Inflation rises to 10.4% in surprise reversal of recent trend

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nflation rose to 10.4 per cent in February up from 10.1 per cent in January in a suprise reversal of a recent downward trend.

The upward push is a result of food and non-alcoholic drink prices reaching their highest rate in more than 45 years. It may also force the Bank of England to raise interest rates higher to slow price growth as a result.

ONS chief economist Grant Fitzner said: “Inflation ticked up in February, mainly driven by rising alcohol prices in pubs and restaurants following discounting in January.

“Food and non-alcoholic drink prices rose to their highest rate in over 45 years with particular increases for some salad and vegetable items as high energy costs and bad weather across parts of Europe led to shortages and rationing.

“These were partially offset by falls in the cost of motor fuel, where the annual inflation rate has eased for seven consecutive months.”

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It is the first rise in inflation since October 2022, and leaves price rises a long way from the Bank of England's goal of 2 per cent. In addition, the rise makes Chancellor Jeremy Hunt's announcement that inflation was expected to fall to 2.9% by the end of the year appear less llikely.

"Falling inflation isn't inevitable, so we need to stick to our plan to halve it this year," Hunt said.

"We recognise just how tough things are for families across the country, so as we work towards getting inflation under control we will help families with cost of living support worth £3,300 on average per household this year."

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The price of a basket of commonly bought goods was 10.4 per cent higher in February than it was a year earlier, well ahead of City expectations 9.9 per cent. Core inflation – which removes the more volatile food and energy prices – also increased, to 6.2%, a rise that Capital Economics chief UK economist Paul Dales called "more worrying".

"These inflation figures smell a little like the recent US experience, where it appeared that core inflation was easing rapidly a few months ago only for it to accelerate again as economic activity proved resilient," he said.

Alpesh Paleja, lead economist at the Confederation of British Industry, did note that there was more reason for positivity looking ahead, as energy prices are expected to decrease.

"While inflation rose in February, the outlook for the months ahead is looking more benign, thanks to lower wholesale energy prices," Paleja said. "But while we expect inflation to fall back over this year, the firmness in domestic price pressures is something that the Bank of England will be keeping a close eye on."

"And despite further falls over the coming months, this year will still be a high-inflation environment for both households and businesses."

The higher-than-expected figure – combined with fears about the banking sector easing in the last two days – could encourage the Bank of England to be more hawkish in raising interest rates.

The Bank will announce whether it will raise rates again on Thursday, with expert opinions on whether it should do so divided earlier this week as its two core objectives came into conflict.

After last month's meeting, most expected the Bank to raise interest rates further to help bring price growth back down to its 2 per cent target by encouraging saving over spending.

Yet as rising interest rates on bonds contributed to the collapse of Silicon Valley Bank and turmoil at Credit Suisse, there were fears that a further increase could undermine its goal of financial stability.

With bank shares rebounding this week while inflation proves sticky, monetary stability may remain the Bank's primary focus, as it did for the European Central Bank last week.