

UK inflation tumbles giving Bank of England room on interest rates

UK inflation fell to 2% in July, a sharp plunge which suggested the Bank of England has no need to push up interest rates any time soon.


That is down from an annual rate of 2.5% in June, a bigger drop than most of the City had expected.

Figures yesterday showing that pay is rising sharply suggested rates might have to go up.

Today's numbers suggest that the economic bounce back from Covid is fragile and that consumers are not entirely confident about the future.

ONS Deputy National Statistician for Economic Statistics Jonathan Athow said:

READ MORE

- [Dear chief executive: welcome to the free market](#)
- [Bank warns inflation could soar to 10-year high, but keeps rates on hold](#)
- [FTSE 100 latest: Blowout numbers from Glencore, WPP and Serco](#)
-  [BRANDPOST | PAID CONTENT Closing the digital skills gap is key to unlocking London's recovery](#)

"Inflation fell back in July across a broad range of goods and services, including clothing, which decreased with summer sales returning after the pandemic hit the sector last year.

This was offset by a sharp rise in the price of second-hand cars amidst increased demand, following a shortage of new models.

“The differing patterns of movement restrictions across the last two years have affected headline inflation. Some of this month’s fall came from products and services, such as foreign travel, where real prices were used last year but have had to be imputed this year.”

There is still an expectation that inflation will rise for most of the rest of the year.

Yael Selfin, Chief Economist at KPMG UK said:

“The fall in year-on-year inflation last month masks the strength of inflationary pressures currently within the UK economy. We expect inflation to accelerate further during the rest of this year, rising significantly above the Bank of England’s 2% target, as supply chains remain under strain faced with a strong rebound in demand.

“However, we see inflation falling back to around 2% at the end of next year as production facilities expand, requiring only minimal tightening by the Bank of England in the short term.”

The Bank has said inflation could rise to 4%, double its 2% target, but expects that to be a temporary issue.