

We need inflation: what we have is a risk of deflation

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The [Office for National Statistics has published new inflation data](#).

The Consumer Prices Index for April has fallen, to 0.8%.

Factory prices actually deflated by 0.2% in April.

The trend, which I have plotted and to which I have added a linear trend line is as follows from January 1989 to April 2020:



It did not matter much what trend line I added: they were all downward, so I used a simple linear one.

And this matters, a lot.

I am aware that there is an argument that there could be inflation during this crisis, caused by those who remain at work and who have little to spend their money on pushing up prices for whatever is available. There were some signs of this in some of the April trends: the cost of children's games rose, for example, if only slightly. But

personally I can't see that trend being significant unless good supply chains are disrupted.

I don't dismiss the risk of our food supply chains being disrupted. Brexit is one reason why they might be. More likely, if we continue to have high coronavirus cases and France does not then the shutting of physical supply routes is a bigger risk if they close them to prevent Covid-19 contagion. But for now, I'm going to dismiss the concern.

And, anyway, oil, energy and other core supply prices are going down and, whilst volatile, are unlikely to increase heavily for some time.

And demand, in the meantime, will fall as the reality of mass unemployment grows.

If that trend line continues downward, in that case the risk is of deflation. And that's the real concern. Deflation means that prices of products fall over time. There are three consequences.

First, people then defer spending in the hope that items become cheaper in the future. This fuels recession, or slump (which is what we are heading for) by deferring spending.

Second, this can feed back into wages and real wage growth ends.

Third, fixed monetary obligations - like loan repayment, do however remain fixed. Relatively they become more expensive as a result. Inequality rises as a consequence. Money moves from those in work, and in debt, to the owners of that debt, and this will create massive economic and social stress.

We cannot afford deflation: it would add to the considerable difficulties we already face. What we could, in fact, do with is a solid dose of income inflation to deflate debt, house prices and the wealth inequality in our society.

But it does not look like we are going to get inflation any time soon. And that worries me, a great deal.