

Article

Estimated effect of the budget on consumer price inflation: Autumn 2018

The estimated impact of implementing measures announced in the October 2018 Budget, previous budgets and pre-budget reports on the Consumer Prices Index including owner occupiers' housing costs (CPIH), the Consumer Prices Index (CPI) and the Retail Prices Index (RPI). This article is simply a helpful guide to users of the CPIH, CPI and RPI.

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1 . Introduction

This article explains the estimated impact of implementing measures announced in the October 2018 Budget, previous budgets and pre-budget reports on the Consumer Prices Index including owner occupiers' housing costs (CPIH), the Consumer Prices Index (CPI) and the Retail Prices Index (RPI).

This article does not attempt to quantify the impact of changing consumer or producer behaviour, or any other secondary impact, following the implementation of these measures. Furthermore, the estimated contributions 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.

This article does not include an estimate of the impact of the [levy on soft drinks with added sugar content](#) that came into effect in April 2018. The impact of this change has been previously analysed in the [Prices economic commentary: October 2018](#).

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

Table 1 details the measures announced in the 2018 Budget that will impact on the Consumer Prices Index including owner occupiers' housing costs (CPIH), the Consumer Prices Index (CPI) and the Retail Prices Index (RPI) 1-month rates in the financial years (April to March) ending 2019 and 2020, 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 headline inflation figures is likely to be negligible.

Table 1: Budget announcements, UK, financial years ending 2019 and 2020

Changes	Percentage points contribution to 1-month change			Timing of effect
	CPIH	CPI	RPI ¹	
Changes to excise duties²				
Alcohol				
October Budget 2018 announced that duty rates on wine and made-wine at or below 22% abv, and high strength sparkling cider above 5.5% abv will rise by RPI inflation. Duty on other alcoholic drinks remains unchanged.	0.01	0.01	0.01	1 February 2019
Tobacco				
October Budget 2018 announced that the duty rates for all tobacco products will be increased by 2% above RPI inflation. Hand-rolling tobacco will also rise by an additional 1% above this to 3% above RPI.	0.06	0.07	0.07	29 October 2018
Vehicle Excise Duty (VED)				
October Budget 2018 announced VED rates for cars, vans, motorcycles and motorcycle trade licences will increase by the RPI.	0.02	0.02	0.02	1 April 2019
Air Passenger Duty (APD)				
October Budget 2018 announced, air passenger duty rates for the lowest class of travel will remain unchanged in the financial year ending 2020. The standard and higher rate for Band B (over 2,000 miles) did increase in line with RPI but these fares are not included in the inflation measures.	0.00	0.00	0.00	NA
Road Fuel				
The rate for unleaded petrol and heavy oil (diesel) remained frozen in the October 2018 Budget.	0.00	0.00	0.00	NA
Changes to indirect taxes				
Value Added Tax (VAT)				
There were no changes announced in the October Budget 2018 pertaining to the CPI, CPIH or RPI.	0.00	0.00	0.00	NA
Insurance Premium Tax (IPT)				
The October Budget 2018 announced the standard rate of IPT remains unchanged.	0.00	0.00	0.00	NA
Social Housing Rents				
The Summer Budget 2015 announced that rents for social housing would decrease by 1% each year for next four years, starting in April 2016.	-0.02	-0.02	-0.02	1 April 2019

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 . Impact of the Budget on the CPIH, CPI and RPI 1-month rate

Table 2 presents a comparison of the impact on the Consumer Prices Index including owner occupiers' housing costs (CPIH), the Consumer Prices Index (CPI) and the Retail Prices Index (RPI) 1-month rates of the budget measures that were implemented in the financial year ending 2019 and those known measures that will be implemented in the financial year ending 2020. There is also the possibility of further changes being announced in subsequent budgets, which will impact in the financial year ending 2020.

The known measures that will be implemented in the financial year ending 2020 are estimated to have a negligible effect on the CPIH, CPI and RPI 1-month inflation rate.

Table 2: Budget impact on CPIH, CPI and RPI 1-month rate, UK, in the financial years ending 2019 and 2020

Changes	Percentage points contribution to 1-month change					
	CPIH		Consumer Prices Index		Retail Prices Index 1	
	2018/19 ³	2019/20 ⁴	2018/19 ³	2019/20 ⁴	2018/19 ³	2019/20 ⁴
Excise duties						
Tobacco	0.06	-	0.07	-	0.07	-
Alcohol	0.01	-	0.01	-	0.01	-
Vehicle excise duty	0.04	0.02	0.05	0.02	0.04	0.02
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	0.00	-	0.00	-	0.00	-
Social Housing Rents	-0.02	-0.02	-0.03	-0.02	-0.03	-0.02
Total effect of known budget measures ²	0.09	0.00	0.10	0.00	0.09	0.00

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 November Budget 2017 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 2019/20. This is due to the possibility of further changes being announced in subsequent budgets during 2019 or pre-announced changes being dependent of 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), the Consumer Prices Index (CPI) and the Retail Prices Index (RPI) 12-month rates of the 2018 Budget measures that were or will be implemented in financial year ending 2019 and known measures that will be implemented in financial year ending 2020. 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 subsequent budgets, which will impact in the financial year ending 2020.

Effects on the CPIH 12-month rate

It is estimated the known budgetary measures implemented in financial year ending 2020 will have a negligible effect on the CPIH 12-month rate. This means that the CPIH 12-month rate is estimated to decrease by 0.09 percentage points because the impact of the measures implemented in financial year ending 2019 was 0.09 percentage points.

Table 3: Cumulative effect of budget changes on the CPIH 12-month rate, UK, in the financial year ending 2020

CPIH date	Budget measures impacting in the financial year ending 2020 (Percentage Point Change)	Effect ¹	Cumulative effect ²
April 2019	Increases in vehicle excise duties.	0.02	
	Decreases in social housing rents.	-0.02	0.00
	Previous year's increases in vehicle excise duties drop out of the 12 month comparison.	-0.04	-0.04
	Previous year's decreases in social housing rents drop out of the 12 month comparison.	0.02	-0.02
November 2019 ³	Previous year's increases in tobacco duties drop out of the 12 month comparison.	-0.06	-0.08
February 2020	Previous year's increases in alcohol duties drop out of the 12 month comparison.	-0.01	-0.09

Source: Office for National Statistics

Notes:

1. Historic estimates provided were calculated at the time of the November Budget 2017 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.
3. Duty changes on tobacco come into effect from the 29th October after prices for October have been collected. This means the changes will not be reflected in inflation measures until November.

Effects on the CPI 12-month rate

It is estimated the known budgetary measures implemented in financial year ending 2020 will have a negligible effect on the CPI 1-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 2019 was 0.10 percentage points.

Table 4: Cumulative effect of budget changes on the CPI 12-month rate

CPI date	Budget measures impacting in the financial year ending 2020 (Percentage Point Change)	Effect ¹	Cumulative effect ²
April 2019	Increases in vehicle excise duties.	0.02	
	Decreases in social housing rents.	-0.02	0.00
	Previous year's increases in vehicle excise duties drop out of the 12 month comparison.	-0.05	-0.05
	Previous year's decreases in social housing rents drop out of the 12 month comparison.	0.03	-0.02
November 2019 ³	Previous year's increases in tobacco duties drop out of the 12 month comparison.	-0.07	-0.09
February 2020	Previous year's increases in alcohol duties drop out of the 12 month comparison.	-0.01	-0.10

Source: Office for National Statistics

Notes:

1. Historic estimates provided were calculated at the time of the November Budget 2017 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.
3. Duty changes on tobacco come into effect from the 29th October after prices for October have been collected. This means the changes will not be reflected in inflation measures until November.

Effects on the RPI 12-month rate

It is estimated the known budgetary measures implemented in financial year ending 2020 will have a negligible effect on the RPI 1-month rate. This means that the RPI 12-month rate is estimated to decrease by 0.09 percentage points because the impact of the measures implemented in financial year ending 2019 was 0.09 percentage points.

Table 5: Cumulative effect of budget changes on the RPI 12-month rate, UK, in the financial year ending 2020

RPI date ¹	Budget measures impacting in the financial year ending 2020 (Percentage Point Change)	Effect ²	Cumulative effect ³
April 2019	Increases in vehicle excise duties.	0.02	
	Decreases in social housing rents.	-0.02	0.00
	Previous year's increases in vehicle excise duties drop out of the 12 month comparison.	-0.04	-0.04
	Previous year's decreases in social housing rents drop out of the 12 month comparison.	0.03	-0.01
November 2019 ⁴	Previous year's increases in tobacco duties drop out of the 12 month comparison.	-0.07	-0.08
February 2020	Previous year's increases in alcohol duties drop out of the 12 month comparison.	-0.01	-0.09

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 November Budget 2017 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.
4. Duty changes on tobacco come into effect from the 29th October after prices for October have been collected. This means the changes will not be reflected in inflation measures until November.

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.

In accordance with the [Statistics and Registration Service Act 2007](#), the Retail Prices Index and its derivatives have been assessed against the [Code of Practice for Statistics](#) and found not to meet the required standard for designation as [National Statistics](#). The RPI 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. 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 September 2018 indices.

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