

Funding the Future

Today's inflation data is no guide as to what is to com...

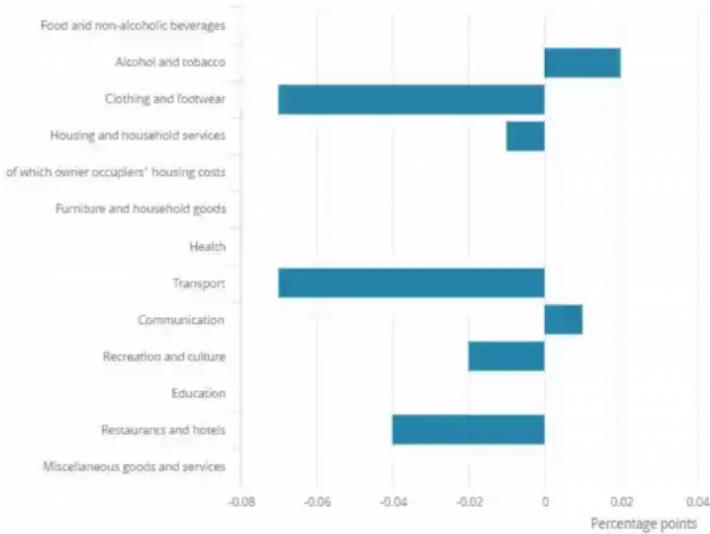
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A lot of people seem to be quite excited about the news that inflation has fallen in March as the impact of coronavirus hit. The new rate is 1.5%, which is below the Bank of England target and a fall from February when it was 1.7%. The ONS data shows the moves by economic sector as:

4. Contributions to change in the CPIH 12-month inflation rate

Figure 3: Headline rate slows as a result of price falls in clothing and footwear, and transport

Contributions to change in the CPIH 12-month inflation rate, UK, between February and March 2020



Source: Office for National Statistics - Consumer price inflation

It's hardly surprising that transport, restaurant and clothing have fallen: no one is buying them. The data must have been pretty hard to find, to be candid. And it's not surprising that alcohol and communication are up in a lockdown. But that does not mean people are drinking more: they are just not drinking out.

What is important is that this says nothing about what is to come. For this month and a couple to come lockdown will so distort all data that inflation information will be meaningless. That said, it is also highly likely to be low, because very little is happening and online sales are slashing prices.

Thereafter there will be an increase, almost certainly, simply because that will be a measure of change.

But again, that will also not be meaningful. It will measure reopening, not real change.

In the long term, I cannot see coronavirus and the reaction to it creating inflation. In the short term it's fair to say that the data on this will be unreliable.

In other words, excitement on this data is premature.