

Sterling rises again – what will now happen to inflation?

The pound fell from \$1.71 in July 2014 to a low of \$1.46 in April 2015, well before a referendum was planned or thought at all likely. There was not a lot of fuss or comment about that.

The pound fell from around \$1.45 before the vote in June 2016, to \$1.29 after the vote. It fell again to a low of \$1.21 in response to the Bank of England's decision to cut interest rates and have additional Quantitative easing in the Autumn of 2016. Many commentators and many parts of the media made a lot of this fall, and claimed that it would lead to a rapid and damaging inflation. The entire decline of the pound was attributed to Brexit, though as the numbers show much of the decline of the pound had occurred before Brexit was in contemplation and before the City thought Brexit would win.

Since the low, the pound has now risen to \$1.43, more or less back to where it was before the Brexit vote, assisted by the restoration of the interest rate cut by the Bank of England, and to the ending again of Quantitative easing. There has been little media fuss about this, and no commentary saying that inflation should now collapse as the pound has risen by 19% from the low against the dollar. It has also risen against the yen and on the trade weighted.

Isn't it about time the media invited back all those commentators who got it so wrong again? They were given plenty of airtime to talk the pound down and tell us it would fall further. Instead it went back up. They went on to argue that a falling pound meant higher inflation as price rises came through. At the time I said they were exaggerating the impact of the pound on shop prices, that the pound could go up as well as down, and that apart from the immediate aftermath of the vote the pound would usually be moved by forces other than the Brexit vote. So it has proved.

Do I think inflation will now fall sharply from the strong rise in the pound? No, but then I didn't claim inflation would soar when the pound went the other way. Those who said the pound was the main force on UK inflation have some explaining to do. Or alternatively why don't they come back on the media and tell us how wonderful it is going to be as prices sink on the back of a stronger currency?

UK Inflation has been more affected by energy prices which have been rising, and by taxes and public sector charges than by movements in import prices.