



Cost of living crisis

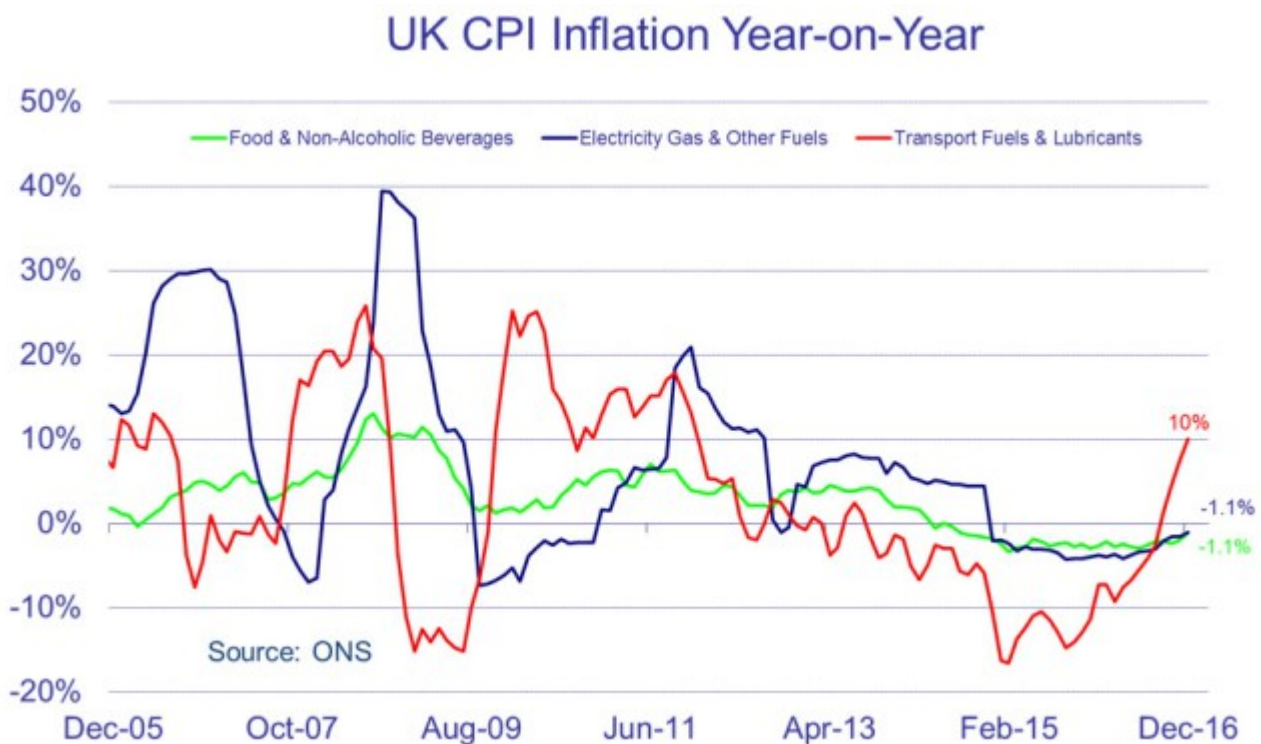
During the post-recessionary period from 2010-2013 inflationary alarm bells were ringing loudly in UK consumers' ears. The lack of pay rises during this period exacerbated the squeeze on disposable incomes and gave rise to the so-called "cost of living crisis". During this four-year period UK CPI averaged 3.3% per annum. Meanwhile the average per annum price increases for food, energy bills and motor fuels were 3.8%, 5.7% and 8.2% respectively.

Inflationary concerns were put to bed

From the middle of 2014, however, the cost of living snooze button was pressed as these

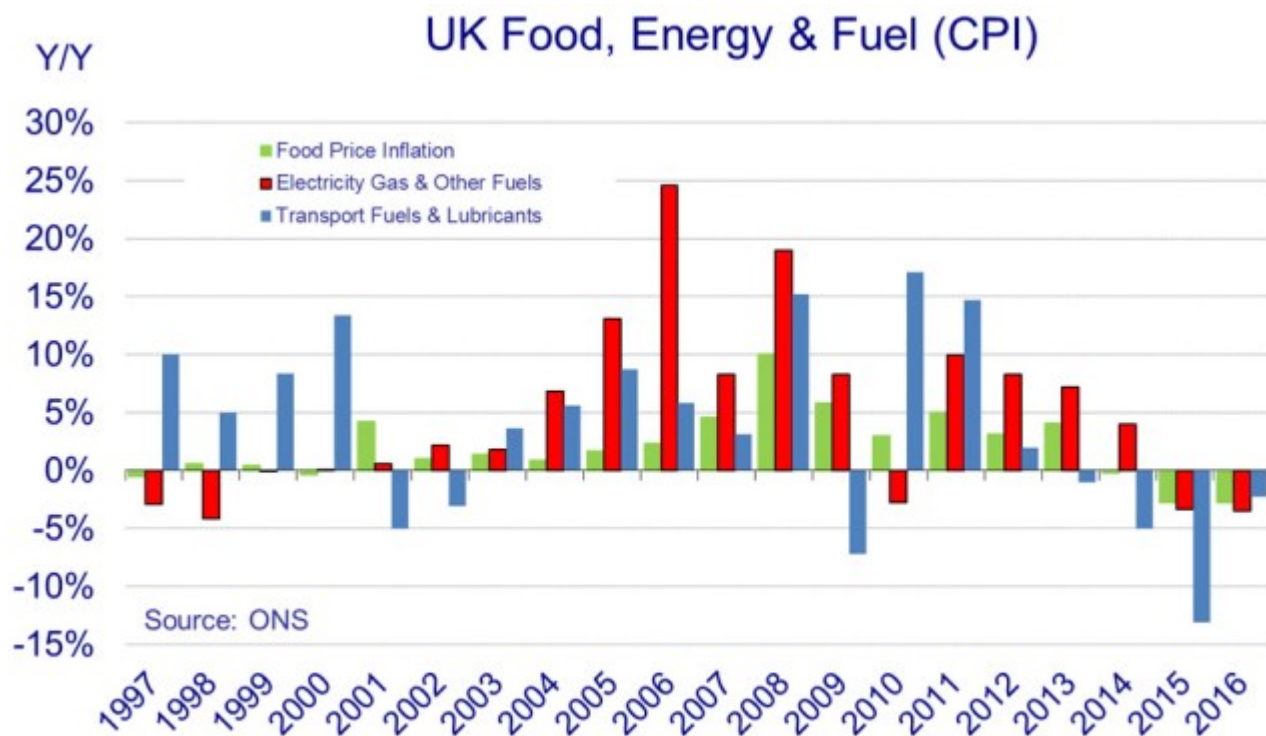
inflationary concerns were put to bed. A sustained period of disinflation and goods deflation (price falls) followed. The annual rate of UK CPI has averaged 0.5% per annum since mid-2014 and was flat in 2015. Consumers benefited from falling fuel costs, energy bills and food prices. The cost of motor fuels (petrol / diesel) fell for four consecutive years to 2016. Food prices fell for three years and energy bills (electricity & gas etc) for two. Falling food prices are particularly rare with the last annual fall before the latest three-year run occurring in 2000. Overall, 2015 and 2016 marked a freak period for consumer prices with the simultaneous decline of food, energy and motor fuel (petrol & diesel). In addition, the consumer sweet spot was sweetened further with rising wages.

Consumer sweet spot coming to an end



The consumer sweet spot is approaching its use-by date. Depreciation in sterling alongside rising global commodity prices has fuelled a return of inflationary pressures. December’s CPI figures released today will act as a wake-up call for UK consumers. Last month saw the annual rate of UK CPI jump to 1.6% from 1.2% in November. This represents the highest level since July 2014. The pick-up in inflation is broad-based and occurring across most categories. Goods inflation has increased from 0.2% y/y in November to 0.7% last month. Meanwhile the price of consumer services edged up to 2.4% y/y in December 2016.

Petrol and food prices on the rise



Many items within the basket of consumer goods and services have recorded much steeper rises. Transport fuel and lubricants (petrol & diesel) have risen by 10% y/y in December.

The rising oil price (& sterling weakness) has propelled domestic home heating oil up by 35% over the 12 months to December. This is an area where Northern Ireland is more affected than elsewhere. Food prices are also on the rise. While December food prices are still 1% lower than they were in December 2015, they are up 0.8% m/m (relative to Nov-16).

Inflationary alarm bells ringing

Looking ahead, the inflationary alarm bells are set to ring louder and louder in 2017. Inflationary pressures stemming from rising import costs, due to sterling weakness, are expected to push consumer prices higher. Import costs rose by almost 17% y/y last month, the most since July 2011. Meanwhile Apple today announced that the fall in the pound will lead it to raise App Store prices by 25%. Overall UK CPI is expected to push towards 3.0% y/y in the coming months. This will erode consumer's disposable incomes particularly for those experiencing benefit freezes and wage caps. A wake-up call for inflation also means a wake-up call for consumer spending and economic growth. Watch this space.

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