Heading: What is affecting prices in the UK in 2014?

Subheading: Overall, the prices of the products in households’ shopping baskets are rising - but at a slower pace than before. Why is this?

The Consumer Prices Index (CPI) which measures the change in the price of goods and services bought by households, increased by 1.2% in the year to September – the smallest rate of increase in five years. This short piece of analysis considers why the rate of increase in prices is slowing.

Food and motor fuel prices have a major impact on the CPI inflation rate

Over the long term, price movements in food and motor fuels have been two of the main causes of the growth in prices. In recent months however, prices for these products have actually started to fall.

The latest CPI inflation figures show that between September 2013 and September 2014 food prices fell by 1.5% and motor fuels by 6.0%.

Why are the prices for food and motor fuels falling?

While measures of inflation only tell us what is happening to prices and not why they are going up or down, we can consider a few possible reasons:

1. Falling oil prices

Oil is a major input in motor fuels and other manufactured goods and in the 12 months to September 2014 the price of it fell by 16% (as measured by the Producer Prices Index (PPI)). This is a potential reason for consumers currently seeing pump prices of petrol and diesel at the lowest they've been since January 20111, however the effect on pump prices is dependent on how much of the oil price fall is passed onto consumers.

Falling oil prices could also impact on food prices as lower motor fuel prices reduces the cost of transporting goods.

Reasons for falling oil prices:

- Weak demand for oil, as many European economies are struggling to grow and some major Asian economies are experiencing a slowdown.
- Improved supply of oil as a result of the restoration of the supply from Libya and increasing US production through increased used of fracking technology which has unlocked shale oil reserves.

2. Falling wheat prices

Wheat is a major input in food production and UK wheat prices fell by 21% in the 12 months to September 2014 (as measured by the PPI). This follows a good harvest, both in the UK and globally.
Wheat is used in the production of food such as bread, cereal and pasta, so falling wheat prices are likely to make these products cheaper, but it is also important as an animal feed, potentially lowering meat prices too.

3. Increased supermarket competition

Prices in non-specialised food stores (which are mainly supermarkets) have fallen in 2014. One cause of this may be increased price competition, caused by an increasing market share for discount supermarket chains and discounting in general.

4. Cheaper imports

The pound has been growing stronger in value over the last year. This means we have to part with fewer pounds to buy the same amount of foreign goods and services (imports). Therefore a strengthening pound can help to lower the prices of food products and motor fuels if the production of them involves importing goods and/or services.

So what does this mean for the economy?

There is an economic argument that falling prices can have a negative effect on spending as people delay their spending to wait for further falls in prices. This can have a negative effect on the economy as a whole. However it is important to remember that overall the price level is still increasing, just at a slower rate, and still more quickly than earnings.

Would you like to know more about inflation?

To learn more about consumer price inflation and to access CPI data please see the Consumer Price Indices webpage.

To access all past bulletins on consumer prices inflation please see this page

To access all past bulletins on the producer prices index please see this page

To access a range of economic time series data please see this page

To read more of our recent analysis on supermarkets please see UK supermarket spending stalls.

To read a more in depth analysis of the effect the exchange rate has on price pressures please see this article.

Background Notes

1. This fact has come from a recent publication by the Department of Energy and Climate Change (DECC). The data can be accessed at this link: https://www.gov.uk/government/statistical-data-sets/oil-and-petroleum-products-weekly-statistics