

Inflation panic seems to be over but cost of living crisis remains

In a sense, the headline news today is the least important bit of all.

[Inflation has dropped to 4.6%](#) which means the chancellor and prime minister can claim victory in one of their five pledges – the one to halve [inflation](#) by the end of the year.

True, there's still a few months of data left to run (today's consumer price index figures are for October) but nearly every economist expects inflation to carry on falling in the coming months.

And given it was well over 10% a year ago, this pledge looks to have been ticked off.

But the inflation pledge was always a slightly arbitrary one – a political aspiration that was more or less in line with where economists thought this data series was going anyway. Though for a few months, when inflation came in higher than expected, it did look touch and go.

The government itself is not charged with controlling inflation – that's the Bank of England's job – so nor can it really claim responsibility for bringing it down.

But far more important than all of that are a couple of other points.

The first is that prices seem to be falling faster than expected, not just here but around much of the developed world, including in the US which published inflation data yesterday.

That in turn raises the question of whether central banks such as the [Bank of England](#) will start cutting their official interest rates a bit sooner than anticipated.

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Following this morning's data, investors began to price in a faster fall in UK official rates, with the Bank rate dropping to 4.75% by late summer next year.

The Bank has been at pains to emphasise that no one should expect a cut from the current 5.25% level any time soon. But those protestations will sound increasingly hollow if inflation keeps dropping below its expectations.

The second issue is that while inflation is falling quite rapidly, this doesn't mean life is getting any easier for many households around the country.

Remember: inflation isn't a measure of how high prices are, but how fast prices are rising. The main reason the consumer price index rate dropped so much in October is that the difference between costs this October and last October wasn't quite as big as the 12-month rate was the previous month.

That in turn was primarily because most of the big energy cost rises happened more than a year ago.

But those prices – notably for energy, food and other essentials – have not gone down.

They're just rising a little less quickly than they were before.

And no one expects them to go down.

Indeed, based on where wholesale gas prices are at the moment (and where they're projected to go in the coming months) there's little prospect of our gas and electricity bills dropping down to pre-2022 levels for the foreseeable future.

Tack on the fact that many households are also contending with higher interest rates and it's hard to argue that the cost of living crisis has ended.

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The initial impact has now happened, but we're all still adapting to a world of much higher prices – and in the case of food, still rising by more than 10% a year.

None of this is to say there's not good news today.

For months, central banks had panicked that inflation was getting out of control. It now looks like it hasn't. But life is still tough and will continue to be tough for some time to come.