In the context of inflation, we often hear that a particular type of good or service has contributed to inflation moving upwards or downwards. This infographic explains what this means.

1. When talking about which goods or services (aka components) have contributed to inflation going up or down, we’re referring to what has made the 12-month rate (the amount inflation has changed in a year) for the latest month change from the 12-month rate for the previous month. In other words “What has made inflation go from 2.5% to 2.8%?”

2. Most components will have some impact on the 12-month rate each month, either pushing it higher or lower.

   Downward contribution to the 12-month rate
   Upward contribution to the 12-month rate

   Food & non-alcoholic drink
   Alcohol & tobacco
   Clothing & footwear
   Housing & household services
   Furniture & household goods
   Health

   Two factors determine the size and direction of the contribution of each component

3. The expenditure weight helps determine the size of the contribution. The larger the weight, the larger the impact.

4. The difference in the overall change in price for the component helps determine the size and direction of the contribution.

   What is the ‘difference in the overall change in price’?

   What we need to compare is...

   ...the overall change in price for the component between last month and this month...
   ...the overall change in price for the component between the same two months a year ago.

5. Interpreting these changes can be confusing as prices can go down and still push inflation up.

   The component will have an upwards contribution if:
   The component will have a downwards contribution if:

   The overall price change for the component between last month and this month...

   Last Year This Year Last Year This Year
   Up slower Up faster Down slower Down faster
   Down Up Up Down
   Down faster Down slower Up faster Up slower
   No Change Up No Change Down

   This diagram explains how the different types of price change for each component can impact inflation.

   This ‘difference’ is the contribution of the component to the CPI 12-month rate.

For further information this topic please see chapter 8.7 of the Consumer Price Indices Technical Manual

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