

Inflation is falling - but not thanks to the Bank of En...

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As I predicted, the Office for National Statistics has confirmed this morning that the rate of inflation in the UK is falling:

Figure 1: Annual CPIH and CPI inflation rates ease in January 2023

CPIH, OOH component and CPI annual inflation rates for the last 10 years, UK, January 2013 to January 2023



Source: Office for National Statistics – Consumer price inflation

Notes:

1. CPIH is the Consumer Prices Index including owner occupiers' housing costs.
2. OOH is owner occupiers' housing costs.
3. CPI is the Consumer Prices Index.

The decrease in January was 0.4%.. That is modest, but the fact that it was a decline is exactly what I expected.

What I stress is that this decline has nothing whatsoever to do with any government policy, or any policy of the Bank of England. All the UK's inflation indices are calculated by comparing the price of a bundle of goods in the current month with the equivalent bundle of goods 12 months previously. There is nothing more sophisticated to the process than that.

In that case, the only questions that needs to be asked about why the rate of inflation has changed is about what has happened to change the macroeconomic situation

between those two periods that are 12 months apart.

In the case of January 2023, the comparison that is being made is between prices that are being inflated as the consequences of the war in Ukraine and prices that had already been inflated by the consequences of the supply chain difficulties that followed the reopening from the Covid crisis.

By January 2022 the Covid supply chain price increases were already beginning to work their way through the system. That was a short-term supply shock. But, because that increase had by then taken place it was inevitable that impact of the price increases resulting from the war in Ukraine would already begin to be muted within the data by now and that is all that we are seeing.

This decline has nothing to do with increasing interest rates. Nor has it in anyway been affected by the government's policy that is punishing public sector workers. It is simply the consequence of straightforward maths and changes in the macroeconomic environment that have taken place outside the UK.

What is more, from next month we should begin to see bigger falls in the rate of inflation as the impact of the war in Ukraine begins to diminish with regard to the calculation of this index. The government will try to claim that these will be the result of their policy measures. To be blunt, they will be lying. Nothing that they have done could have produced a fall in the inflation rate in the periods in question.

Two suggestions follow from that. The first is that the government learn a little humility about this issue. The second is that it abandon its totally pointless policy of crashing public sector pay that is making the UK's economic position very much worse than it need be, and is at the same time destroying our public services.