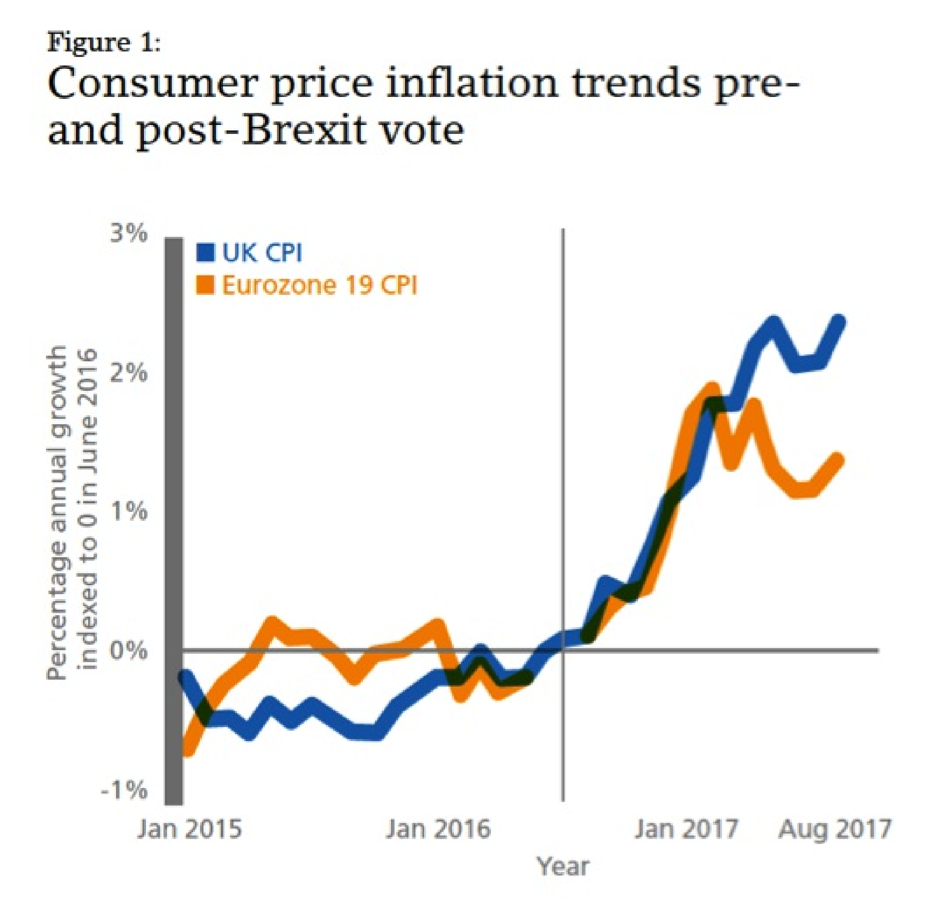
The Brexit vote has caused a significant rise in prices, especially food

*Since the referendum, UK inflation has risen faster than that of the Eurozone. Price rises have varied across sectors, but **Josh De Lyon, Swati Dhingra,** and **Stephen Machin (LSE's Centre for Economic Performance)** show that the rise in the growth rate of food prices has been particularly pronounced. As a result, real wage growth in the UK has again turned negative.*

The pattern of significantly higher price inflation is shown in Figure 1. This plots the annual consumer price index (CPI) before and after the Brexit vote, comparing the UK with what has happened in the 19 Eurozone countries. To a large extent, the CPI growth rates of both the UK and Eurozone move together, with both being driven by worldwide commodity prices.

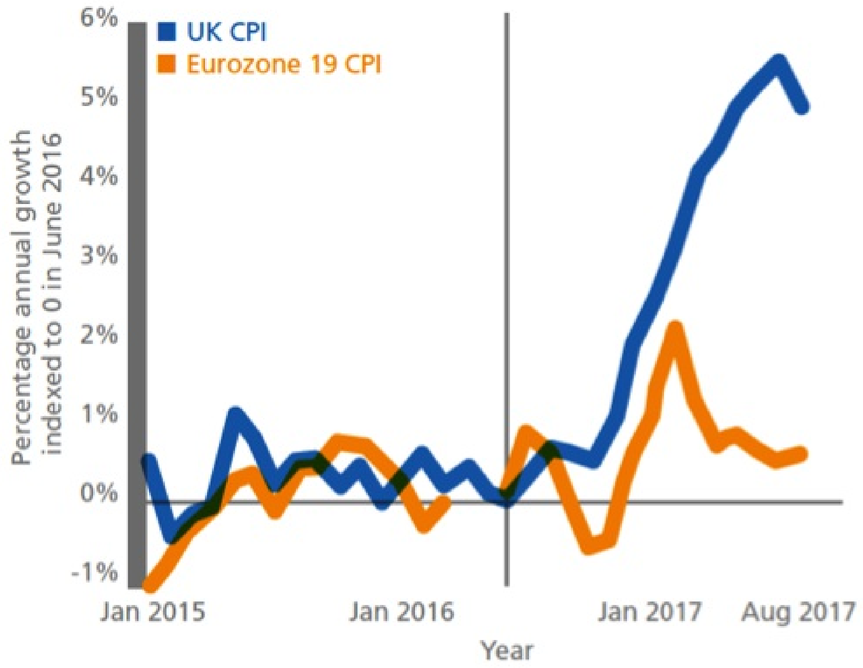


The index is a cumulated annual index and so only shows the full effect of the referendum from May 2017, when it is no longer diluted by pre-referendum data. Taking this into account, the spike observed shortly after the referendum is significant. It is likely to have been driven by the devaluation of sterling, which occurred immediately after the referendum result.

The full effect is indicated by the divergence of CPI annual growth rates between the UK and the Eurozone a year after the referendum. This divergence in consumer price inflation partly reverses the convergence in price changes that occurred in the single market, when price dispersion of tradable goods started to converge to levels seen across US cities by the mid-1990s (Rogers, 2001).

For certain commodity groups, the increase in the CPI growth rate has been more pronounced. Figure 2 presents the annual growth rate of CPI where the sample of goods and services is restricted to food. There is a distinct and substantial rise in the rate of CPI food inflation for the UK relative to the Eurozone.

Figure 2:
Food consumer price inflation trends pre- and post-Brexit vote



The divergence that immediately followed the referendum is quite a bit larger than that observed for all goods in Figure 1, and becomes larger when amplified over time. This has important implications for how the vote has affected the purchasing power of different income groups. Low-income households spend a higher proportion of their income on food than rich households.

The UK experienced several years of real wage falls following the financial crisis of 2007/08, but in the period before the referendum, real wage growth in the UK had become positive (see Blanchflower and Machin, 2016; Blanchflower et al, 2017). This arose because of very low inflation, not because of any strength in nominal wage growth (which seems to have become stuck at a norm of 2% per year since the start of the decade).

But the increase in prices following the Brexit vote coupled with no significant rise in nominal wages has again caused real wage growth to become negative. This is shown in Figure 3, which indicates that the real wages squeeze is back because of the post-referendum price increases.

Figure 3:
Real wage trends pre- and post-Brexit vote

By the end of our data period, the price increases following the referendum have now fully appeared in the annual index. It seems that the Brexit vote has caused a one-off rise in prices, and that the annual growth rate of prices will begin to fall out of the index once it no longer includes the months that immediately followed the referendum.

Overall, this research points to a significant rise in prices occurring after the EU referendum. Future work that builds on these initial findings will quantify the role of the devaluation of sterling by focusing closely on price changes for imported goods and services.

This post represents the views of the authors and not those of the Brexit blog, nor of the LSE. It is based on the LSE's Centre for Economic Performance report [Brexit: the impact on prices](#).

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