

Inflation has been public enemy number one for most of the last 7 years, with consumer price rises consistently outpacing wage increases. This was particularly noticeable with food and energy / fuel prices. However, since the second half of 2014, the cost of living recovery has begun with a vengeance, and food and petrol prices have gone into reverse. The annual rate of CPI inflation has fallen from 2.6% in 2013.

A huge drop in the oil price, which has still to fully feed through into fuel prices, has already helped to push the annual rate of CPI inflation to 0.5% in December – a 15-year low. CPI is expected to average around this level for 2015 as a whole. This would represent the lowest annual rate of CPI (for a full year) since the series began in 1989. It also sets the bar very low to secure a real terms increase in spending from even a modest pay rise.

2015 should therefore be the first year of a meaningful wage price recovery. When oil price falls fully feed through, we can expect to see petrol price to fall below the £1 per litre mark for the first time since H1 2009. Falling food and fuel prices will boost disposable incomes and will effectively act as much needed temporary painkillers ahead of the next 5 years of austerity.

Within the latest figures it is noted that food prices fell 1.9% y/y which represents the largest decrease since June 2002. Meanwhile transport fuels & lubricants (petrol and diesel) fell by 10.5% y/y last month. This represented the largest decline since July 2009.

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