

BACKGROUND BRIEFING FOR PRODUCER PRICES – APRIL 2008

Budget measures

The output PPI was affected by Budget increases in taxation of tobacco (coming into effect from 12 March) and alcoholic drinks (coming into effect from 17 March). Rises in fuel duties do not come into effect until 1 October. If passed on in full, the Budget measures are estimated to add 0.3 per cent to the overall index in March and a further 0.3 per cent in April.

OUTPUT PRICES

1. The overall output price index rose 7.5 per cent in the year to April, compared with a rise of 6.5 per cent in the year to March. This is the highest rate of increase since records began in 1986. The index rose 1.4 per cent between March and April 2008, compared with a rise of 0.4 between March and April 2007, the highest monthly increase since records began in 1986.
2. The rise in the index of 1.4 per cent between March and April was mainly due to rises in other manufactured products, tobacco & alcohol and petrol products.
3. Prices of other manufactured products rose by 3.6 per cent in the month to April, mainly due to a 26.4 per cent increase in recovered secondary raw materials, particularly steel scrap. Other manufactured prices rose by 8.7 per cent in the year to April. This is the fastest rate of annual increase since records began.
4. Tobacco & alcohol product prices rose by 2.4 per cent between March and April, mainly due to a rise of 3.2 per cent in the price of beer (including duty). This is the highest monthly rate of increase in tobacco and alcohol since April 2000, when it was 3.4 per cent.
5. Petrol product prices rose 2.3 per cent in the month to April, mainly due to a rise of 1.9 per cent in the price of unleaded petrol (including duty) and an 8.8 per cent rise in Aviation Turbine fuel (excluding duty).
6. All other product groups not previously mentioned recorded small price increases in the month to April. Prices of food products rose 9.3 per cent in the year to April, the largest rate of annual increase since records began in 1986.
7. The output price index for manufactured products excluding food, beverages, tobacco and petroleum rose 4.6 per cent in the year to April compared with a rise of 3.4 per cent the year to March. This is the fastest rate of increase since September 1995, when it rose by 4.9 per cent. This index is not affected by changes in excise duty. In seasonally adjusted terms, the index rose by 1.0 per cent between March and April, while the index was unchanged between March and April 2007.
8. The output price index for all manufactured products excluding excise duties is shown in Table 4 of the First Release. This index rose 7.7 per cent in the year to April, compared with a rise of 6.5 per cent in March. This is the highest rate of increase since records began in 1986. In seasonally adjusted terms, the index excluding excise duties rose 1.0 per cent between March and April.

INPUT PRICES

9. In assessing the change in input prices in the latest month, it is best to look at the seasonally adjusted index, as price movements between months can be highly seasonal. The seasonally adjusted index for all manufacturing rose 2.4 per cent between March and April. The unadjusted index rose 2.6 per cent between March and April, compared with a fall of 0.1 per cent between March and April 2007.

10. The overall input index rose 23.3 per cent in the year to April, compared with a rise of 20.1 per cent in the year to March (Table 6). This is the largest annual rate of increase since records began in 1986.

11. The rise in the unadjusted input index between March and April mainly reflected rises in crude oil, imported parts, chemicals and metals.

12. Crude oil prices rose by 6.4 per cent between March and April and by 62.6 per cent in the year to April. Prices in January 2008 started to fall from record nominal highs, but in February prices rose to new record highs. OPEC met in March, where they decided to keep output unchanged, and this helped to stabilise prices for part of the month. However, continuing concerns about the US economic situation kept prices high. Towards the end of April, violence in Nigeria added to the upward price pressure.

13. Imported parts prices rose 1.9 per cent between March and April mainly due to a 1.6 per cent rise in other parts and accessories (motor vehicle) and a 1.9 per cent rise in aerospace parts. In the year to April, imported parts rose by 10.0 per cent the highest rate of annual increase since records began.

14. Chemical product prices rose by 2.2 per cent between March and April mainly due to a rise of 3.1 per cent in other organic basic chemicals - in particular an 8.3 per cent rise in imported oxygen function compounds. In the year to April chemical prices rose by 13.5 per cent the highest rate of annual increase since March 2005, when it was 14.2 per cent.

15. Metal prices rose 2.4 per cent between March and April, mainly due to a rise of 6.2 per cent in imported basic iron and steel.

16. Home produced food material prices rose by 32.3 per cent in the year to April. Imported food material prices rose by 20.4 per cent in the year to April, the largest annual rate of increase since records began in 1986. All other product groups not previously mentioned recorded price increases in the month to April, apart from fuels, which showed a seasonal fall.

17. Fuel prices fell by 0.7 per cent between March and April compared with a fall of 11.9 per cent between March and April 2007. The gas market in April was subject to unusual market conditions. It is normal for the PPI prices to fall in April, following falls in the Spot gas price. In this case the Spot gas price for April has risen relative to March's price. In addition, April is the annual price round for many companies, so prices are particularly uncertain. This makes the input PPI for gas more susceptible to revision than normal.

18. The index for materials and fuel purchased by manufacturing industry excluding the food, beverages, tobacco and petroleum industries rose 2.2 per cent in seasonally adjusted terms between March and April. The unadjusted index rose 12.6 per cent in the year to April, compared with a rise of 9.6 per cent in the year to March (Table 6). This is the highest annual rate of increase since records began in 1986.

19. More information on Producer Prices can be found at: www.statistics.gov.uk/ppi.