

Inflation nears its modest peak in the Euro area and the UK

Inflation has risen by similar amounts in Europe, the UK and the US. Yesterday the Euro area figure for April hit 1.9%, compared to minus 0.2% a year earlier. German inflation reached 2%, compared to minus 0.3% a year earlier. UK inflation at 2.7% compared with plus 0.3% a year ago has risen almost identically to German inflation over the last year, implying the UK inflation is not to do with sterling or Brexit as some allege.

The annual UK figure for April inflation at 2.7% reflected higher energy prices over the year. 30% of the price rise came from transport, with a surge in airfares for Easter a particularly strong item for April, and higher Vehicle Excise Duties adding to the pain. 22% of it came from household items, where Council tax rises and dearer electricity were two of the big movers. Motor fuel prices fell a little, after being the dominant cause of inflation for the last year.

There are no signs of a wage/price spiral developing as it used to do in the last century. There is not much evidence of companies pushing through price rises to offset the fall in sterling that has taken place over the last two years, though where they can companies seek a small rise as some compensation for general cost pressures. It is interesting that on both sides of the Atlantic with differing patterns of currency performance, the rise in inflation has been so similar. It mainly reflects energy and commodity prices, with some price pressures from China on her exports. Later this year unless there is another oil and commodity price surge, inflation might fall back a little.

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