

Inflation and recession

We have the inflation. It is important to avoid the recession. It looks as if we will see peak inflation this autumn as the official forecasts now concede. The delayed increases in domestic heating bills will adversely affect the inflation numbers then and hit people's budgets again at the next increase.

Next year inflation should come down. It is difficult to believe the prices of the basics could go up again by the magnitudes of the increases this year. Money policy this year is a lot tighter, whereas it was too loose last year. The economy is being slowed by the Bank's policy and their higher interest rates, and by the big hit to real incomes caused by soaring fuel and food prices. Many people are responding by having to cut back on some discretionary spending to afford the basics. The reduction in demand from these measures will help cool prices.

It does not need a wide range of tax rises on top of the forces slowing the economy. VAT cuts on energy would be helpful, both by cutting the prices of some of the dearest items in budgets, and by returning a bit of cash to people who otherwise have to pass the money to the fuel companies, suppliers and government energy taxes.