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UK: Inflation Rises Afresh

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A Blip in a Downward Trend!

Overshooting expectations for the first time in several months, July consumer price inflation rose afresh, rising 0.2 percentage point to 2.6% Y/Y, up from a June reading that was the lowest since November-2009. Prices rose by 0.1% in M/M terms, mainly as a result of higher clothing prices and airfares. Meanwhile, the Y/Y breakdown showed the fresh overall rise came from airfares, with more downward pressures still evident in regard to food (2.1% from 2.3%).

Even so, the airfare swing pushed up the core rate (which excludes energy, food, alcohol and tobacco) 0.2 percentage point to a four-month high of 2.3% Y/Y.

To what extent the wet weather of late has caused this fresh rise is unclear, it may have been responsible for earlier price discounting than normal (causing exaggerated drops seen in May and June) as well as for increased demand for holidays abroad, hence the upward pressure on airfares.

Disinflation Still Intact?

These numbers still underscore that the weak economy is taking its toll on prices given the continued downward trend in many more discretionary areas of consumer prices. Admittedly, given global factors, *it is likely that the softness in food inflation may reverse in coming months, but the headline rate is still likely to fall to the 2% BoE target by year-end*, something that the BoE acknowledged in its Inflation Report last week.

DE View: Even so, worries among some members of the MPC that weakness in the supply side of the economy is limiting the extent to which inflation can fall further remain and this may be evident in the MPC minutes due on Wednesday.