

Article

Estimated effect of the Budget on consumer price inflation: Spring 2021

The estimated direct effect of implementing the tax rate changes announced in the March 2021 Budget, previous Budgets and pre-Budget reports on the Consumer Prices Index including owner occupiers' housing costs (CPIH) and the Consumer Prices Index (CPI).



Contact:
Andy King
cpi@ons.gov.uk
+44 (0)1633 456900

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Table of contents

1. [Main points](#)
2. [Overview of the estimated effect of the Budget](#)
3. [Budget measures that will affect the CPIH and CPI](#)
4. [Effect of the Budget on the CPIH and CPI 1-month inflation rate](#)
5. [Cumulative effects of the Budget on the CPIH and CPI 12-month inflation rate](#)
6. [Effects on other measures of consumer price inflation](#)
7. [Related links](#)

1 . Main points

- As alcohol, tobacco or road fuel duty were unchanged in the Budget, only changes to Vehicle Excise Duty (VED) will have a direct impact on the Consumer Prices Index including owner occupiers' housing costs (CPIH) and Consumer Prices Index (CPI) 1-month inflation rates in financial year ending (FYE) 2022.
- Over FYE 2022, it is estimated that the Budget changes will have a cumulative downward effect of 0.03 percentage points on both CPIH and CPI 12-month inflation rates, because the 12-month inflation rates are affected by base effects from changes announced in previous Budgets.
- It is estimated the changes to VED introduced in April 2021 will have an upward contribution to the CPIH and CPI 1-month inflation rates of 0.02 and 0.03 percentage points, respectively.

2 . Overview of the estimated effect of the Budget

This article explains the estimated effect of implementing measures announced in the March 2021 Budget, previous Budgets, and pre-Budget reports on the Consumer Prices Index including owner occupiers' housing costs (CPIH) and the Consumer Price Index (CPI). The estimated impact on the Retail Prices Index (RPI), a legacy measure that is currently required under legislation, is presented in [Section 6](#).

The estimated effect of the [March 2021 Budget](#) on consumer price inflation is based on applying the proposed duty rates to the CPIH and CPI. By measuring the effect on the item and aggregated indices, it is possible to estimate how the 2021 Budget may affect consumer price inflation.

It should be noted that our approach is unable to measure the effects of all the proposed changes in the 2021 Budget and does not take into consideration the indirect effects of policy changes within the 2021 Budget. The Office for Budget Responsibility (OBR) outlines the inflationary impacts of the policies announced in the 2021 Budget in the [Economic and Fiscal Outlook – March 2021](#).

The effects of Spending Review 2020 on tobacco duty are reflected in this article. However, we have not reflected the impact of the temporary reduction in VAT, announced on 8 July 2020. The effect of this change on measures of consumer price inflation was explored in [Impacts of Eat Out to Help Out on consumer prices: August 2020](#).

This article does not attempt to quantify the impact of changing consumer or producer behaviour, nor any other secondary impact following the Budget policy announcements. 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 as changes to duties may affect the index over a period of months as stocks deplete.

3 . Budget measures that will affect the CPIH and CPI

Table 1 details the measures announced in the 2021 Budget that will affect the Consumer Prices Index including owner occupiers' housing costs (CPIH) and the Consumer Price Index (CPI) 1-month inflation rates in the financial years ending (FYE) 2021 and 2022, 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.

Aside from including owner occupiers' housing costs (OOH) and Council Tax, CPIH is otherwise identical to CPI. The size of the contributions for components other than OOH and Council Tax are exaggerated in the CPI compared with the CPIH because they account for a larger proportion of the overall index.

Table 1: Budget announcements, financial years ending 2021 and 2022

Changes	Percentage points contribution to 1-month change		Timing of effect
	CPIH	CPI	
Changes to excise duties¹			
Alcohol			
Budget 2021 announced that duty rates on alcohol would remain unchanged.	0.00	0.00	NA
Tobacco			
No changes to duty rates for tobacco products were announced at the Budget 2021.	0.00	0.00	NA
Vehicle Excise Duty (VED)			
Budget 2021 announced that VED rates for cars, vans and motorcycles would increase by RPI.	0.02	0.03	1 April 2021
Air Passenger Duty (APD)			
Budget 2021 announced APD rates for long-haul flights would increase in line with RPI. APD rates on short-haul flights will remain unchanged. The impact on the headline inflation rates is estimated to be negligible.	0.00	0.00	1 April 2021
Road Fuel			
The rate for unleaded petrol and heavy oil (diesel) remained frozen in the Budget 2021.	0.00	0.00	NA
Changes to indirect taxes			
Value Added Tax (VAT)			
There were no changes announced in the Budget 2021 pertaining to the CPI, CPIH or RPI.	0.00	0.00	NA
Insurance Premium Tax (IPT)			
There were no changes to the standard rate of IPT announced at the Budget 2021.	0.00	0.00	NA

Source: Office for National Statistics – Consumer price inflation

Notes

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

4 . Effect of the Budget on the CPIH and CPI 1-month inflation rate

Table 2 presents a comparison of the effect on the Consumer Prices Index including owner occupiers' housing costs (CPIH) and the Consumer Price Index (CPI) 1-month inflation rates of the Budget measures that were implemented in the financial year ending (FYE) 2021, and those known measures that will be implemented in FYE 2022. There is also the possibility of further changes being announced in the next Spending Review (confirmed in Budget 2021) and subsequent Budgets.

The known measures that will be implemented in FYE 2022 are estimated to increase the CPIH 1-month inflation rate by approximately 0.02 percentage points and the CPI 1-month inflation rate by approximately 0.03 percentage points.

Table 2: Budget effects on CPIH and CPI 1-month rate, UK, financial years ending 2021 and 2022

	CPIH		CPI	
	2020 to 2021 ²	2021 to 2022 ³	2020 to 2021 ²	2021 to 2022 ³
Excise duties				
Tobacco	0.03	0.00	0.04	0.00
Alcohol	0.00	0.00	0.00	0.00
Vehicle excise duty	0.02	0.02	0.02	0.03
Air passenger duty	0.01	0.00	0.01	0.00
Road fuel	0.00	0.00	0.00	0.00
Indirect Taxes				
Value Added Tax	0.00	0.00	0.00	0.00
Women's sanitary products	-0.01	-	-0.01	-
E-publications	0.00	-	0.00	-
Effect of known budget measures over the entire financial year¹	0.05	0.02	0.06	0.03

Source: Office for National Statistics – Consumer price inflation

Notes

1. The overall effect is calculated as the sum of the individual rounded effects shown in the table.
2. Historical estimates provided were calculated at the time of the March Budget 2020 and have not been revised in light of new information, with the exception of tobacco, where duty changes were announced later in the year and came into effect in November 2020.
3. A dash represents no relevant Budget announcement relating to the item and period in question.

5 . Cumulative effects of the Budget on the CPIH and CPI 12-month inflation rate

The following tables show the cumulative effects on the all items Consumer Prices Index including owner occupiers' housing costs (CPIH), and the Consumer Price Index (CPI) 12-month inflation rates of the 2021 Budget measures implemented in the financial year ending (FYE) 2021 and known measures that will be implemented in FYE 2022. They also show the likely timing of effects on the CPIH and CPI 12-month inflation 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 next Spending Review (confirmed in Budget 2021) and subsequent Budgets.

Effects on the CPIH 12-month inflation rate

It is estimated the known Budget measures implemented in FYE 2022 will decrease the CPIH 12-month rate by 0.03 percentage points. This is because the 1-month rate inflation changes of 0.02, implemented in FYE 2022, will be offset by 1-month rate changes of 0.05 in FYE 2021.

Table 3: Cumulative effect of Budget changes on the CPIH 12-month rate, UK, financial year ending 2022

CPIH date	Budget measures impacting in the financial year ending 2022 (Percentage Point Change)	Effect ¹	Cumulative effect ²
Apr 2021	Increases in vehicle excise duties.	0.02	
	Previous year's increases in vehicle excise duties drop out of the 12 month comparison.	-0.02	0.00
	Previous year's increases in air passenger duty drop out of the 12 month comparison.	-0.01	-0.01
Dec 2021	Previous year's increases in tobacco duty drops out of the 12 month comparison.	-0.03	-0.04
Jan 2022	Previous year's removal of VAT from women's sanitary products drops out of the 12 month comparison.	0.01	-0.03

Source: Office for National Statistics – Consumer price inflation

Notes

1. Historical estimates provided were calculated at the time of the March Budget 2020 and have not been revised in light of new information with the exception of tobacco where duty changes were announced later in the year and came into effect in November 2020.
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 Budget measures implemented in FYE 2022 will decrease the CPI 12-month rate by 0.03 percentage points. This is because the 1-month rate inflation changes of 0.03, implemented in FYE 2022, will be offset by 1-month rate changes of 0.06 in FYE 2021.

Table 4: Cumulative effect of Budget changes on the CPI 12-month rate, UK, in the financial year ending 2022

CPI date	Budget measures impacting in the financial year ending 2022 (Percentage Point Change)	Effect ¹	Cumulative effect ²
Apr 2021	Increases in vehicle excise duties.	0.03	
	Previous year's increases in vehicle excise duties drop out of the 12 month comparison.	-0.02	0.01
	Previous year's increases in air passenger duty drop out of the 12 month comparison.	-0.01	0.00
Dec 2021	Previous year's increases in tobacco duty drops out of the 12 month comparison.	-0.04	-0.04
Jan 2022	Previous year's removal of VAT from women's sanitary products drops out of the 12 month comparison.	0.01	-0.03

Source: Office for National Statistics – Consumer price inflation

Notes

1. Historical estimates provided were calculated at the time of the March Budget 2020 and have not been revised in light of new information with the exception of tobacco, where duty changes were announced later in the year and came into effect in November 2020.
2. The cumulative effect is calculated as the sum of the individual rounded effects shown in the table.

The effects of the Budget measures shown in this article are estimates.

Percentage point contributions to the CPIH and CPI 1-month change are based on average retail prices as measured in the January 2021 indices.

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

6 . Effects on other measures of consumer price inflation

In accordance with the [Statistics and Registration Service Act 2007](#), the Retail Prices Index (RPI) 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. For further information, please see [Users and uses of consumer price inflation statistics](#).

It is estimated the known Budget measures implemented in the financial year ending (FYE) 2022 will decrease the RPI 12-month rate by 0.04 percentage points. This is because the 1-month rate inflation changes of 0.02, implemented in FYE 2022, will be offset by 1-month rate changes of 0.06 in FYE 2021.

Table 5: Cumulative effect of Budget changes on the RPI 12-month rate, UK, financial year ending 2022

RPI date ¹	Budget measures impacting in the financial year ending 2022 (Percentage Point Change)	Effect ²	Cumulative effect ³
Apr 2021	Increases in vehicle excise duties.	0.02	
	Previous year's increases in vehicle excise duties drop out of the 12 month comparison.	-0.01	0.01
	Previous year's increases in air passenger duty drop out of the 12 month comparison.	-0.01	0.00
Dec 2021	Previous year's increases in tobacco duty drops out of the 12 month comparison.	-0.05	-0.05
	Previous year's removal of VAT from E-books drops out of the 12 month comparison.	0.01	-0.04

Source: Office for National Statistics – Consumer price inflation

Notes

1. 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 Official Statistics and found not to meet the required standard for designation as National Statistics.
2. Historical estimates provided were calculated at the time of the March Budget 2020 and have not been revised in light of new information, with the exception of tobacco, where duty changes were announced later in the year and came into effect in November 2020.
3. The cumulative effect is calculated as the sum of the individual rounded effects shown in the table.

7 . Related links

[Consumer prices inflation, UK](#)

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