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Food price rises contribute to highest UK inflation in 25 years

Inflation reached its highest level in 25 years, confirming that the squeeze on household budgets will remain strong in the months ahead. In December 2021, UK consumer prices were 5.4% higher than a year ago and 0.5% higher than in November.

Upward price pressures are not limited to a few products, rather all goods and services are seeing significant price increases: from food (4.5%) and furniture (7.3%) to hospitality (6.0%) and fuel (26.8%).

Many food and drink products are more expensive on shop shelves, with fresh and ambient food seeing price rises across the board. The increased cost of oils and fats (13.1%), vegetables (6.0%) and meat (4.4%) will hit the British public particularly hard. Less affordable essential food products will compound the pain UK consumers already face caused by higher energy prices. Since October, electricity prices surged by 19% and gas prices by 28% and it is expected that they will increase further in April when the price cap is re-examined.

A combination of factors are contributing to higher food and drink prices. Rising costs of ingredients, raw materials and other key factors of production, labour shortages and wider supply chain disruption – all exacerbated by the COVID pandemic, mean that food and production is more expensive.

Global food prices have seen double-digit increases on an annual basis since January 2021 and global commodity prices rising since November 2020 are now almost 50% higher than a year ago. Shipping costs have increased fivefold since November 2019 and have oil prices reached a seven-year record.

Meanwhile, new [government regulation](#) is also imposing further significant additional costs on food and drink manufacturers. All of this means that margins have become razor-thin and food and drink manufacturers are struggling to absorb these additional costs. This will inevitably mean that some of these cost rises must be shared in the form of higher consumer prices.

These pressures do not show any signs of weakening and we expect food price inflation to remain strong for the whole of 2022.

The soaring cost of living is squeezing household budgets. The Resolution Foundation has [estimated](#) that the poorest third of UK households may spend at least 10% of their budgets on energy bills alone after April. The anticipated sustained rise in food prices will hit less affluent UK households hardest, but the government can help limit some of these impacts by reconsidering its plans and the timing of intended new regulations that will impose further costs on manufacturers.

There is some positive news elsewhere in the economy. UK output is now above pre-pandemic levels and the labour market is relatively buoyant, though businesses throughout the UK's farm-to-fork food and drink supply chains continue to struggle with critical labour shortages. With Omicron seemingly now on the wane, it is hoped that some pressures on the labour market will begin to dissipate.

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Key inflation data

Inflation rate by category, December 2021		
	Year-on-year	Month-on-month
Consumer Price Index (CPI)	5.4%	0.5%
Food and non-alcoholic beverages	4.2%	1.3%
Alcoholic beverages and tobacco	3.9%	-0.8%
Clothing and footwear	4.2%	0.7%
Housing, water, electricity, gas and other fuels	6.9%	0.1%
Furniture, household equipment and maintenance	7.3%	2.0%
Health	2.2%	0.3%
Transport	11.9%	1.0%
Communication	0.7%	-0.4%
Recreation and culture	3.0%	0.2%
Education	4.5%	-
Restaurants and hotels	6.0%	-0.1%
Miscellaneous goods and services	1.7%	0.3%
Food	4.5%	1.4%
Bread and cereals	3.4%	2.4%
Meat	4.4%	2.0%
Fish	1.7%	-0.1%
Milk, cheese and eggs	4.4%	1.5%
Oils and fats	13.1%	2.4%
Fruit	5.2%	1.0%
Vegetables including potatoes and tubers	6.0%	2.1%
Sugar, jam, syrups, chocolate and confectionery	2.9%	-1.3%
Food products (not elsewhere classified)	7.7%	2.7%
Non-alcoholic beverages	1.8%	0.3%
Coffee, tea and cocoa	0.4%	0.1%
Mineral waters, soft drinks and juices	2.3%	0.4%
Alcoholic beverages	3.0%	-1.8%
Spirits	1.6%	-2.8%
Wine	5.0%	-1.5%
Beer	1.5%	-1.2%