

# Rising oil prices and the weak pound set to treble inflation in 2017

## UK Consumer Price Index, November 2016

13 December 2016

The Office for National Statistics released data this morning showing that the UK consumer price index rose at a yearly rate of 1.2% in November. The latest reading is above October's 0.9% and the highest since October 2014.

Looking at the contributing factors behind the headline figure, prices for clothing, motor fuels, and various services rose. Acting in the opposite direction were air and sea fares which fell.

The pickup in the inflation rate is hardly a surprise and carries far reaching consequences for households and the broader economy. While the rise in the price of clothing may or may not continue (due to yearly sales timings varying this series has been somewhat volatile), we certainly expect motor fuels to continue on an upward trend. Oil prices were already on the path to recovery before OPEC agreed to cut production at the end of last month. In the aftermath of the agreement Brent prices have already risen to nearly \$56 per barrel compared to around \$46 at the start of November. Rising energy prices are a two-fold threat as they have a direct and indirect impact on prices. Directly, they mean consumers pay more at the pump and for energy bills. Indirectly, they increase the production and transportation costs for many businesses putting pressure on them to raise selling prices.

Despite the recent pick-up, oil prices remain below levels seen for much of the 2011-2014 period. However, given lacklustre earnings growth and a host of other upward pressures on inflation any rise in energy prices is an added and unwelcome burden on household spending.

Today's publication also contains another sign that, as was expected, the weaker pound is forcing many firms to hike prices. One of the services that drove up the headline inflation figure is data processing. Many technology firms have raised prices for products and services in the UK in an attempt to maintain their profit margins despite rising import costs. This trend will not be contained to technology firms and we expect to see more prices rises across a variety of sectors in the coming months.

Keeping in mind recovering oil prices and the persistently weak pound Cebr expects inflation to stand around 2.4% in 2017 and 2018 – more than three times its 2016 level and above the Bank of England's 2.0% central target. Combined with modest earnings growth, this will squeeze household spending power and consequently contribute to an economic slowdown in the coming couple of years.

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UK consumer price index, annual percentage change



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