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'Double whammy' takes UK inflation to 1.8%

By Jessica Tasman-Jones 14th February 2017 10:34 am

A "double whammy" of oil prices and sterling weakness has seen consumer inflation rise to 1.8 per cent in January.

Sterling fell on the the news, which was slightly below the 1.9 per cent consensus expectations, as the figure suggests the Bank of England's MPC won't be in any hurry to raise rates from their current low of 0.25 per cent.

The figure is up from December when inflation hit 1.6 per cent.

Viktor Nossek, director of research at ETF provider and sponsor WisdomTree, says: "There is a double whammy of 'bad' inflation coming through in the UK from both energy and food and this has caused a sharp jump in CPI over the last few months."

However, Nossek does not expect inflation to soar much higher than 2 per cent as he believes the oil price lacks momentum – despite production cuts from Opec and non-Opec nations.

Russ Mould, investment director at AJ Bell, points out that in March the Bank of England will start incorporating owner occupier housing costs and Council Tax into its inflation figures.

This figure, the CPIH, already sits at the 2 per cent target set by the Bank's monetary policy committee.

"While this is unlikely to have Governor Carney and the Bank of England Monetary Policy Committee scurrying to raise interest rates straight away, the influence of house prices and housing costs may be a further factor to consider, even if their preferred measure, the 'core' CPI figure, remained unchanged in January at 1.6 per cent."

Adrian Lowcock, investment director at Architas, says markets have already driven up the cost of inflation proofing.

Lowcock argues index linked bonds are already expensive and that they expect inflation to under shot current forecasts.

"We believe inflation is only temporary as the effects of a weak pound and recovering oil price work their way through the system," Lowcock says.

"However, in order to protect their wealth, investors still need to ensure they have assets which can raise their prices in even mild inflationary environments."

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