

Inflation falls by 0.2% to 10.5% but food prices go up by eye-watering 16.9%

The rate of inflation fell for the second consecutive month in December raising fresh hopes that the worst of the cost of living crisis may soon be over.

The Consumer Prices Index (CPI), the headline measure of inflation, dipped to 10.5% last month from 10.7pc in November, according to the Office for National Statistics (ONS.)

Wednesday's easing in the CPI was largely the result of falling fuel prices. However, there was no sign of easing in food prices, which rose by 16.9% in the 12 months to December 2022, up from 16.5%, at the highest rate since September 1977.

The fall in the CPI was in line with City forecasts and is still more than five times the Bank of England's target of 2%.

As recently as August 2020 it stood at just 0.2%.

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But it shot up to 41 year high of 11.1% in October propelled by rocketing prices of fuel, energy and food.

The end of the pandemic, which led to a sudden explosion of global demand when economies opened up, followed by the war in Ukraine, have been two of the biggest factors in the inflation surge over the past two years.

It has led to what the Office for Budget Responsibility has forecast to be the biggest squeeze on living standards on record by the end of 2024. On Tuesday the ONS said real wages fell at an annual rate of 2.6% in the September to November quarter.

The Bank is widely expected to increase its key lending rate by half a point to 4% when its Monetary Policy Committee meets early next month.

Chancellor Jeremy Hunt, said: "High inflation is a nightmare for family budgets, destroys business investment and leads to strike action, so however tough, we need to stick to our plan to bring it down.

"While any fall in inflation is welcome, we have a plan to go further and halve inflation this year, reduce debt, and grow the economy – but it is vital that we take the difficult decisions needed and see the plan through.

"To help families in the meantime, we are providing an average of £3,500 of support for every household over this year and next."

Shadow Chancellor Rachel Reeves said: "Inflation is at 10.5%, 5 times the current target.

"13 years of wasted opportunities under the Tories have left our economy weak and families worse off. We do not have to continue on this path of managed decline. Labour will stabilise our economy and get it growing."