RPI) rate of inflation on all tobacco duty rates. Hand-rolling tobacco will rise by an additional 1% above this to 3% above RPI inflation this year.	0.05	0.07	0.07	22 Nov 2017
Vehicle Excise Duty (VED)				
From the 1 April 2017 VED rates increased 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 came into effect for vehicles first registered after the 1 April 2017.	0.06	0.07	0.06	1 Apr 2017 ³
From the 1 April 2018, VED rates will increase in line with the RPI for cars, vans, and motorcycles. In addition new Diesel vehicles that do not meet the RDE2 standard will be charged a supplement on their first year rate to the effect of moving up by one VED band. The new Standard Rate for cars first registered after 1st April 2017 will also come into effect.	0.04	0.05	0.04	1 Apr 2018
Air Passenger Duty (APD)				
As announced at the 2016 March Budget, air passenger duty rates will increase in line with RPI from 1 April 2017.	0.00	0.00	0.00	1 Apr 2017 ³
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) became £75 in April 2017 and will go up to £78 in April 2018.	0.00	0.00	0.00	1 Apr 2018
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) remained frozen in the 2017 Budgets.	0.00	0.00	0.00	NA
Changes to indirect taxes				
Value Added Tax (VAT)				
There were no changes announced in the 2017 Budgets pertaining to the CPI, CPIH or RPI.	0.00	0.00	0.00	NA
Insurance Premium Tax (IPT)				
As announced in the Autumn Statement 2016 the standard rate of IPT increased to 12% from 10% from 1 June 2017.	0.01	0.01	0.05	1 Jun 2017 ³
Social Housing Rents				
The Summer 2015 Budget announced that rents for social housing would decrease by 1% each year for next four years, starting in April 2016.	-0.02	-0.03	-0.03	1 Apr 2017 ³

Source: Office for National Statistics

Notes:

1. The RPI is not a National Statistic.
2. Changes in duty rates are inclusive of VAT, and, for cigarettes, ad valorem tax.
3. Historic estimates provided were calculated at the time of the 2017 March budget and have not been revised in light of new information, with the exception of VED, where the contribution to the headline rates is now known.

3 . Impact of Budget on the CPIH, CPI and RPI one-month rate

Table 2 presents a comparison of the impact on the Consumer Prices Index including owner occupiers' housing costs (CPIH), CPI and Retail Prices Index (RPI) one-month rates of the budget measures that were implemented in the financial year ending 2018 and those known measures that will be implemented in the financial year ending 2019. There is also the possibility of further changes being announced in the November Budget 2018 which will impact in the financial year ending in 2019.

The known measures that will be implemented in the financial year ending 2019 are estimated to increase the CPIH one-month rate by approximately 0.02 percentage points, the CPI one-month rate by approximately 0.02 percentage points and the RPI one-month rate by approximately 0.01 percentage points.

Table 2: Budget impact on CPIH, CPI and RPI one-month rate, UK, in the financial years ending 2018 and 2019

Changes	Percentage points contribution to 1-month change					
	CPIH		Consumer Prices Index		Retail Prices Index ¹	
	2017/18 2,3	2018/19 4	2017/18	2018/19	2017/18	2018/19
Excise duties						
Tobacco	0.05	-	0.07	-	0.07	-
Alcohol	0.00	-	0.00	-	0.00	-
Vehicle excise duty	0.06	0.04	0.07	0.05	0.06	0.04
Air passenger duty	0.00	0.00	0.00	0.00	0.00	0.00
Road Fuel	0.00	-	0.00	-	0.00	-
Indirect Taxes						
Value Added Tax	0.00	-	0.00	-	0.00	-
Insurance Premium Tax	0.01	-	0.01	-	0.05	-
Social Housing Rents	-0.02	-0.02	-0.03	-0.03	-0.03	-0.03
Total effect of known budget measures⁴	0.10	0.02	0.12	0.02	0.15	0.01

Source: Office for National Statistics

Notes:

1. The RPI is not a National Statistic.
2. The overall effect is calculated as the sum of the individual rounded effects shown in the table.
3. Historic estimates provided were calculated at the time of the 2017 March budget and have not been revised in light of new information, with the exception of VED, where the contribution to the headline rates is now known.
4. A dash represents items where we do not have sufficient information to make a prediction of inflation impact over the course of the financial year 2018/19. This is due to the possibility of further changes being announced in the November 2018 Budget or pre-announced changes being dependent on future RPI rates.

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

The following tables show the cumulative effects on the all items Consumer Prices Index including owner occupiers' housing costs (CPIH), CPI and Retail Prices Index (RPI) 12-month rates of the budget measures that were implemented in financial year ending 2018 and known measures that will be implemented in financial year ending 2019. 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. There is also the possibility of further changes being announced in the November Budget 2018 which will impact in the financial year ending in 2019.

Effects on the CPIH 12-month rate

It is estimated the known budgetary measures implemented in financial year ending 2019 will add 0.02 percentage points to the CPIH one-month rate. This means that the CPIH 12-month rate is estimated to decrease by 0.08 percentage points because the impact of the measures implemented in financial year ending 2018 was 0.10 percentage points.

Table 3: Cumulative effect of budget changes on the CPIH 12-month rate, UK, in the financial year ending 2019

CPIH date	Percentage Point Change	Effect¹	Cumulative effect²
Apr 2018	Increases in vehicle excise duties	0.04	0.04
	Decreases in social housing rents	-0.02	0.02
	Previous year's increases in vehicle excise duties drop out of the 12-month comparison	-0.06	-0.04
	Previous year's decreases in social housing drop out of the 12-month comparison	0.02	-0.02
Jun 2018	Previous year's increases in insurance premium tax drop out of the 12-month comparison	-0.01	-0.03
Nov 2018	Previous year's increases in tobacco tax drop out of the 12-month comparison	-0.05	-0.08

Source: Office for National Statistics

Notes:

1. Historic estimates provided were calculated at the time of the 2017 March budget and have not been revised in light of new information, with the exception of VED, where the contribution to the headline rates is now known.

2. 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 the known budgetary measures implemented in financial year ending 2019 will add 0.02 percentage points to the CPI one-month rate. This means that the CPI 12-month rate is estimated to decrease by 0.10 percentage points because the impact of the measures implemented in financial year ending 2018 was 0.12 percentage points.

Table 4: Cumulative effect of budget changes on the CPI 12-month rate, UK, in the financial year ending 2019

CPI date	Percentage Point Change	Effect¹	Cumulative effect²
Apr 2018	Increases in vehicle excise duties	0.05	0.05
	Decreases in social housing rents	-0.03	0.02
	Previous year's increases in vehicle excise duties drop out of the 12-month comparison	-0.07	-0.05
	Previous year's decreases in social housing drop out of the 12-month comparison	0.03	-0.02
Jun 2018	Previous year's increases in insurance premium tax drop out of the 12-month comparison	-0.01	-0.03
Nov 2018	Previous year's increases in tobacco tax drop out of the 12-month comparison	-0.07	-0.10

Source: Office for National Statistics

Notes:

1. Historic estimates provided were calculated at the time of the 2017 March budget and have not been revised in light of new information, with the exception of VED, where the contribution to the headline rates is now known.

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 the known budgetary measures implemented in financial year ending 2019 will add 0.01 percentage points to the RPI 1-month rate. This means that the RPI 12-month rate is estimated to decrease by 0.14 percentage points because the impact of the measures implemented in financial year ending 2018 was 0.15 percentage points.

Table 5: Cumulative effect of budget changes on the RPI 12-month rate, UK, in the financial year ending 2019

RPI date ¹	Percentage Point Change	Effect ²	Cumulative effect ³
Apr 2018	Increases in vehicle excise duties	0.04	0.04
	Decreases in social housing rents	-0.03	0.01
	Previous year's increases in vehicle excise duties drop out of the 12-month comparison	-0.06	-0.05
	Previous year's decreases in social housing drop out of the 12-month comparison	0.03	-0.02
Jun 2018	Previous year's increases in insurance premium tax drop out of the 12-month comparison	-0.05	-0.07
Nov 2018	Previous year's increases in tobacco tax drop out of the 12-month comparison	-0.07	-0.14

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 2017 March budget and have not been revised in light of new information, with the exception of VED, where the contribution to the headline rates is now known.
3. The cumulative effect is calculated as the sum of the individual rounded effects shown in the table.

5 . Background notes

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.

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.

The 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.

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.

The effects of the budgets shown in this note are estimates only.

Percentage point contributions to the CPIH, CPI and RPI one-month change are based on average retail prices as measured in the October 2017 indices.

No estimate has been made of any price changes resulting from other budget measures, direct or otherwise.

