

United Kingdom

Inflation falls to four-year low

- **Consumer price inflation drops to 2.1% in November, lowest since November 2009**
- **Factory gate prices continue to rise at slowest rate for four years**
- **House price inflation highest since September 2010**

Inflationary pressures are running at their lowest for four years in the UK, adding scope for the Bank of England to keep policy ultra loose in order to help sustain a robust economic recovery. However, rising energy prices may well push the rate up again in coming months, and further news of rising house prices means policymakers will need to continue to monitor the property market to ascertain whether the further steep growth of house prices could pose a threat to the recovery.

UK consumer price inflation fell to 2.1% in November, its lowest since November 2009, down from 2.2% in October and a recent peak of 2.9% in June. The decline brings the rate closer towards the Bank of England's 2% target.

The main downward pressures came from food & non-alcoholic drinks, housing & household services and restaurants and hotels, suggesting quite widespread discounting to hard-pressed consumers to stimulate sales.

Manufacturers' prices are meanwhile also showing the slowest rate of increase for four years. Factory gate prices rose just 0.8% on a year ago in November, unchanged on the rate seen in the year to October, which had been the lowest since October 2009. Manufacturers input costs fell 1.0% on a year ago, the steepest fall since September of last year.

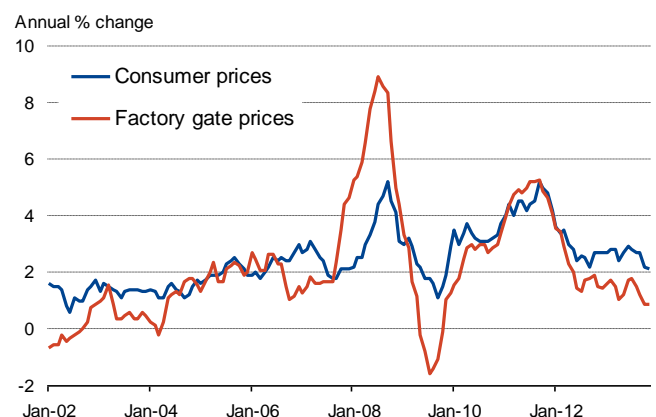
Policymakers will be comforted by the data, as the drop in inflation allows interest rates to be kept at record lows for longer. A fly in the ointment could be the upturn in inflation expectations in December, and the fact that recently-announced energy price rises have yet to filter through. Inflation is expected to run at 3.6% over the next year, up from 3.2% back in

September, according the Bank of England/NOP survey. However, as the increase is likely to have been due the recent news of rising utility bills rather than a general expectation of growing underlying inflationary pressures in the economy, the data will probably be of little concern to policymakers.

Of greater concern is that, while the inflation data are benign, the house price data underscore the growing concerns about the need for policy to respond to the dangers of unsustainable steep upturns in house prices. Official data showed house prices up by 5.5% in the year to October, up from 3.8% in September and the largest rise since September 2010. London leads the upturn, but the rest of the country is also now seeing a marked improvement in property prices. Excluding London and the South East, UK house prices rose 3.1% in the year to October.

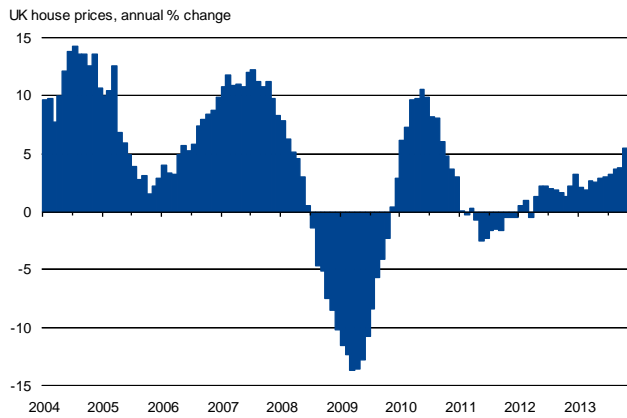
House price rises of this extent (certainly those being seen outside London) do not represent a major concern at the moment, but policymakers will no doubt remain vigilant as to the future course of house prices - especially as survey data suggest the rate of increase continued to build as we moved towards the end of the year. The [Knight Frank/Markit House Price Sentiment Index](#) hit a five-year high in December.

Consumer and producer price inflation



Source: Office for National Statistics (via Ecowin).

House prices



Source: ONS, Regulated Mortgage Survey.

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