RYAN FOWLER · LEAD STORY NEWS · 24/05/2023

Inflation slowed to 8.7% in April 2023

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Inflation stood at 8.7% in April 2023, down from 10.1% in March and a recent peak of 11.1% in October 2022, the latest Office for National Statistics (ONS) figures show.

The easing in annual inflation in April can be attributed to changes in the housing and household services division, specifically in gas and electricity prices. On the other hand, upward effects were observed in categories such as recreation and culture, alcoholic beverages and tobacco, communication, and transport.

In the housing and household services category, the Consumer Prices Index including owner occupiers' housing costs (CPIH) annual inflation rate for April 2023 decreased to 7.3% from a peak of 11.8% in January 2023 and 11.6% in March 2023.

Similarly, the Consumer Price Index (CPI) annual inflation rate for the same category decreased to 12.3% from a peak of 26.7% in January 2023 and 26.1% in March 2023.

The decline can be attributed to the exclusion of the higher energy cap implemented by the Office of Gas and Electricity Markets (Ofgem) in April 2022 from the annual estimates.

Notably, gas prices experienced a monthly decrease of 1.0% between March and April 2023, compared to a significant rise of 66.8% during the same period last year.

This marked the first monthly decrease in gas prices since October 2020 and contributed to a 0.75 percentage point decrease in the monthly change in CPIH.

Additionally, electricity prices fell by 1.1% between March and April 2023, in contrast to a 40.5% increase during the same period in 2022, resulting in a 0.67% decrease in the monthly change in CPIH.

Other categories, including council tax, registered social landlord rents, and sewerage collection, provided positive contributions to the monthly change in CPIH, offsetting the downward effects from gas and electricity prices.

In the food and non-alcoholic beverages category, prices experienced a monthly increase of 1.4% in April 2023, slightly lower than the rise of 1.5% during the equivalent period last year.

The ONS's indicative modelled estimates suggest that the April 2023 annual rate for this category is the second-highest recorded in over 45 years, surpassed only by the rate in August 1977, which was estimated at 21.9%.

Recreational and cultural goods and services saw an overall increase of 6.4% in prices in the year leading up to April 2023, up from 4.6% in March. The rise was widespread across all groups within the division, with audio-visual equipment making the largest positive contribution.

The alcoholic beverages and tobacco category experienced a rise of 9.1% in prices in the year to April 2023, compared to 5.3% in March. The increase was primarily driven by an 11.0% rise in tobacco prices, influenced by a rise in tobacco duty that had not been implemented since October 2021.

Transport, which had been experiencing a decline in its annual inflation rate for nine consecutive months, saw a slight increase with a rate of 1.6% in April 2023. This was mainly due to a 2.7% increase in second-hand car prices compared to a fall of 3.1% during the same period last year. However, motor fuel prices decreased by 1.3% between March and April 2023, in contrast to a 1.9% increase during the same period in 2022.

The core CPIH annual inflation rate, which excludes energy, food, alcohol, and tobacco, rose to 6.2% in April 2023, the highest rate since February 1992.

Reaction

Sarah Coles, head of personal finance, Hargreaves Lansdown:

"Power price cuts have dialled down inflation. In April, CPI finally dropped into single digits for the first time since last September. But this doesn't mean we can afford to relax. Our wallets aren't under any less pressure than they were last month. With one or two exceptions – including petrol – prices are still rising horribly – and inflation is actually up 1.2% from March. The fall in the annual CPI figure isn't a sign of widespread price cuts: it comes down how it's calculated.

"Fortunately, there is some hope for the future. Falling petrol prices and lower wholesale energy prices will eventually feed into prices elsewhere. This isn't just about filling up the car or heating our homes. Fuel powers the price of anything that is manufactured, transported or sold. Once it has time to feed into the system, we can expect to see more prices fall. Similarly, reductions in the wholesale cost of food has made a very small dent in prices, and should start to make a real difference at the supermarket till over the next 3-9 months.

"The jury is out over how far and how fast inflation will fall, and there are still concerns that wage rises will feed higher prices. However, the Bank of England thinks inflation will drop from here, and will be closer to 5% by the end of 2023."

Simon Webb, managing director of capital markets and finance at LiveMore:

"High energy prices have played a big part in soaring inflation but that is now falling as are fuel costs. Hopefully, this is the start of inflation heading downwards towards the 2% target although high food prices may make is a slow journey.

"The big question is whether this fall in inflation is enough to stave off another base rate rise. Two out of the nine members of the Monetary Policy Committee voted for not increasing base rate at the last meeting so there is certainly appetite for no more rises.

"Of course, inflation is not the only consideration for setting base rate as the wider economic situation and cost of living crisis comes into play. Borrowers on tracker rates don't want to see their monthly repayments go up yet again and UK Finance recently reported a rise in arrears and repossessions – clear evidence that more people are struggling."

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Paul McGerrigan, CEO at fintech broker Loan.co.uk:

“It will come as a significant relief to most that inflation finally reduced by a material number to 8.7% (in April), down from 10.1% in the previous month. It has taken a lot longer than predicted to start its decent. Let’s not get too excited however, the journey back to the target two per cent has only just started and we are in for a bumpy ride.

“Although fuel and energy prices are dropping notably, food prices grew an incredible 17.8% year-on-year in April. Many analysts now forecast five per cent is the best CPI we can expect in 2023 – not the previously mooted three per cent.

“Mortgage borrowers are praying this drop will stop the relentless barrage of interest rate rises and that a watching brief can be adopted by the Monetary Policy Committee. As an increasing number of borrowers see their current mortgage fixed rates end, monthly costs are skyrocketing, putting more pressure on homeowners.

“Let’s hope the corner has been turned.”

Adam Oldfield, chief revenue officer at Phoebus Software:

“We’re waking up to good news, at last. Inflation falling into single figures is the news that we’ve all been hoping to hear and perhaps the start of things to come. Although it is the fall in fuel prices that is the major contributor to the current rate of inflation, we can’t underestimate the effect the fuel and energy prices have across the economy. If everyone is paying less for their fuel then the prices we pay for other goods and services should start to come down. This virtuous circle is what we need to keep inflation going in the downward direction that the Bank of England is tasked with achieving.

“Of course, there is no guarantee that this will be enough to prevent the BoE from raising interest rates again next month. However, the IMF has upgraded its forecast for the UK economy, which is a factor that usually has some bearing. The housing market is showing huge resilience recently and the general sentiment appears to be positive. The only fly in the ointment will be another interest rate rise. How lenders manage that, if they can see that inflation is going in the right direction, will be key.”

Giles Coghlan, chief market analyst, consulting for HYCM:

“Inflation has finally fallen to single figures this morning, and while the IMF now says that the UK economy will grow by 0.4% this year, it would be remiss to suggest that we are out of the woods just yet.

“After all, this morning’s CPI data still came in hotter than many analysts expected. Even though the large price rises we witnessed a year ago have now dropped out of the annual comparison, the fact that core inflation remains at 6.8% shows just how entrenched it is in the economy. For the Bank of England and Governor Bailey – who indicated on Monday that we would see a much sharper drop today – this is very concerning and reveals that more work still needs to be done to bring inflation down to the BoE’s 2% target.

“As such, the markets are pricing in two further interest rate hikes in the months to come, with a potential terminal rate of 5.2% in the summer, which should instigate an uptick in demand for GBP and EURGBP sell-off.”

Andy Mielczarek, founder and CEO of SmartSave, a Chetwood Financial company:

“Although today’s figures show that efforts to reduce inflation are finally bearing some fruit, the cost-of-living crisis isn’t over yet. Underlying price pressures in the economy show little sign of improvement, and despite inflation’s drop into single digits, this means that consumers will continue to be impacted by high costs. Yet this environment remains great for those able to save, as long as they’re saving in the right place.

“In the current climate, the majority of easy-access savings accounts will not be able to keep pace with inflation, meaning that a significant number of people are seeing their money losing value in real terms. Worse still, our research shows that a worrying percentage (97%) of the UK’s savers are relying on current accounts alone to house their money, while uptake for different savings products – from ISAs to fixed-rate bonds – is low across the board.

“Even though pressures on the economy are gradually easing, it’s vital that people in a position to put money away each month are proactive about how they are managing their savings to beat inflation. For those looking to deposit a lump sum, fixed-term, fixed-rate bonds can be a good option when it comes to accessing higher interest rates, while many people could also benefit from exploring their options beyond the savings accounts offered by high-street banks.”

Jatin Ondhia, CEO, Shojin:

“The severity of price pressures has left little room for complacency, yet today’s long awaited dip into single-digit figures will no doubt be met with a sigh of relief from investors. For the first time in eight months, evidence that a corner has been turned appears more tangible and following the IMF’s upgrade to the UK’s growth forecast, the emergence of a more positive tone will be welcomed by many.

“That being said, there is no escaping the fact that the economy still faces a long road to recovery. With inflation figures set to stay above the Bank of England’s target for longer than anticipated, it remains to be seen whether further, tighter monetary policy may be needed. There might be a sense of cautious optimism, but investors should continue to assess how well placed their portfolio is to deliver on their short-, medium- and long-term goals, with the challenges of inflation and higher interest rates unlikely to dissipate this year.”

Wes Wilkes, CEO at the Newcastle-under-Lyme-based wealth manager, Net-Worth Ntwrk:

“While inflation didn’t come down as much as expected by the Bank of England and economists, the fact that it is no longer in double digits is likely to be enough to halt the seemingly endless hammer blow of interest rate rises. We must be aware, however, that this does not mean prices are falling, but that they are simply not going up by as much. This drop in inflation can be attributed mainly to the sharp slowdown in gas and electricity prices that rose by such eye-watering amounts this time last year. However, there is a concern that ‘core’ inflation ticked up higher at 6.8%, from 6.2%. The next Monetary Policy Committee meeting may see a pause in rates but this data perhaps pushes any hopes of rate cuts a little further down the line.”

Mark Grant of Gloucester-based business finance broker, The Business Finance Branch:

“A ‘milestone’ reduction in inflation to 8.7% is the first time since August that we have recorded single-digit inflation data. This could give the Monetary Policy Committee reason to pause their run of 12 successive interest rate rises. In reality, prices for consumers and businesses are still almost 9% higher than a year ago. Many businesses will take months, or maybe years, to adjust and move forward from what has been a sustained period of cost and wage inflation, long after the headline inflation rate has reduced further. On a positive note, we see our clients who forecast and plan for their cash flow faring better in dealing with ongoing cost pressures on their businesses.”

Gary Bush, financial adviser at the Potters Bar-based MortgageShop.com:

“The latest inflation figure at 8.7% is music to our ears and should give a fair reason for the members of the Bank of England Monetary Policy Committee to rest on their laurels and leave the base rate as it is. The mortgage market and property activity have both been good despite the base rate increases of late and so this will inject even more confidence into the market. I’d hope to see Sterling bounce on this news, as in my mind, having also dodged the recession bullet, the UK looks to have a brighter future.”

Riz Malik, director of Southend-on-Sea-based independent mortgage broker, R3 Mortgages:

“The drop in UK inflation from 10.1% to 8.7% is a promising sign, potentially preventing further Bank of England rate hikes. If inflation continues to fall, it could offer borrowers relief, support the property market and likely foster a positive reaction in both sentiment and the markets. The UK needed some good news and this certainly is it.”

Samuel Mather-Holgate of Swindon-based advisory firm, Mather & Murray Financial:

“Finally we are seeing some good news, and this will be most welcome by those involved or invested in the property market. There will be more, significant falls to come. The Bank of England are ultra cautious on inflation though, and won't start moving on rates until we are near target, so probably not until September. Finally, we are heading in the right direction though."

Graham Cox, founder of the Bristol-based broker, SelfEmployedMortgageHub.com:

"Though expected, the first significant drop in inflation since the cost of living crisis began shows a chink of light at the end of the tunnel. However, for people on lower incomes, their personal inflation rate will remain much higher, as they spend disproportionately more on food and energy. Further Bank of England base rate increases are hopefully less likely, which could see Sterling come off its recent gains against the Dollar and Euro."

Justin Moy, founder at Chelmsford-based mortgage broker, EHF Mortgages:

"This is what the country has been waiting for. It is great news to see such a sizeable reduction in the inflation rate, and it will hopefully be enough for the MPC to defer any further increases in the base rate. Prices as a whole are still increasing way above the target rate of 2%, but we all want to feel some positivity around the economy and this news will give us some hope."

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