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## UK: Inflation Falls Further and Faster

Undershooting expectations yet again, June consumer price inflation fell further and faster, dropping 0.4 percentage point to 2.4% Y/Y, now the lowest since November-2009. Prices fell by 0.4% in M/M terms, mainly as a result of lower clothing and fuel prices. Meanwhile, the Y/Y breakdown showed the further fall to be a reflection of decreasing price pressures for food (2.3% from 3.3%), clothing (-0.8% from 1.6%) and also fuel prices.

As a result, the core rate (which excludes energy, food, alcohol and tobacco) edged down a notch to 2.1% Y/Y, matching the cycle low hit briefly in April numbers.

### Disinflation Ever-Clearer!

*These numbers surely underscore that the weak economy is taking its toll on prices: the M/M falls in each of the last two months are unprecedented in their weakness.* Admittedly, other factors beyond the economy may be playing a role, with very unseasonable weather possibly dampening demand for the likes of clothing and gardening produce.

Regardless, inflation is now within 0.4 percentage point of target, having tumbled clearly from the 5.2% peak set last September. Moreover, CPI inflation in Q2 undershot BoE short-term projections for the first time in many quarters and by a sizeable 0.5 percentage point. *Indeed, the growing likelihood is that the headline rate will fall below the 2% target by the turn of the year, two to three quarters faster than existing BoE projections suggest.*

### BoE Concerns Defused

Such an outcome will surely have helped defuse 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.

**DE View:** The minutes to the July MPC meeting (due Wed) may reveal a more reassured committee regarding inflation, this being one of the reasons why a further dose of stimulus was dished out this month.

The data create scope for more BoE stimulus, albeit with it likely that the BoE will wait until November, as this may be the earliest time it can gauge the impact of its soon-to-be-launched Funding for Lending Scheme.