

Inflation is not the issue we need to worry about: defl...

Published: January 13, 2026, 5:05 am

As the [Guardian](#) has reported:

Official figures showed the annual growth rate in consumer prices slowed to 0.5% in May as oil prices tumbled, the lowest annual rate since the Brexit vote in June 2016.

ONS deputy national statistician for economic statistics Jonathan Athow said:

The growth in consumer prices again slowed to the lowest annual rate in four years. The cost of games and toys fell back from last month's rises, while there was a continued drop in prices at the pump in May, following the huge crude price falls seen in recent months.

Outside these areas, we are seeing few significant changes to the prices in the shops.

For the [second day in a row](#) we have the Office for National Statistics issuing almost meaningful comment on what is really happening in the economy right now.

The micro-scale comment provided is at best just described as a distraction: this minutiae is clearly not what people are concerned about at this moment, so why is the ONS sticking to the old narrative? Instead what people are concerned about is the trend in inflation and what the consequences of that might be.

The trend is downward.

I think it is going to remain downward.

That is because there is a shortage of supply in some parts of the economy right now. But more importantly, there is an even bigger shortage of demand at present. Those people with money at present are less willing to spend it; savings are rising. And those without money have not got many options available to them to spend. The net effect is

that demand is weak. The consequence is a likelihood of falling prices.

And falling prices matter. That is for three reasons. First, falling prices if they turn into falling wages (and they often do) mean that the real cost of serving debts increases. So, proportionately more is spent on fixed costs like mortgages, paying off loans, etc.

Second, rents also increase in proportion to incomes in deflationary situations as these too tend to be fixed and do not see downward adjustment.

These two issues increase the impact of inequality. The owners of debt and property see their incomes protected, but those paying suffer increased stress.

Third, deflation tends to compound itself. Once people think prices are falling they defer spending in the hope that things will be cheaper in the future. A downward spiral is created.

In that case the ONS had a duty to make clear what its data might imply in my opinion, and that is economic difficulty.

How to address that? The answer is relatively straightforward. It is that when consumer demand is weak (and that may be a good thing for green reasons) then what should take the place of activity intended to meet that demand is investment activity intended to create the green transition that we require - or a Green New Deal.

This can be done when there is deflation in the offing because what deflation signals is the availability of resources available for other uses - and that is the signal that government needs to intervene to deliver that stimulus programme that is based on investment and not consumption.

Indeed, it must do this or as noted the economy spirals downward, and I do not think we are in any state to manage the consequences of that in social terms.

So deflation matters. We need to worry about it. And the ONS needs to say why.