Inflation is falling

Yesterday’s announcement that inflation on the government’s preferred measure, CPIH, has fallen to 2.7% was welcome confirmation that inflation is falling again. The annual rate fell despite the boost to inflation from higher home energy costs, higher prices for petrol and diesel, Council tax rises and higher taxes on alcoholic drinks from the Autumn budget. Dearer electricity featured as an upwards pressure, which is the result of the big switch away from cheaper carbon based generation.

The feared big surge in inflation from weak sterling has not taken place as some predicted. Just as lower sterling in 2016 did not do much to boost shop prices, so it appears higher sterling against the dollar and yen is not doing much the other way either. Shop prices have remained under competitive pressures, with strong internet rivals keeping many prices keen. That same internet also helps retailers source better value product from around the world to keep their prices down. Core inflation is at 2.5%.

There is no need for the Bank to worry about the current inflation rate. It is true there is a bit more energy price inflation to come through with oil now trading at $70 a barrel for Brent crude. There may be further Council tax rises to come as Councils seek more money for a variety of spending programmes. There is no sign of a general wage/price spiral about to break out in the way that was common in the last century.

Once again the extreme forecasts of a big surge in inflation based on a weaker pound have not come true, just as industrial output and the general growth of the economy has surprised the Treasury and other forecasters on the upside. The government itself would like a bit more wage inflation, and has sought to get wages up at the lower levels with its Living Wage policy.