

Article

# Drivers of recent trends in consumer prices: May 2021

In this analysis we explore the drivers of recent low rates of consumer price inflation and consider the experiences of different industry sectors during the coronavirus (COVID-19) pandemic.

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# 1 . Main points

- Transport and energy have been among the largest drivers of the inflation rate since April 2020.
- Prices for food and non-alcoholic beverages have fallen slightly from their pre-pandemic level despite high demand and certain costs increasing.
- Prices for clothing and footwear have fallen during each lockdown, in line with sharp falls in demand.
- Restaurant price inflation was lower overall in 2020 than 2019 while prices for other services such as haircuts increased.
- The 12-month growth rate of Consumer Prices Index including owner occupiers' housing costs (CPIH) rose sharply to 1.6% in April 2021, the first month in which prices are being compared between two periods of the coronavirus (COVID-19) pandemic.

## 2 . Overview

Consumer price inflation as measured by the growth of the Consumer Prices Index including owner occupiers' housing costs (CPIH) fell sharply as the coronavirus (COVID-19) pandemic started to take hold in the UK in spring 2020 and have remained relatively low since. The 12-month growth rate of CPIH remained below 1.2% each month from April 2020 to March 2021, with a range of divisions contributing to the low rate.

The pandemic has had profound effects on consumers and firms, [particularly during the first lockdown](#) from 23 March to 13 May 2020 when many types of consumer spending were unavailable. As restrictions eased, consumers are [likely to have responded differently to different types of purchases and different sectors](#), with some consumption having been delayed until the sector re-opened while others may just be foregone. Essential purchases such as durables are more likely to be delayed than foregone as they would still be required, whereas non-essential goods and services such as entertainment may be more likely to be foregone as there is a limit to how often one would go out for a meal or go to the cinema, especially when still facing elevated health risks.

Figure 1 shows the average contribution each division of CPIH made to the 12-month growth rate between April 2019 and March 2020 and between April 2020 and March 2021. Data for April 2021 are excluded here as they are affected by base effects and therefore show unusually high contributions, the price level being compared with the first month of the initial lockdown.

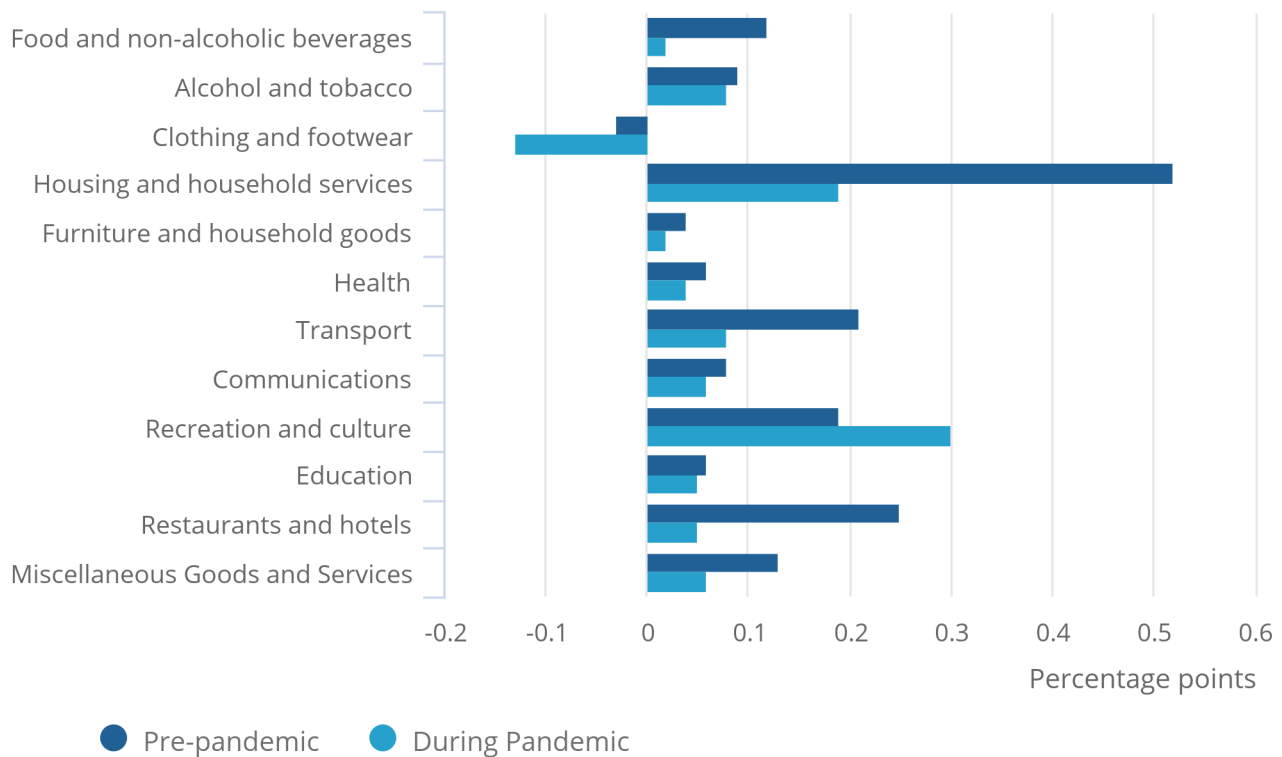
Only one division, recreation and culture, made a larger contribution during the pandemic than in the pre-pandemic period. This likely reflects the mixed experience of recreation and culture – with large parts of the sector being unavailable and other parts such as streaming services being in high demand during lockdown – and [the imputation methods which use the all-item growth rates for available items to minimise the impact on the headline statistics](#).

**Figure 1: Most divisions made lower average contributions to the 12-month growth rate of CPIH during the pandemic than in the pre-pandemic period**

Average contributions to the 12-month growth rate of the Consumer Prices Index including owner occupiers' housing costs (CPIH), UK, April 2019 to March 2020 and April 2020 to March 2021

Figure 1: Most divisions made lower average contributions to the 12-month growth rate of CPIH during the pandemic than in the pre-pandemic period

Average contributions to the 12-month growth rate of the Consumer Prices Index including owner occupiers' housing costs (CPIH), UK, April 2019 to March 2020 and April 2020 to March 2021



Source: Office for National Statistics – Consumer Prices Index including owner occupiers' housing costs

Notes:

1. "Pre-pandemic" refers to April 2019 to March 2020, "During Pandemic" refers to April 2020 to March 2021.

While two of the biggest drivers of low inflation during the pandemic – energy prices and transport – reflect the role of global factors in reducing costs, some of the other components of CPIH may shed some light on the role of consumer preferences and expectations on inflation since April 2020. In particular, we focus on food and non-alcoholic beverages, clothing and footwear, restaurants and hairdressers.

Prices for transport components fell largely because of the [sharp fall in world prices for crude oil](#) which was one of the first commodities affected by the pandemic when it initially took hold in China. This fed through directly to fuels and lubricants and indirectly to transport services, and prices remained low as demand fell with [people travelling less than usual](#). While travel picked up over the course of 2020, and crude oil prices rose, price growth for transport components remained low or negative as it was being compared with higher demand in the pre-pandemic period.

Price falls for housing and household services were largely driven by movements in energy prices, which reflect scheduled changes to the OFGEM (Office of Gas and Electricity Markets) energy price cap. The price cap [fell by 1% in April 2020](#), which was pre-announced in February 2020 and therefore not directly responding to UK domestic market changes during the pandemic. The energy price cap [fell even further, by 7%](#), in October 2020, reflecting underlying market conditions during the pandemic. Both of these changes put considerable downward pressure on annual inflation. More recently the price cap [rose by 9% in April 2021](#), contributing to the rise in the annual inflation rate.

Prices for clothing and footwear fell sharply at the beginning of the pandemic in response to falling demand as non-essential retail stores initially closed and demand for new clothes fell as people spent more time at home. The usual seasonal pattern of price movements for clothing and footwear was also absent in 2020, further contributing to low inflation. These trends are explored further in Section 4: Clothing and footwear.

### 3 . Food and non-alcoholic beverages

Food and non-alcoholic beverages initially made increasing contributions to the inflation rate, until May 2020, likely reflecting increased demand at the beginning of the pandemic with some [stockpiling and shortages occurring](#) . However, this fell back over the summer and between November 2020 and March 2021 food and non-alcoholic beverages made negative contributions to the 12-month growth rate of Consumer Prices Index including owner occupiers' housing costs (CPIH). The index series for food and non-alcoholic beverages shows that their prices remained relatively flat over the period and gradually decreased over the latter half of 2020.

Supermarkets, like all retailers, have faced unusual trading conditions since April 2020, although at times of strictest lockdown restrictions they were often among the only shops allowed to open, being classified as essential retail. Data from the Retail Sales Index (RSI) show that [sales in predominantly food stores rose rapidly in March 2020 and have remained relatively high since](#). This rise in demand appears not to have had a strong upward impact on consumer prices for food and non-alcoholic beverages over most of the period, although during the first lockdown prices rose and shortages of certain goods were reported.

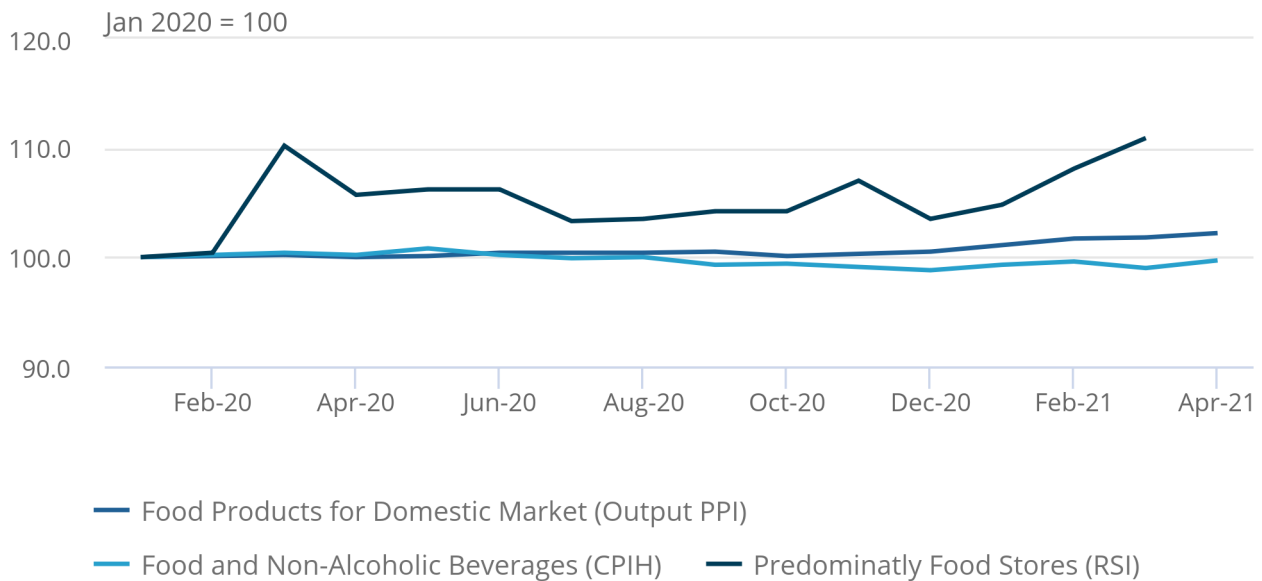
Demand for food and non-alcoholic beverages has risen in each lockdown, likely reflecting a range of factors including uncertainty about the availability of essentials and home-cooked food being used as a substitute for unavailable restaurant services. Retailers were [strongly discouraged from large price increases](#) as demand shot up, but there are reports that [multibuy discounts were also less frequent during lockdown periods](#).

**Figure 2: Consumer prices for food fell from January 2020 while output producer prices rose slightly and retail sales in predominantly food stores rose sharply**

Index values for food products for the domestic market component of Output Producer Price Index (PPI), the food and non-alcoholic beverages component of CPIH and the predominantly food stores component of the Retail Sales Index (RSI) UK, January 2020 to April 2021

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Index values for food products for the domestic market component of Output Producer Price Index (PPI), the food and non-alcoholic beverages component of CPIH and the predominantly food stores component of the Retail Sales Index (RSI) UK, January 2020 to April 2021



**Source: Office for National Statistics – Consumer Prices Index including owner occupiers’ housing costs, Output Producer Price Index and Retail Sales Index**

**Notes:**

1. The most recent available data for the Retail Sales Index are for March 2021.

Data from the output Producer Price Index (PPI) food products for domestic market series show that output prices were flatter than consumer prices and did not fall as much between May and December 2020 when consumer prices for food fell by almost 2%.

All retailers faced new health and safety measures such as making arrangements for social distancing, providing personal protective equipment (PPE) for staff and additional cleaning, imposing costs that had not previously been a factor. Some retailers have also [reported additional unexpected costs from higher than usual incidents of staff sickness absence during the pandemic](#). Supermarkets were eligible for government funded business rate relief and most took up the support, although [several subsequently repaid the money](#).

## 4 . Clothing and footwear

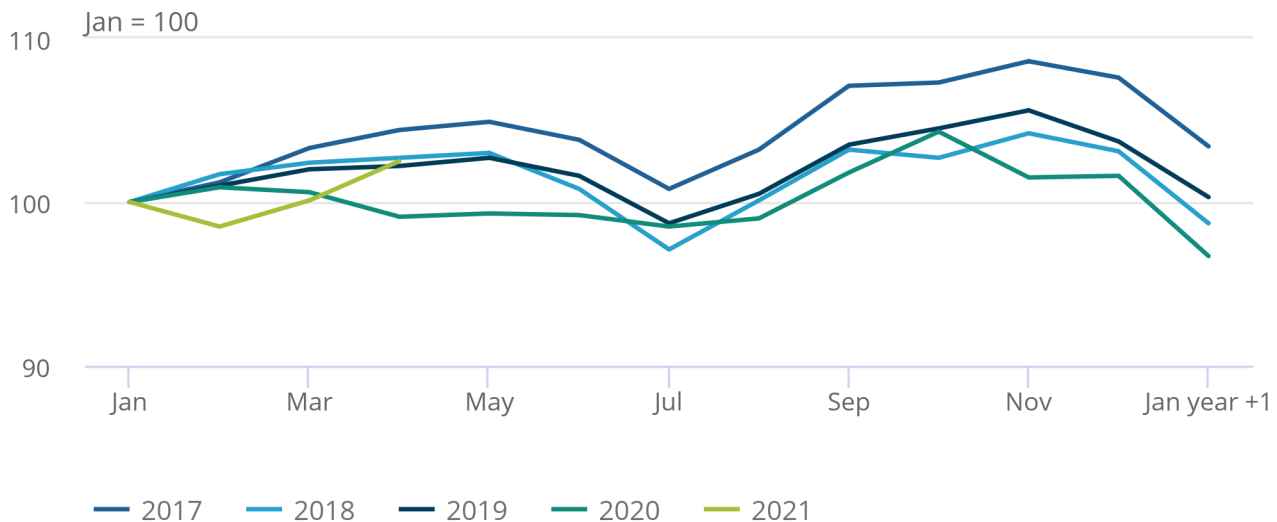
Clothing and footwear has seen one of the largest changes in price trends since the beginning of the pandemic with usual seasonal patterns all but disappearing in 2020. Figure 3 shows movements in clothing and footwear prices since 2017, indexed to January of each year, and a clear seasonal trend of prices rising through the spring before falling back in the summer and rising again through the autumn and winter. These patterns reflect the seasonal nature of clothing with discounting typically taking place at standard times each year to clear old season stock and make space for the new season's trends.

**Figure 3: Clothing prices have not followed their usual seasonal trends during the pandemic**

Price index for the clothing and footwear component of the Consumer Prices Index including owner occupiers' housing costs (CPIH), UK, January 2017 to April 2021

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Price index for the clothing and footwear component of the Consumer Prices Index including owner occupiers' housing costs (CPIH), UK, January 2017 to April 2021



Source: Office for National Statistics – Consumer Prices Index including owner occupiers' housing costs

Clothing and footwear prices fell in March 2020 and April 2020 as non-essential retail stores closed, restricting clothing stores to online transactions, until 15 June 2020. Retail Sales Index (RSI) data show transactions in textile, clothing and footwear stores (including online sales) [falling by around two-thirds between February 2020 and April 2020](#). This fall in demand is likely to reflect both the closure of physical stores, with people no longer able to try clothes on before buying, and the effects of the wider lockdown on demand, with people working from home and no longer going out to socialise and so on. Although sales subsequently increased, they have remained below pre-pandemic levels, suggesting that consumption was not just delayed until stores re-opened.

Clothing prices were lower than would be expected from usual seasonal patterns between February 2020 and June 2020, but also did not fall as would usually be seen in July 2020. For the rest of the year price movements were more typical, with the exception of November 2020 when restrictions were tightened and prices fell again. The same pattern can be seen in 2021 with prices returning to their usual level as lockdown restrictions eased in April 2021.

Clothing stores experienced [new costs](#) in complying with health and safety measures such as social distancing, providing personal protective equipment (PPE) for staff and adapting to online only sales during lockdowns, while some stores had no online presence and were therefore unable to trade during the strictest lockdown periods. When lockdowns eased, clothing prices did not rise any more than would be expected in normal seasonal trends, suggesting that these increased costs were not passed directly on to consumers. This may reflect the sustained low demand for clothing which may not support price rises.

## 5 . Restaurants

Restaurants and cafes have faced very variable trading conditions since April 2020, being forced to close during national lockdowns and certain local lockdowns, complying with social distancing requirements when reopening and at times being restricted to outdoor dining or takeaway only.

Figure 4 shows price movements for restaurants and cafes since January 2017, indexed to January each year, which shows that typically prices increase gradually throughout the year. In 2020 prices followed a very different trend with prices initially falling in June 2020, before rising as indoor service resumed with strict social distancing requirements in July 2020.

When faced with reduced capacity, to maintain the same profits, restaurants may need to increase the return from each meal sold to cover fixed operating costs, but this is only possible through price rises if there is sufficient demand at a higher price. This reduced capacity could be offset, however, if other costs fall.

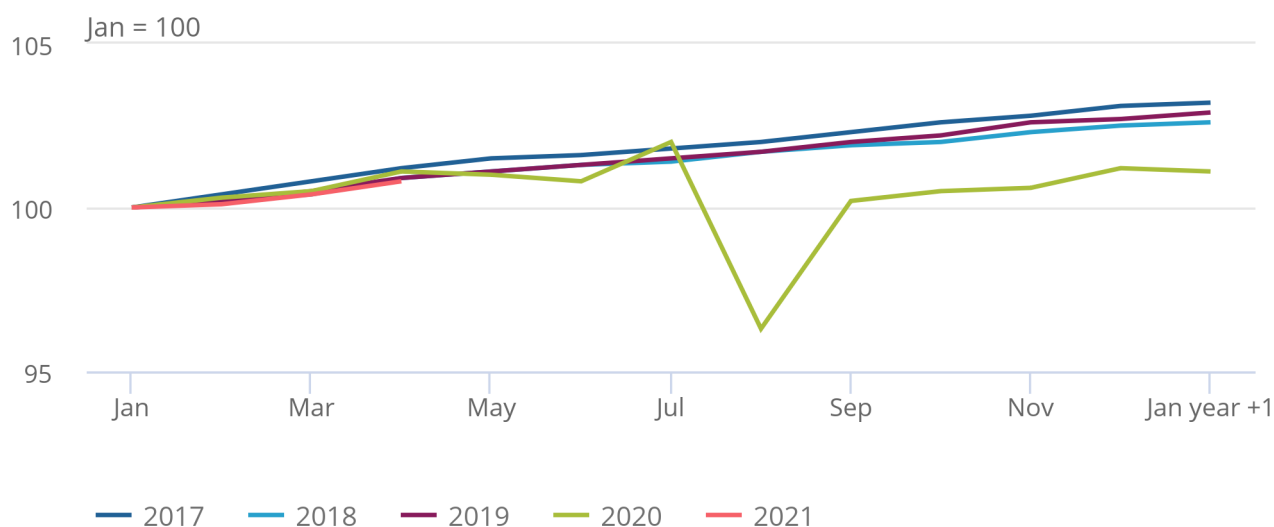
Prices fell sharply in August 2020 as the government introduced the [Eat Out to Help Out scheme](#), offering a 50% discount on meals eaten in a restaurant on Monday to Thursday, up to the value of £10. The scheme was [widely adopted by restaurants](#) and helped to encourage diners to eat out again, running from 3 August to 31 August 2020.

**Figure 4: Restaurant prices fell sharply in August 2020 during Eat Out to Help Out with lower overall inflation in 2020 compared with 2019 levels**

Price index for the restaurants and cafes component of the Consumer Prices Index including owner occupiers' housing costs (CPIH), UK, January 2017 to April 2021

Figure 4: Restaurant prices fell sharply in August 2020 during Eat Out to Help Out with lower overall inflation in 2020 compared with 2019 levels

Price index for the restaurants and cafes component of the Consumer Prices Index including owner occupiers' housing costs (CPIH), UK, January 2017 to April 2021



Source: Office for National Statistics – Consumer Prices Index including owner occupiers' housing costs

Restaurant prices rose again as the Eat Out to Help Out scheme ended in September 2020, although some restaurants continued to offer discounts on the same basis, suggesting that they perhaps felt consumers needed the additional incentive in order to offset continued concerns over the COVID-19 pandemic exposure.

While prices have increased broadly in line with usual trends since September 2020, overall inflation in 2020 was lower than in 2019, [perhaps reflecting reduced demand](#). Restaurants have also been eligible for government support through the business rates relief scheme (from April 2020) and a [reduced rate of Value Added Tax \(VAT\) applicable from July 2020](#). Some restaurant chains have publicised their decision to [reduce prices in response to the VAT cut](#) which, as well as contributing directly to the lower price level, may have increased price competition for other restaurants.

## 6 . Hairdressers

Hairdressers make up a relatively small part of the Consumer Prices including owner occupiers' housing (CPIH) basket but have faced similar challenging trading conditions as other services such as restaurants and recreational services.



Figure 5 shows price movements for restaurants and cafes, and hairdressers and personal grooming establishments since January 2020. Comparing prices following the easing of lockdown restrictions in July 2020 with those before lockdown in March, prices for hairdressers rose sharply, in contrast to those for restaurants.

**Figure 5: Prices for haircuts rose when lockdown eased in July 2020 while restaurant prices remained below pre-pandemic levels before making recoveries within the first few months of 2021**

Price indices for the hairdressing and personal grooming establishments and restaurants and cafes components of the Consumer Prices Index including owner occupiers' housing costs (CPIH), UK, January 2017 to April 2021

Figure 5: Prices for haircuts rose when lockdown eased in July 2020 while restaurant prices remained below pre-pandemic levels before making recoveries within the first few months of 2021



**Source: Office for National Statistics – Consumer Prices Index including owner occupiers' housing costs**

As discussed in Section 5, the sharp fall in restaurant prices in August 2020 was driven mainly by the Eat Out to Help Out scheme, however, price rises since the scheme ended have broadly followed their usual pattern and there has not been a similar sharp increase to that seen in hairdressing.

As with other service sector firms, hairdressers have faced [increased costs to comply with additional health and safety measures](#) such as social distancing, additional cleaning and providing personal protective equipment for staff, which they may have passed on to consumers. They have been eligible for government supported business rates relief but not the additional Value Added Tax (VAT) reduction for the hospitality sector, which may partially explain the difference in price movements with restaurants.

Hairdressers and restaurants also likely face different types of demand from consumers, eating out is a recreational activity that can be substituted to some extent by other activities such as cooking at home or buying a takeaway. Haircuts, on the other hand, are a more essential service for most people and cannot easily be substituted. As such, consumers may be more willing to accept higher prices, and the perceived health risk of being indoors with others, for an essential service like a haircut than for a recreational service like a meal in a restaurant.

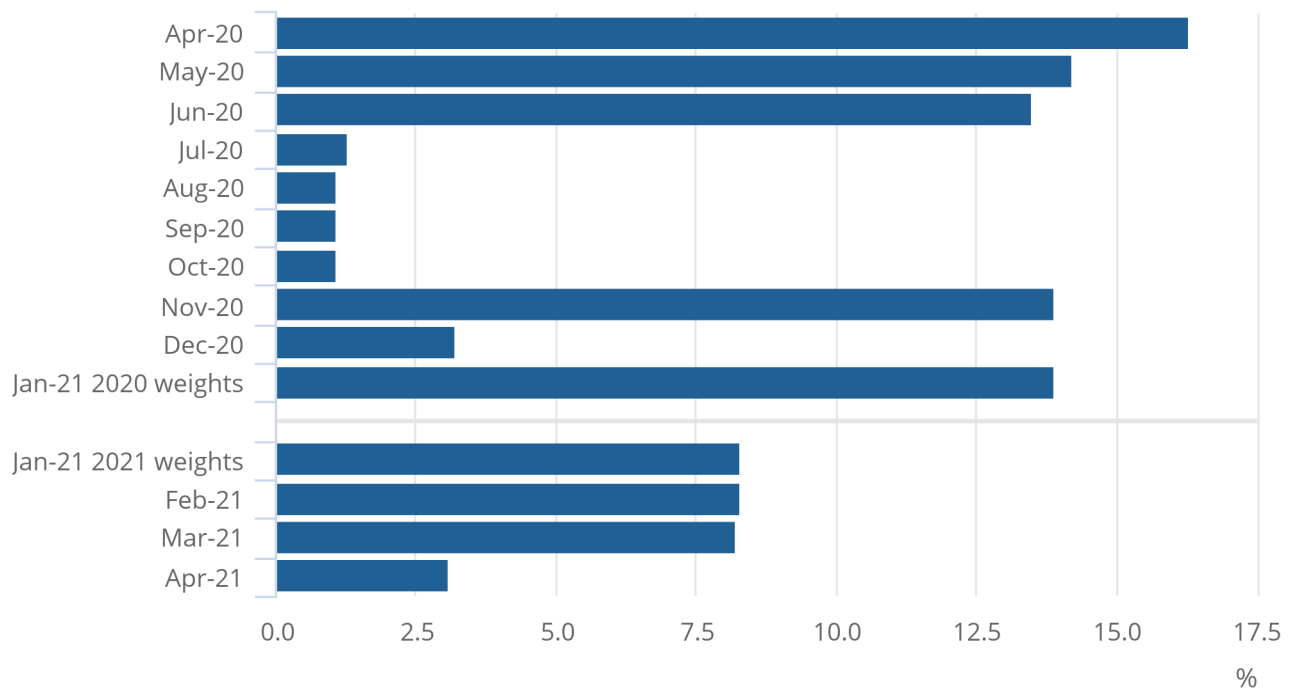
Hairdressers are also likely to have less scope to replace the demand lost during the lockdown periods as there is a natural limit to how frequently one can get a haircut and only one visit is needed to replace all of the haircuts missed when they were unavailable.

## **7 . Unavailable items**

One of the biggest issues affecting price collection during the pandemic has been the unprecedented situation of large parts of the basket being unavailable for periods of time. Figure 6 shows the proportion of the Consumer Prices Index including owner occupiers' housing costs (CPIH) basket, by weight, that was unavailable for each month since April 2020, with over 16% of the basket being unavailable in the first month.

**Figure 6: Proportion of the CPIH basket unavailable each month, by weight, UK, April 2020 to April 2021**

Figure 6: Proportion of the CPIH basket unavailable each month, by weight, UK, April 2020 to April 2021 Annual weights up



**Source: Office for National Statistics – Consumer Prices Index including owner occupiers’ housing costs**

**Notes:**

1. February to April 2021 are based on the CPIH weights for 2021 and therefore are not directly comparable with the figures for 2020.
2. The weights for 2021 are based on pandemic spending, and so the weight of items that are typically unavailable in periods of movement restriction are naturally lower than they were in 2020.
3. January has been provided on both the 2020 and 2021 weights basis to enable comparisons.

To account for these missing items [work was done to impute the missing prices and minimise their impact on the inflation rate](#), in line with international best practice. However, some of the components with the largest variation in contribution to the 12-month growth rate of CPIH, such as recreation and culture and restaurants and hotels, include unavailable items and have therefore been imputed for some months over the period.

Imputing the prices of unavailable items using price movements for the available parts of the basket amplifies the role of available items. In cases where inflation for available items is unusually low or high this may have a disproportionate effect on the all-items inflation rate as there are no offsetting movements from unavailable items.

Experimental data were constructed taking a different approach to unavailable items, removing them from the basket as well as reweighting the rest of the CPIH basket to reflect changing consumption patterns during the pandemic. These data found [only small differences in the 12-month growth rate of CPIH from these changes](#).

## 8 . Most recent trends and summary

Low inflation since the beginning of the coronavirus (COVID-19) pandemic has largely been driven by global factors reducing costs for transport and energy, but other sectors of the economy have seen low price growth because of other factors such as low demand, including a certain amount of demand being lost when these sectors were closed or restricted. Inflation rose to 1.6% in April 2021, driven largely by base effects with prices for energy and transport being considerably above the levels seen at the start of the pandemic in April 2020.

Prices for food and non-alcoholic beverages have also increased despite easing lockdown restrictions, which may reflect upward pressure on costs, including from non-pandemic factors such as [new trading arrangements following the UK's exit from the EU](#).

## 9 . Related links

### [Consumer price inflation, UK: April 2021](#)

Bulletin | Monthly

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

### [Producer Price Inflation, UK: April 2021](#)

Bulletin | Monthly

Changes in the prices of goods bought and sold by UK manufacturers including price indices of materials and fuels purchased (input prices) and factory gate prices (output prices).

### [Coronavirus and the effects on UK prices](#)

Article | Published 6 May 2020

Plans for data collection, compilation and publication of our various prices statistics following movement restrictions as a result of the coronavirus (COVID-19) pandemic.

### [Effect of reweighting the consumer prices basket during the coronavirus \(COVID-19\) pandemic: October to December 2020](#)

Article | Published 24 March 2021

The effects of reweighting the UK consumer prices inflation basket accounting for changes in consumption patterns during the coronavirus (COVID-19) pandemic on the 12-month growth rates of the Consumer Prices Index including owner occupiers' housing costs (CPIH) and the Consumer Prices Index (CPI).