

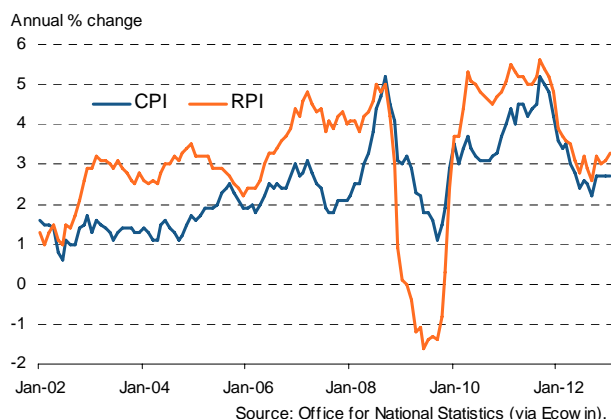
# United Kingdom

## Inflation remains stuck at 2.7% despite weak demand

- **Consumer price inflation holds steady at 2.7%**
- **High inflation due to factors outside of policymakers' control, as demand remains worryingly weak**
- **Producers' selling prices rise at slower rate**

UK inflation remained stuck at 2.7% for the fourth month running in January, according to the Office for National Statistics. Retail price inflation rose from 3.1% to 3.3%, its highest since last April.

### Headline inflation rates



Above target inflation also looks to be here to stay for the rest of the year, but the frustration for policymakers is that the upward pressures are largely coming from areas outside of their control.

Looking into the detail of the January inflation data, the main upward pressures came from an 8.5% jump in alcohol and tobacco prices, a 19.7% leap in education costs due to the rise in tuition fees, a 3.5% increase in utility prices and a 4.2% upturn in food prices. All of these are sources of inflation which are not related to (or affected by) central bank policy. They are either "administered prices", reflecting changes in government policy and taxation, or are prices set globally, as in the case of oil and many food commodity prices.

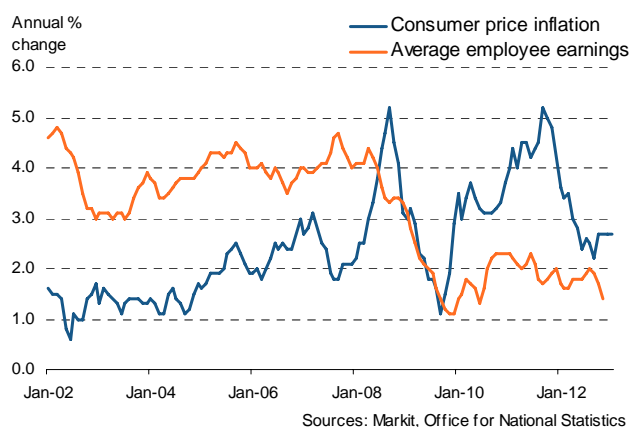
Weak demand is meanwhile keeping price pressures low elsewhere in the economy – as illustrated by a mere 0.2% year-on-year increase in clothing prices,

which dropped 5.4% month-on-month in January, and a modest 0.8% rise in prices for household goods, which fell 2.3% during the month. There is little that can therefore be done to bring inflation down further for the goods and services that are typically influenced by domestic monetary policy, as these prices are already falling.

Factors that are largely outside of the Bank of England's control also look set to keep inflation uncomfortably high for some time to come. The only thing that will change is the signature on the bottom of the letters of explanation to the Chancellor, as Mark Carney takes over the reins from Sir Mervyn King. High utility prices will keep the pressure on headline inflation in the short-term, as will higher food prices, linked mainly to the weather-related poor harvests. The recent increase in oil prices will also inevitably feed through to the petrol pump. Brent crude prices have risen 11% so far this year.

With wages growing at an annual rate of just 1.5%, real incomes are clearly continuing to fall at a marked rate. Although less severe than last year, the fact that households' incomes continue to be squeezed will restrain consumer spending and therefore hurt the wider economic recovery in coming months.

### Income squeeze



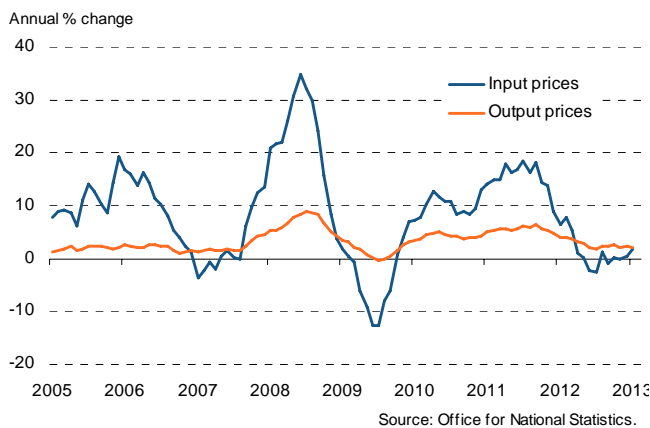
The Bank of England will therefore be inclined to "look though" the causes of higher inflation and instead lean towards the need for demand-boosting stimulus to help

revive the economy, though policy will probably be kept on hold (or QE maintained at current levels) until a clear picture emerges of how the country has fared in the first quarter.

### Manufacturing prices

Separate data on producer prices further highlight how weak demand and competitive pressures are helping to keep inflation down, with companies forced to soak up higher costs as their customers will not accept higher prices. Manufacturers' input prices rose 1.3% in January, taking the annual rate of increase to 1.8%, the strongest rate of increase since last March and up from just 0.5% in December. Producers' selling prices meanwhile rose just 0.2% in January, causing the annual rate of increase to slow from 2.2% to 2.0%, its lowest for six months and one of the lowest rates seen since 2009.

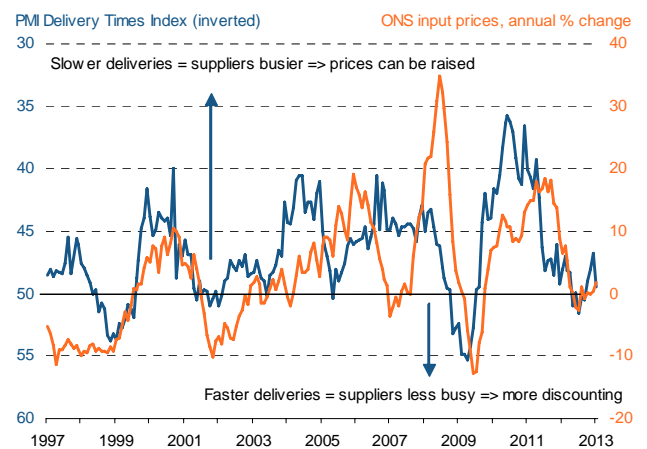
### Manufacturing prices



### Measuring supply chain delays

PMI survey data also indicate that the increase in manufacturers' input prices is related to rising global commodity prices, such as the oil and food price increases, rather than a fundamental build up of domestic demand relative to supply. Manufacturers are reporting few supply chain delays, which is a sign that suppliers can easily cope with current levels of demand. As such, inflationary price pressures in the supply chain remain largely absent.

### Supply chain delays and manufacturing prices



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