

Article

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

The estimated impact of implementing measures announced in the Autumn 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).



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Release date:
10 November 2021

Next release:
To be announced

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1 . Main points

- The 2021 Autumn Budget announced changes to Vehicle Excise Duty (VED), tobacco duty, the tax band structure for air passenger duty, and a review of duty rates on alcohol; these may all have a direct impact on the Consumer Prices Index, including owner occupiers' housing costs (CPIH) and Consumer Prices Index (CPI) inflation rates.
- We estimate changes to tobacco duty, which came into effect from 27 October 2021, will increase the one-month inflation rate in November 2021 by 0.08 and 0.10 percentage points for CPIH and CPI respectively; this will cause an offsetting fall in the 12-month rate in November 2022 (assuming that no further duty changes occur).
- Changes to VED, which will be introduced in April 2022, will have an estimated upward contribution to the CPIH and CPI one-month inflation rates of 0.04 and 0.05 percentage points respectively.
- The 2021 Autumn Budget changes will reduce CPIH and CPI 12-month inflation rates by an estimated 0.06 and 0.08 percentage points respectively over 2022-23; 12-month rates are also affected by offsetting base effects from changes announced in previous budgets, such as VED changes introduced in April 2021 and announced in the March 2021 budget.
- Duty rates on alcohol remain unchanged from 2021 to 2022, however, a consultation is underway regarding a major reform to alcohol duty rates, which is due to come into effect in February 2023; this is out of scope of this report.
- Changes to the tax band structure for air passenger duty are due to come into effect in April 2023, outside of the time frame covered by this report.

2 . Overview of estimated effect of the Budget

This article explains the estimated effect of implementing measures announced in the October 2021 Autumn 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 [October 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 October 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 October 2021 Budget and does not take into consideration the indirect effects of policy changes within the October 2021 Budget. The Office for Budget Responsibility outline the inflationary impacts of the policies announced in the March 2021 Budget in the [Economic and Fiscal Outlook – March 2021](#).

We have not reflected the impact of the temporary reduction in value-added tax (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](#). The VAT reduction was further extended to the end of September 2021 and rose to 12.5% at the beginning of October 2021. It will return to 20% at the end of March 2022.

This article does not attempt to quantify the impact of changing consumer or producer behaviour, or 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.

We estimate the effect of a budget change by using average prices for September 2021, adjusting them to reflect the new rates. This assumes that the estimated impact in September 2021 is the same as for other months after the change is introduced. We then apply the difference in average price before and after the budget to that item's corresponding price index and recalculate its contribution to the overall inflation measures. Some of the estimated impact will therefore be because of the estimation methodology used; however, this is assumed to be small. This report only provides impact estimates for tax rates that have changed and does not reflect the impact of other measures announced in the budget, such as frozen tax rates.

Duty rates on alcohol remain unchanged, however, a major reform to alcohol duty rates is underway and planned to come into effect in February 2023. We have not included an impact estimate in this report as the reform is still going through the consultation process. Changes to weights and the basket of goods between now and February 2023 are also likely to reduce the accuracy of any estimates we could provide at this time.

3 . Budget measures that will affect the CPIH and CPI

Table 1 details the measures announced in the October 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 2022 and 2023, along with the estimated magnitude of the effect. For announcements from previous budgets please see the previous version of this article in the [Related links](#) section.

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: Autumn 2021 Budget announcements
UK, financial years ending 2022 and 2023

Changes		Percentage points contribution to 1-month change		Timing of effect
		CPIH	CPI	
Changes to excise duties¹				
Alcohol	October Budget 2021 announced that duty rates on alcohol would remain unchanged. However, a consultation is underway regarding a major reform to alcohol duty rates which will come into effect in February 2023.	0.00	0.00	NA
Tobacco	October Budget 2021 announced that duty rates for all tobacco products would increase by 2% above RPI, except for hand-rolling tobacco which will increase by 6% above RPI.	0.08	0.10	27 Oct 21
Vehicle Excise Duty (VED)	October Budget 2021 announced that VED rates for cars, vans and motorcycles would increase by RPI.	0.04	0.05	1 Apr 22
Air Passenger Duty (APD)	October 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 Apr 22
Road Fuel	The rate for unleaded petrol and heavy oil (diesel) remained frozen in the October Budget 2021.	0.00	0.00	NA
Changes to indirect taxes				
Value Added Tax (VAT)	There were no new changes announced in the October Budget 2021 pertaining to the CPI or CPIH.	0.00	0.00	NA
Insurance Premium Tax (IPT)	There were no changes to the standard rate of IPT announced at the October 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 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 2022 and those known measures that will be implemented in the financial year ending 2023. There is also the possibility of further changes being announced in the next Spending Review and subsequent Budgets. The known measures that will be implemented in the financial year ending 2023 are estimated to increase the CPIH 1-month inflation rate by approximately 0.04 percentage points and the CPI 1-month inflation rate by approximately 0.05 percentage points.

Table 2: Budget effects on the CPIH and CPI 1-month inflation rate
UK, financial years ending 2022 and 2023

Changes	Percentage points contribution to 1-month change			
	CPIH		CPI	
	2021 to 2022 ²	2022 to 2023	2021 to 2022 ²	2022 to 2023
Excise duties				
Tobacco	0.08	0.00	0.10	0.00
Alcohol	0.00	0.00	0.00	0.00
Vehicle excise duty	0.02	0.04	0.03	0.05
Air passenger duty	0.00	0.00	0.00	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
Effect of known budget measures over the entire financial year¹	0.10	0.04	0.13	0.05

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. Historic estimates provided were calculated at the time of the March Budget 2021 and have not been revised in light of new information, with the exception of tobacco, where duty changes were announced in the October 2021 budget and came into effect on 27 October 2021.

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 October 2021 Budget measures that were implemented in the financial year ending 2022 and known measures that will be implemented in the financial year ending 2023. 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 and subsequent Budgets.

Effects on the CPIH 12-month inflation rate

It is estimated the known Budget measures implemented in the financial year ending 2023 will decrease the CPIH 12-month rate by 0.06 percentage points. This is because the 1-month rate inflation changes of 0.04, implemented in the financial year ending 2023, will be offset by 1-month rate changes of 0.10 in the financial year ending 2022.

Table 3: Cumulative effect of Budget changes on the CPIH 12-month inflation rate
UK, financial year ending 2023

CPIH date	Budget measures impacting in the financial year ending 2023 (percentage point change)	Effect ¹	Cumulative effect ²
April 2022	Increases in vehicle excise duties.	0.04	
	Previous year's increases in vehicle excise duties drop out of the 12 month comparison.	-0.02	0.02
November 2022	Previous year's increases in tobacco duty drops out of the 12 month comparison.	-0.08	-0.06

Source: Office for National Statistics - Consumer price inflation

Notes

1. Historic estimates provided were calculated at the time of the March Budget 2021 and have not been revised in light of new information with the exception of tobacco where duty changes were announced in the October Budget and came into effect 27 October 2021.
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 the financial year ending 2023 will decrease the CPI 12-month rate by 0.08 percentage points. This is because the 1-month rate inflation changes of 0.05, implemented in the financial year ending 2023, will be offset by 1-month rate changes of 0.13 in the financial year ending 2022.

Table 4: Cumulative effect of Budget changes on the CPI 12-month inflation rate
UK, financial year ending 2023

CPI date	Budget measures impacting in the financial year ending 2023 (percentage point change)	Effect¹	Cumulative effect²
April 2022	Increases in vehicle excise duties.	0.05	
	Previous year's increases in vehicle excise duties drop out of the 12 month comparison.	-0.03	0.02
November 2022	Previous year's increases in tobacco duty drops out of the 12 month comparison.	-0.10	-0.08

Source: Office for National Statistics - Consumer price inflation

Notes

1. Historic estimates provided were calculated at the time of the March Budget 2021 and have not been revised in light of new information with the exception of tobacco where duty changes were announced later in the October Budget and came into effect 27 October 2021.
2. The cumulative effect is calculated as the sum of the individual rounded effects shown in the table.

The effects of the Budgets 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 September 2021 indices.

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

6 . Cumulative effect of Budget changes on the RPI 12-month inflation rate

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 UK Statistics Authority policy to address the shortcomings of the RPI in full at the earliest practical time, by bringing in the methods and data sources of CPIH. The change we propose can legally and practically be made by the Authority in February 2030. For more information, please refer to the recent [consultation on reform to the RPI methodology](#).

It is estimated the known Budget measures implemented in the financial year ending 2023 will decrease the RPI 12-month rate by 0.09 percentage points. This is because the 1-month rate inflation changes of 0.03, implemented in the financial year ending 2023, will be offset by 1-month rate changes of 0.12 in the financial year ending 2022.

Table 5: Cumulative effect of Budget changes on the RPI 12-month rate
UK, year ending 2023

RPI date ¹	Budget measures impacting in the financial year ending 2023 (percentage point change)	Effect ²	Cumulative effect ³
April 2022	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
November 2022	Previous year's increases in tobacco duty drops out of the 12 month comparison.	-0.10	-0.09

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. Historic estimates provided were calculated at the time of the March Budget 2021 and have not been revised in light of new information, with the exception of tobacco, where duty changes were announced in the October 2021 Budget and came into effect 27 October 2021.
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](#)

Bulletin | Released monthly

Price indices, percentage changes and weights for the different measures of consumer price inflation.

[Estimated effect of the Budget on consumer price inflation: Spring 2021](#)

Article | 16 March 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).