

United Kingdom

Households benefit from zero inflation

- **Consumer price inflation holds at record low of zero in March**
- **Consumer spending boosted as 'Misery Index' sits at all-time low**
- **Few signs of any meaningful upturn in inflation to worry policymakers**

UK consumer prices were unchanged on a year ago in March, meaning inflation stayed at its record low of zero for a second successive month, according to the Office for National Statistics. Note that current records only began in 1989. The ONS estimates that inflation may have been negative briefly in 1959 and 1960.

The lack of inflation is the result of the halving in the cost of oil since the middle of last year, as well as intense competition among high street retailers and among the supermarkets, which is driving down food prices in particular.

This is of course great news for households, making the pound in the consumer's pocket go further. The 'Misery Index', derived from measures of unemployment and price pressures, has hit its lowest level since data were first available in 1989 on the back of zero inflation and lower unemployment. Furthermore, although regular pay growth is disappointingly weak at 1.6%, real pay growth (adjusted for prices) is the highest for seven years.

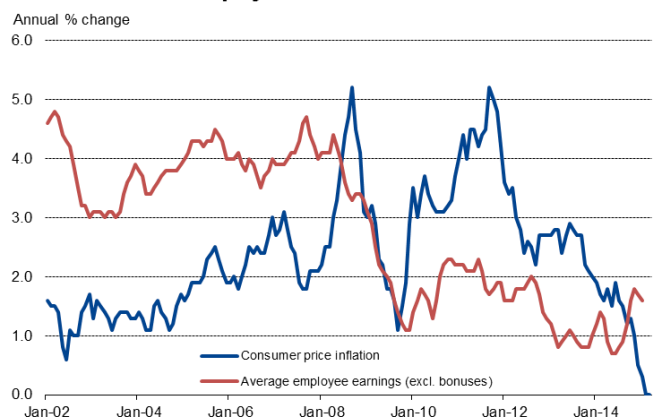
This upturn in real pay growth is likely to help sustain a robust pace of economic growth in coming months, making up for a downturn in business investment spending. However, this once again leaves the economy unbalanced and overly reliant on domestic consumers.

This reliance is especially worrying as the lack of inflation is likely to be temporary, due in part to the drop in oil prices eventually feeding out of the year-on-year comparisons. This raises the possibility of the boost to consumer spending arising from low inflation waning in the second half of the year.

However, there are few signs of inflation picking up meaningfully in the medium term, which should give the Bank of England scope to keep interest rates low for longer, at least until next year. In particular, pay

pressures remain disappointingly weak. A [recent survey](#) indicated that employees expect pay to rise by just 1.1% on average in 2015.

UK inflation and pay



Sources: Markit, Office for National Statistics

UK Misery Index



Source: Markit.

Chris Williamson

Chief Economist

Markit

Tel: +44 207 260 2329

Email: chris.williamson@markit.com

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