PRICE VOLATILITY AT HIGHEST LEVEL SINCE EARLY 1990s ERM CRASH
Almost a quarter of goods changed price month-on-month since onset of the pandemic.

Price volatility is at its highest level since 1991, as the pandemic creates uncertainty for shops and their customers, according to a new report from the London School of Economics and Political Science.

Typically, just under a fifth of prices change month on month. Now, new analysis shows that during 2020, this rose to 24 per cent – the changes were divided almost equally between price hikes and cuts.

While inflation has fallen in recent months, the report shows how this headline statistic masks underlying flux—thousands of price cuts and price rises. The same happened in 2008, but the pandemic has been a stronger shock, reflected in more volatile pricing.

The report *Prices and inflation in a pandemic – a micro data approach*, is based on an analysis of Office for National Statistics (ONS) data on 36m consumer prices, covering 1988 to 2020.

The 30 items that saw prices swing the most were from a wide variety of sectors, and included contact lenses, pineapples, books and takeaway food.

In contrast, charges for services such as haircuts or plumbing tend to change much less, and this has held true since the onset of Covid-19.

The report also finds:
- The VAT holiday in August 2020 prompted significant price reductions, but prices rose again shortly afterwards
- Overall, the biggest changes have been in sectors that have been most affected by lockdown, such as hospitality and culture.
- Large firms’ prices are almost twice as flexible as those of small firms.
- Regional differences in price volatility have started to emerge and will be important to track in coming months given different lockdown rules and Brexit impact, particularly in Northern Ireland and Scotland.

Richard Davies, author of the report said:

“Since the onset of Covid-19, shoppers have faced more volatility than when Britain was crashing out of the European exchange rate mechanism (ERM) in the early 1990s. This will tend to affect those on low incomes more: both because the weekly shop is a higher proportion of their income, and because we know from other research that they tend to visit many shops in order to secure the best prices. Shopping around requires more effort in a time of price uncertainty – and yet comes as the country is seeking to keep travel to a minimum – creating yet another unwanted dilemma during the pandemic.

“Thankfully, UK data is made available in close to real time by the ONS. This means we should be able to track price differences across the UK regions in coming months. There are important implications for real wages, and local policies...
to support struggling families. This new data set, which allows comparisons right back to 1988, should be a useful tool for policymakers seeking to understand the pandemic”.

The full report is available here: *Prices and inflation in a pandemic – a micro data approach*

Note to editors

1. The Centre for Economic Performance (CEP) is an independent research centre based at the London School of Economics and Political Science. Its members are from the LSE and a wide range of universities within the UK and around the world.

2. The Centre for Economic Performance is part funded by the Economic and Social Research Council, part of UK Research and Innovation (UKRI) [https://esrc.ukri.org/]  [https://www.ukri.org/]


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