An effective way to prevent profit-led inflation is to ensure that there is sufficient competition, and the UK is already adopting two forms of big data that may help prevent that. (UBS)

Big data, smaller price increases?

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Using big data can show a very detailed picture of an economy. This can be used to monitor the competition that limits profit-led inflation.

Food prices are an area of the economy that is vulnerable to profit-led inflation. This is because of an information mismatch between customers and retailers. Customers think food prices are closely related to agricultural prices. Retailers know prices are mainly about labor—and they can exploit this difference in understanding to raise profit margins.

An effective way to prevent profit-led inflation is to ensure that there is sufficient competition. Two forms of big data may help with that, and the UK is already adopting this information.

Next year, the UK will be changing how it measures food prices in the consumer price inflation calculation. Rather than sampling a range of products, bar code scanner data will be used to monitor every price of every item sold in supermarkets. This means that things like loyalty card discounts will be measured, and statisticians will have an accurate picture of the prices consumers are actually paying.

Credit card data can also be used to identify how competitive different parts of an economy are. The number of retailers in an area, and how far people travel to shop can be readily monitored. The combination of geographic competition and detailed pricing data can help highlight where uncompetitive practices may be encouraging profit-led inflation.

Main contributor: Paul Donovan

See the original blog **Big data, smaller price increases?** 4 October 2024

Important information