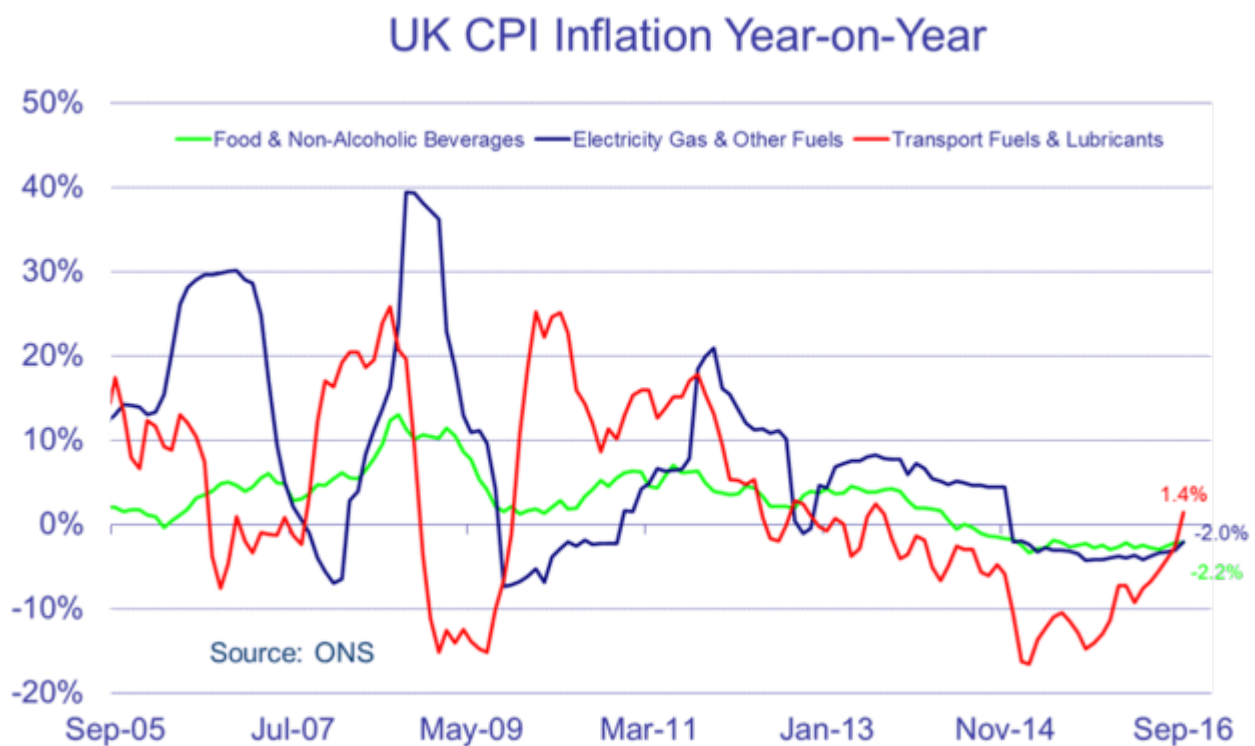
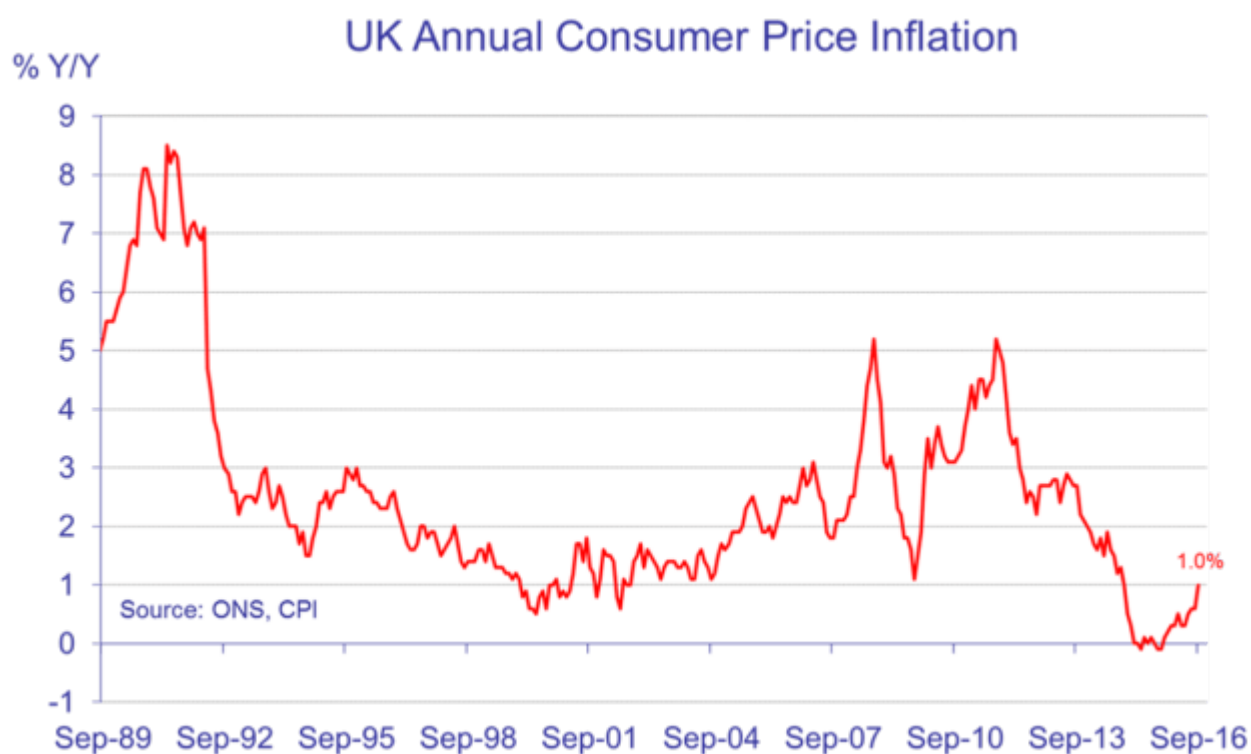


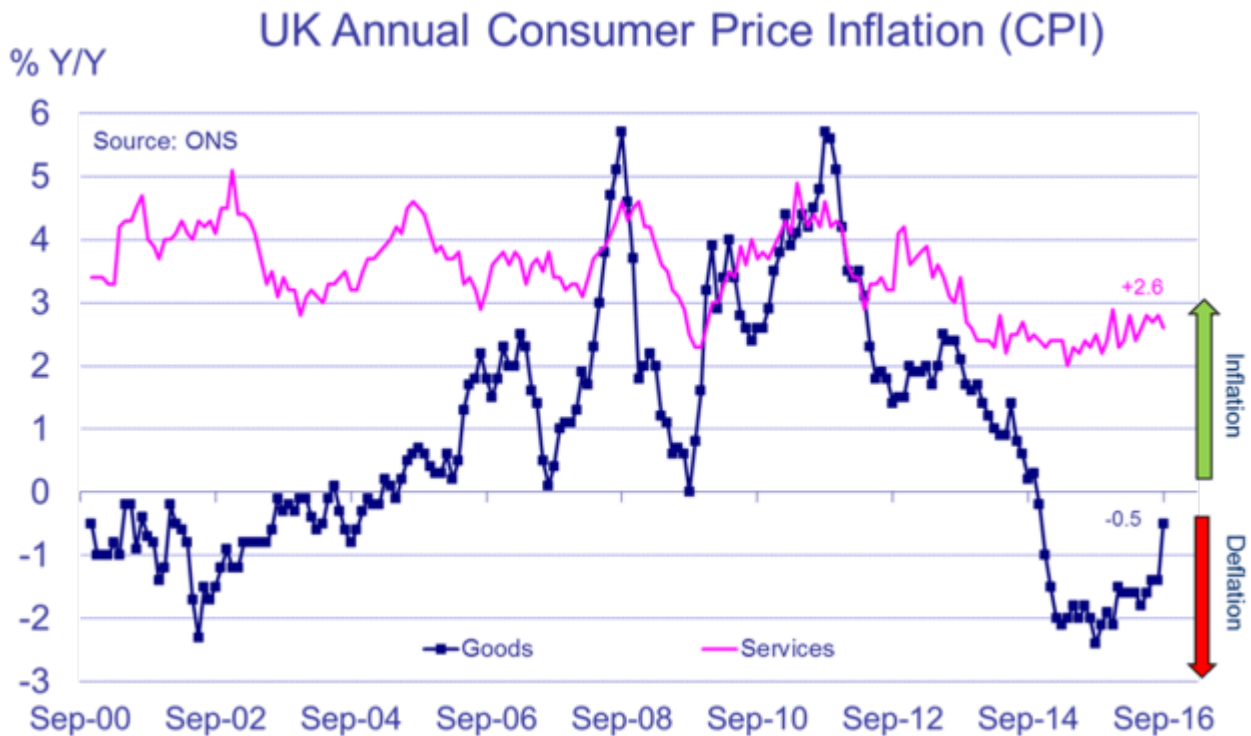
For the last two years or so, UK households have been in the midst of what has been dubbed a consumer sweet spot – low inflation aided by a sustained period of falling food, fuel and petrol prices. But times are changing. The significant fall in the value of the pound has started to fuel import price inflation – while exporters benefit from a weak pound, it is worth remembering we import more than we export. But it will be well into 2017 before we see the main impact of sterling’s depreciation on consumer prices.



The annual rate of consumer price inflation rose from 0.6% in August to 1.0% for September. Rising prices for clothes, hotel rooms and petrol helped push the basket of consumer goods and services to its highest level in almost two years. This is still low by historical standards but inflation is set to easily overshoot the Bank of England’s 2% inflation target next year.



In 2015, UK consumers experienced the first simultaneous fall in petrol, energy and food prices. Indeed, petrol prices had recorded year-on-year price falls in the three years since August 2013. However, last month saw a 1.4% year-on-year rise in transport fuels & lubricants (i.e. petrol and diesel). Consumer goods prices, which account for just over half of the CPI index (with consumer services accounting for the remainder), have been falling since November 2014. Last month consumer goods fell by 0.5% year-on-year, which represented the smallest annual decrease since November 2014.



Looking ahead, however, we are set for consumer price rises – particularly food, fuel and energy – rather than the price falls that we have become accustomed to. This will squeeze disposable incomes and therefore consumer spending. Given that consumer spending accounts for around two-thirds of economic activity, economic growth will be adversely affected too. Two years ago, Northern Ireland became all too aware of the so called “cost of living crisis”. We look set to become reacquainted with this phrase next year.

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