

Coronavirus (COVID-19) Review: data and analysis, March to October 2020

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Inflation and retail sales

This section includes analysis of the change in prices throughout the pandemic and of the volume of retail sales

During the pandemic, the CPIH 12-month inflation rate fell to the lowest since December 2015

- Consumer price inflation has been volatile in 2020; the 12-month rate of Consumer Prices Index including owner occupiers' housing costs (CPIH) inflation decreased from 1.1% in July 2020 to 0.5% in August (lowest seen since 2015) and up to 0.7% in September, this follows a fall at the start of 2020 from 1.8% in January and reflects the impact of the coronavirus pandemic.
- The coronavirus (COVID-19) pandemic has had wide-ranging demand and supply effects on the UK economy, which will have implications for consumer price inflation.
- Restaurants and hotels were the largest driver of the decline between July and August 2020.
- Prices fell by around 4.7% on the month and 2.8% on the year to August 2020, largely driven by restaurants; this reflects the impact of the [Eat Out to Help Out](#) Scheme and captures the [reduced rate of Value Added Tax \(VAT\)](#) applicable to firms in the hospitality industry from 20% to 5%.
- Prices for clothing usually follow seasonal patterns with discounts typically applied at certain times.
- Unusually, prices fell between February and April in 2020 likely reflecting discounting by retailers in response to falling consumer demand for clothing during lockdown, as well as consumers' inability to go to shops due to the restrictions imposed in response to the coronavirus (COVID-19) pandemic, with non-essential retailers, [including clothing stores](#), being closed from 23 March.

The COVID-19 pandemic has had wide-ranging demand and supply effects on the UK economy, which will have implications for consumer price inflation

- Transport has had a downward pull on the headline inflation rate between April and September 2020 because of falls in fuel prices.
- Most parts of the transport component were affected during lockdown with non-essential travel being prohibited and car retailers closed to the public; meanwhile, demand for fuels and lubricants fell sharply as many people started to work from home and avoid unnecessary journeys.
- Similar restrictions on travel and the transport of goods elsewhere in the world greatly [reduced global demand](#) for crude oil.
- Prices began to rise slowly following [output cuts from OPEC+](#), and a gradual increase in demand as various pandemic-related restrictions eased around the world.
- Transport costs, and restaurant and café prices, following the end of the Eat Out to Help Out scheme, made the largest upward contributions (of 0.23 and 0.27 percentage points, respectively) to the change in the CPIH 12-month inflation rate between August and September 2020.
- This was partially offset by smaller downward contributions from furniture, household equipment and maintenance; games, toys and hobbies; and food and non-alcoholic beverages.

The CPIH 12-monthly inflation rate rose to 0.7% in September 2020

CPIH, OOH component and CPI 12-month inflation rates for the last 10 years, UK, September 2010 to September 2020



Source: [Consumer price inflation, UK: September 2020](#)

Lead analyst: [Andy King](#)

The experimental re-weighted consumer prices basket adjusts for consumption changes during lockdown

- Experimental series that update the Consumer Prices Index including owner occupiers' housing costs (CPIH) and Consumer Prices Index (CPI) baskets monthly throughout Quarter 2 (Apr to June) 2020 to account for changing consumption patterns, result in annual inflation rates of just 0.1 percentage points higher, on average, than consistently calculated versions of the official rates.
- Adjustments to the underlying weights based on the Retail Sales Index, payment processing and transaction data, and other data sources, suggest that consumer expenditure shares for food and drink, housing, education, and communication increased during the lockdown period, while expenditure shares for restaurants and hotels, transport, clothing, and recreation and culture fell.
- Changing consumption patterns had an impact on the contributions from different categories of spending to inflation, however, these are largely offsetting, resulting in minimal differences at the aggregate level.

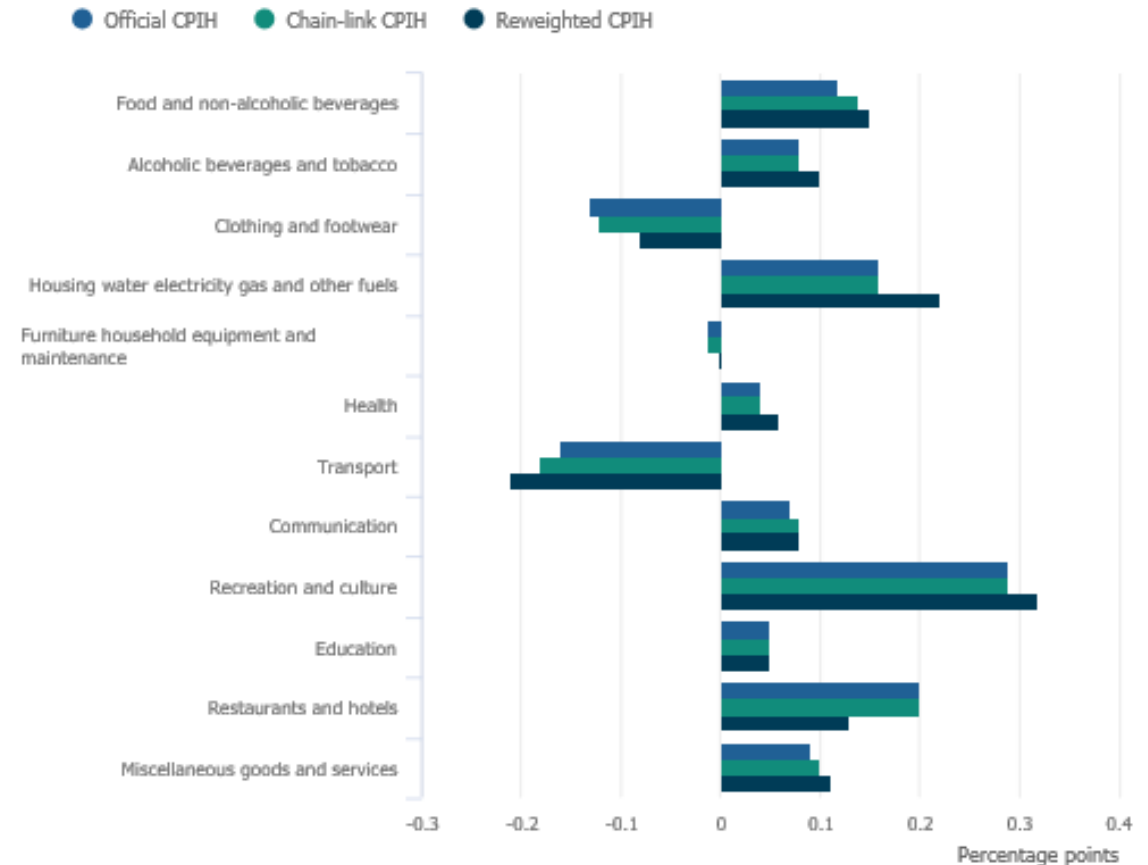
Reweighting the CPIH basket in Quarter 2 (Apr to June) 2020 increased the annual inflation rate by 0.1 percentage points on average

Annual growth rate values for adjustments to the CPIH, UK, April to June 2020

	April 2020	May 2020	June 2020	Quarter 2 2020
Official CPIH	0.9%	0.7%	0.8%	0.8%
Chain-link CPIH	0.9%	0.7%	0.9%	0.8%
Reweighted CPIH	1.0%	0.8%	1.0%	0.9%

Six divisions made larger upward contributions to the annual growth rate of the CPIH in the reweighted series than in the official series in Quarter 2 (Apr to June) 2020

Division-level contributions to the experimental CPIH annual growth rates, UK, Quarter 2 (Apr to June) 2020.



Source: [Re-weighted consumer prices basket](#)

Lead analyst: [Kathryn Keane](#)

In the absence of Eat Out to Help Out and the VAT reduction, the inflation rate would have been approximately 0.9% in August 2020

- The Consumer Prices Index including owner occupiers' housing costs (CPIH) annual growth rate fell to 0.5% in August 2020, the lowest since December 2015; this was mostly driven by lower prices in restaurants and cafés, as a result of the Eat Out to Help Out scheme and the temporary reduction of Value Added Tax (VAT) from 20% to 5% for firms in the hospitality sector.
- In the absence of Eat Out to Help Out and the VAT reduction, [our analysis estimates that the inflation rate would have been approximately 0.9% in August](#), most of this difference comes from Eat Out to Help Out.
- Card transaction data from the fintech company Revolut show there are normally fewer transactions at the beginning of the week, rising gradually from Monday to Thursday, and considerably more transactions on Friday and Saturday.
- The average for August, when Eat Out to Help Out was running, showed a flattening of this trend with a higher than usual proportion of transactions earlier in the week and a lower proportion than usual at the weekend; this suggests that the discount offered earlier in the week may have incentivised some people to eat out on days when they otherwise would not have.

Source: [Impacts of Eat Out to Help Out on consumer prices: August 2020](#)

Lead analyst: [Kathryn Keane](#)

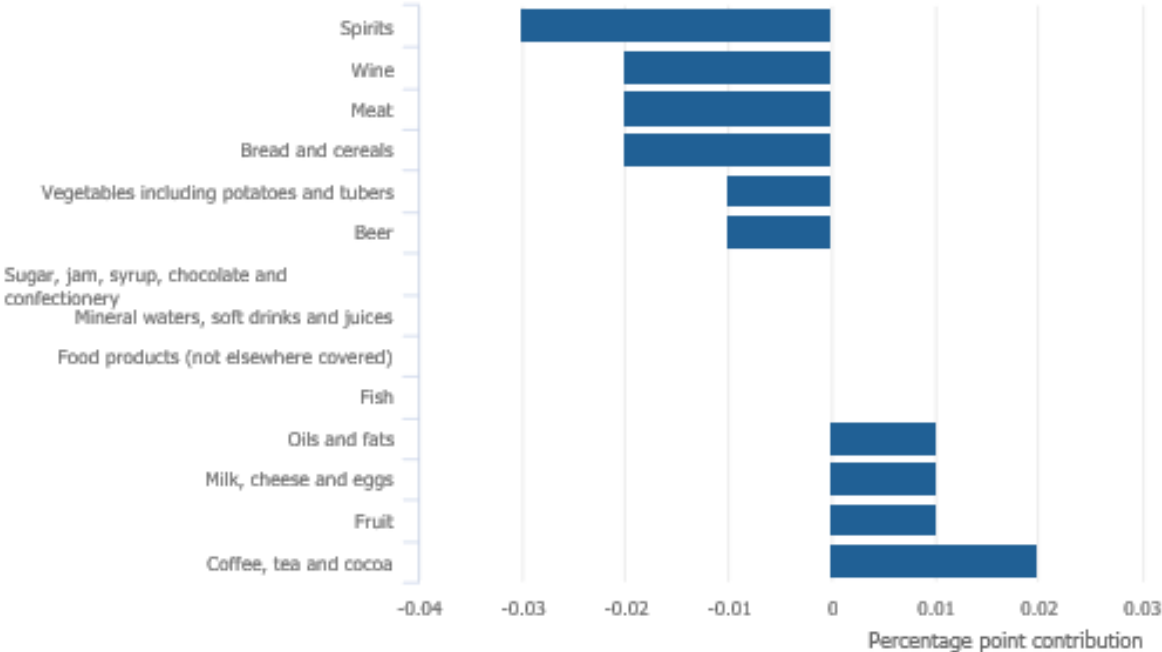
The overall price index for items in the food and drink basket remain **0.6% below the starting point of the data series**

- Timely experimental analysis for the week commencing 12 October 2020 found that prices in the food and drink basket decreased by overall 0.1%.
- The largest downward contributions to the weekly change were in the categories of spirits, wine, bread and cereals, and meat.
- The largest positive contributions to the weekly change were in the categories of coffee, tea and cocoa, followed by fruit, then milk, cheese and eggs, and oils and fats .
- The overall index remains 0.6% below the starting point of the data series (1 June); oils and fats have had the largest reduction in prices since the series began, showing an overall decrease of 4% since the beginning of June 2020 (but dropping by 5.1% in mid-September).

Note: A timely indication of weekly price change for a selection of food and drink products from several, large UK retailers has been developed, covering the period 1 June to 18 October 2020. This analysis is experimental and should not be compared with our regular consumer price statistics.

Prices of items in the food and drink basket decreased by 0.1% in mid October 2020

Contributions to online price change of a selection of food and drink products, UK, percentage point contributions to the percentage change between Week 19 (5 October to 11 October) and Week 20 (12 October to 18 October)



Source: [Coronavirus and the latest indicators for the UK economy and society: 22 October 2020](#)

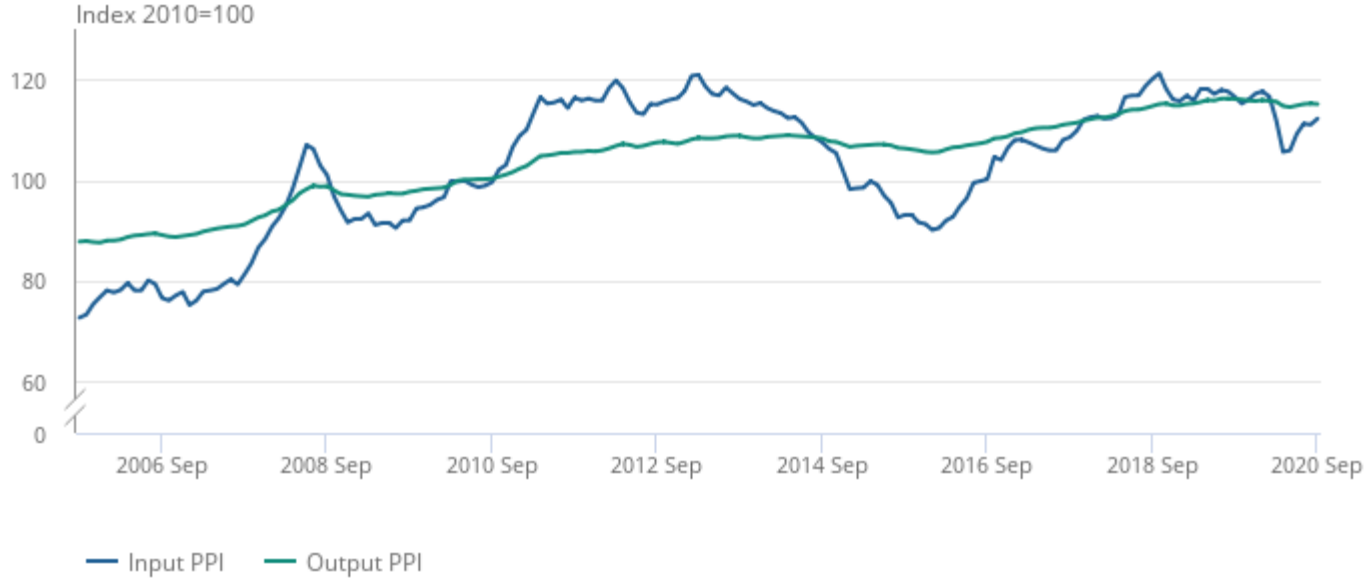
Lead analyst: [Helen Sands and Tanya Flower](#)

The annual output inflation rate for goods leaving the factory gate shows negative growth for the sixth consecutive month in September 2020

- The headline rate of output inflation for goods leaving the factory gate was negative 0.9% on the year to September 2020; this is the sixth consecutive month that the rate has been negative, following 45 consecutive months of positive annual inflation.
- Petroleum provided the largest downward contribution to the annual rate for output inflation; price movements for petroleum products broadly follow trends seen in crude oil in 2020.
- The price for materials and fuels used in the manufacturing process (input inflation) showed negative growth of 3.7% on the year to September 2020, up from negative growth of 5.6% in August 2020.
- The largest downward contribution to the annual rate of input inflation came from crude oil with negative annual price growth of 34.1%; the annual rate has slowed following four consecutive months where the rate had picked up, whilst remaining negative.
- Price movements in crude oil are likely to reflect both demand and supply side factors during the ongoing coronavirus (COVID-19) pandemic; the fall in crude oil prices in September 2020 is attributed to the change in demand because of extended lockdowns in some countries alongside travel restrictions being placed.

Input producer price inflation is more volatile over time than output inflation

Input and output PPI, UK, September 2005 to September 2020



Source: [Producer price inflation, UK: September 2020 including services, July to September 2020](#)

Lead analyst: [Chris Jenkins](#)

Average house prices continued to rise in August 2020

- The [UK's average house prices](#) increased by 2.5%, to £239,000, over the year to August 2020, up from 2.1% in July 2020; this is £6,000 higher than last year.
- [Annual private rental price growth](#) has been relatively steady between 1.4% and 1.5% since November 2019.
- Over the past three years, there has been a general slowdown in UK house price growth, driven mainly by a slowdown in the south and east of England. The beginning of 2020 saw a pick up in annual growth in the housing market before the coronavirus (COVID-19) restrictions were put in place at the end of March 2020.
- [Energy Performance Certificates](#) (EPCs) are used as a timely experimental indicator for the number of completed domestic constructions and number of transactions for domestic properties. With the exception of the week ending 6 September 2020, the volume of existing dwelling EPCs was higher than the same week the previous year for every week between 8 June and 18 October. This can be explained by lower than usual residential property transactions during March to June 2020 and a catch-up in property transaction demand up to September 2020.

UK house price growth has generally slowed since mid-2016, but has picked up this year despite falling to the lowest growth seen since 2012 during the pandemic

Annual house price rates of change for all dwellings, UK, January 2006 to August 2020



Source: [UK House price index: August 2020](#)

Lead analyst: [Natalie Jones](#)

Total retail sales recovered from the sharp falls experienced during the coronavirus pandemic in July 2020

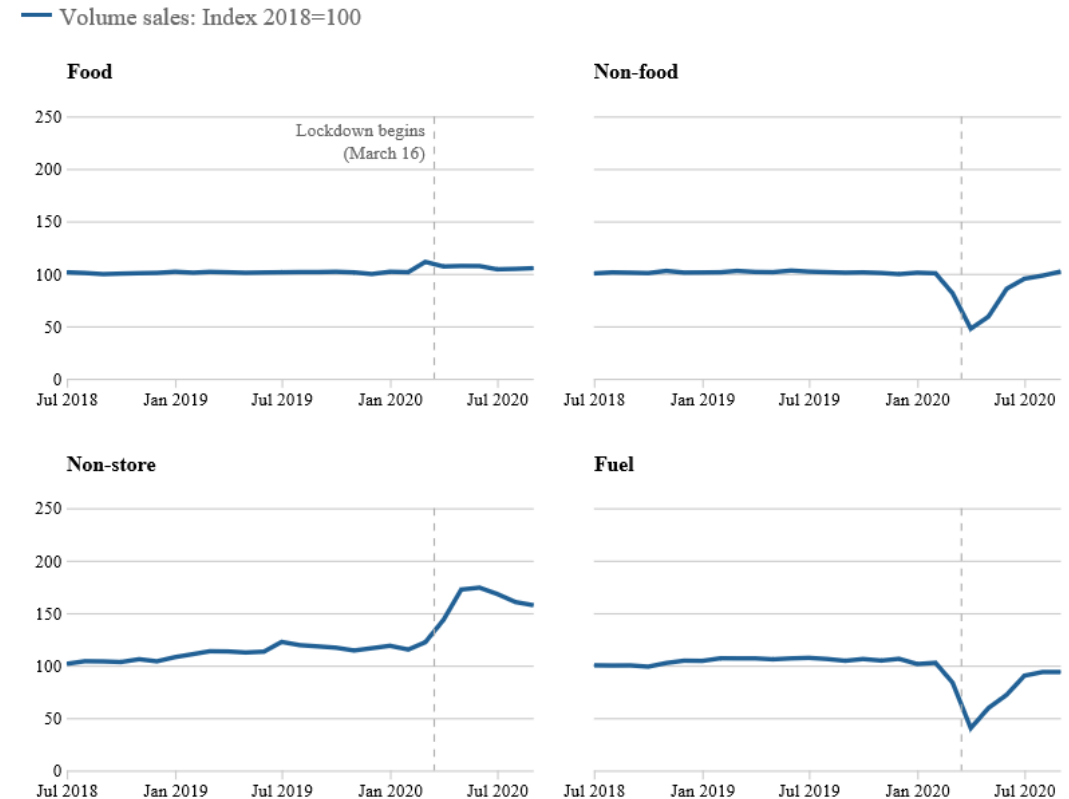
- In September 2020 retail sales volumes increased by 1.5% when compared with August; this is the fifth consecutive month of growth, resulting in an increase of 5.5% when compared with February's pre-pandemic level.
- When compared with February, volume sales within food stores were 3.7% higher in September. Food retailers had suggested that the peak in March 2020 was because of panic buying at the start of the pandemic, and despite seeing a notable fall in sales following this peak, spending remained high. This may be a result of the government tightening [restrictions](#) for other services such as bars and restaurants at the end of September, which may have encouraged spending in food stores.
- Many stores within non-food stores were classified as [non-essential](#) retailers and were negatively affected by the pandemic because of many temporary store closures within the sector. Non-food stores also have now (in September) made a recovery at 1.7% above their February levels.
- Fuel was the only main sector to remain below February's pre-pandemic level with volume sales 8.6% lower in September when compared with February 2020. As lockdown eased, we saw an increase in travel and the quantity of fuel bought. However, as many people remained working at home and with certain restrictions still in place, fuel sales were yet to fully recover.

In September, food and non-store retailing were at higher levels than in February, while fuel still remained lower

Volume sales, seasonally adjusted, Great Britain, September 2017 to September 2020

Source: [Retail sales, Great Britain](#)

Lead analyst: [Rhian Murphy](#)



The proportion of online spending peaked during lockdown and in September still remained higher than in February

- In September, the proportion of online spending was at 27.5%; this is a slight fall from the 29.4% reported in July. The declines may be because of many businesses reopening from July, resulting in less online spending in September.
- Despite monthly declines across all sectors except department stores, the proportion of online sales was over 7% higher than in February. The proportion of online sales increased across all sectors with food stores nearly doubling their online proportions from 5.4% in February to 10.4% in September.
- Volume sales within non-store retailing increased sharply in April and May, and sales in September were 36.6% higher than February 2020. This was driven by a shift to online orders during lockdown because of temporary store closures for non-essential stores. Despite some contraction from the sharp rate of increase in this sector, consumers were still carrying out much of their shopping online when compared with February.