Inflation is easing but cost of living squeeze is still evolving

Last month’s inflation data release completely changed the outlook for Britain’s economic policy.

The number came in far below what economists had expected, prompting the **Bank of England** to pause its rises in interest rates, with wider implications for the state of the British economy.

This month’s inflation release – covering the rise in prices in the year to September – is much less earth-shaking.

The consumer price index rate of inflation was **unchanged at 6.7%**. This was slightly higher than economists had expected (6.6%) but not by enough to change their impressions about where we’re heading.

And that pathway is as follows: inflation continuing to fall in the coming months, enabling the government to claim victory in its quest to halve the CPI rate by the end of the year, dropping down to around 2% towards the end of next year.

The problem, however, is that these forecasts have been so disastrously wrong in the past that no one is entirely sure how accurate they are. Certainly, thanks to the fall in the energy price cap, prices are no longer rising as fast as they were last year.

But the impact of the cost of living crisis is still being felt widely.

Households are facing a perilous squeeze both from higher prices and from rising interest rates, as well as higher taxes.

Indeed, there’s a feedback loop between prices and taxes, because the personal allowance – that amount of your pay that isn’t taxed – is currently frozen, meaning extra rises in prices and earnings push families into higher tax brackets.

The other question remaining about today’s inflation data is how consequential it will be.

Normally, September’s rate is used to update benefits payments for the following year.

But the government has yet to confirm whether it will do so this year.