Inflation drop signals prices have passed their peak, but cost pressures remain

H
opes have mounted that the worst of the cost crisis is now behind us as official figures showed UK inflation eased back last month, but households remained under pressure due to sky-high food and energy bills.

The Office for National Statistics (ONS) said the rate of Consumer Prices Index (CPI) inflation fell by more than expected to 10.7% in November, from 11.1% in October – the biggest drop for 16 months.

It said the decline largely followed falls in the price of petrol and diesel and second-hand cars.

Economists had expected CPI inflation to fall to 10.9%.

It marks a welcome drop from the eye-watering 11.1% seen in October, when soaring energy bills sent inflation to its highest level since October 1981.

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Experts believe October marked the peak for inflation, with prices set to gradually fall throughout next year.

But food inflation is still surging, hitting a 45-year high last month of 16.4%, while power costs remain painfully elevated, despite Government support limiting the annual average bill to around £2,500 since October.

Economists said it could be some time before inflation returns to the Government's 2% target, with businesses still set to continue passing on price hikes as they face higher energy costs and the impact of a weaker pound.

Chancellor Jeremy Hunt said inflation was "the number one enemy".

He said: "Getting inflation down so people's wages go further is my top priority, which is why we are holding down energy bills this winter through our energy price guarantee scheme and implementing a plan to help halve inflation next year.

"I know it is tough for many right now but it is vital that we take the tough decisions needed to tackle inflation – the number one enemy that makes everyone poorer."

November's easing inflation is unlikely to stay the Bank of England's hand on Thursday, with economists predicting it will still look to hike interest rates once again, albeit with a smaller rise than the previous 0.75 percentage point increase.

The Bank is expected to increase rates from 3% to 3.5% to help rein in inflation, though some believe the pace of hikes will slow after this month.

Samuel Tombs at Pantheon Macroeconomics said the November data "suggests that the peak rate now lies firmly in the past".

He believes CPI will drop to around 8% next April and 3% by the end of 2023.

Consumer markets expert Lisa Hooker at PwC said the inflation slowdown “will be of little consolation to households contending with record cost-of-living increases in so many areas of essential spending”.

“They can only hope that the new year brings respite after three years of disruption from pandemic lockdowns, virus variants and cost-of-living woes, although forecasts of a continued real decline in wages are already putting a cloud on 2023,” she said.

The ONS data showed prices at the fuel pumps were among the biggest driver of falling inflation, with petrol unchanged between October and November this year, at 163.6p a litre on average, but rising by 7.2p a litre a year earlier.

Diesel price increases also eased, rising by 4p a litre this year to 187.9p, compared with a larger rise of 7.4p a litre a year ago.

Second-hand car prices likewise helped CPI fall back, with a 5.8% drop in the year to November compared with a 2.7% fall in the year to October.

The latest figures also showed declines in the rates of the other measures of inflation recorded by the ONS, with the Retail Price Index (RPI) falling to 14% from 14.2% in October, while CPI including housing costs (CPIH) dropped to 9.3% from 9.6% in October.