

## Inflation is falling but the Bank of England will still...

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As the [Office for National Statistics](#) has reported this morning, inflation fell in June, as expected, but the fall remains smaller than expected.

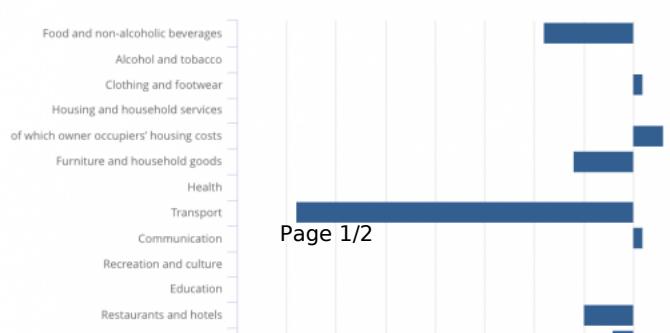
Their summary was:

- \* *The Consumer Prices Index (CPI) rose by 7.9% in the 12 months to June 2023, down from 8.7% in May.*
- \* *On a monthly basis, CPI rose by 0.1% in June 2023, compared with a rise of 0.8% in June 2022.*
- \* *Falling prices for motor fuel led to the largest downward contribution to the monthly change in CPIH and CPI annual rates, while food prices rose in June 2023 but by less than in June 2022, also leading to an easing in the rates.*
- \* *There were no large offsetting upward contributions to the change in the rate.*
- \* *Core CPI (excluding energy, food, alcohol and tobacco) rose by 6.9% in the 12 months to June 2023, down from 7.1% in May, which was the highest rate since March 1992; the CPI goods annual rate slowed from 9.7% to 8.5%, while the CPI services annual rate eased from 7.4% to 7.2%.*

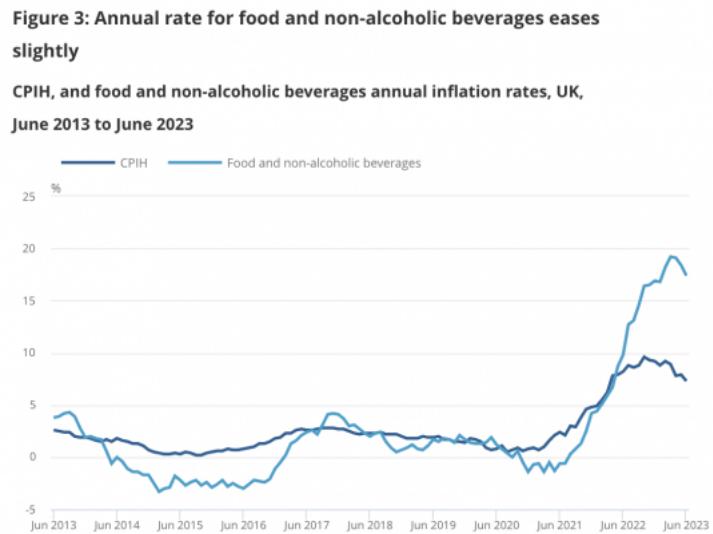
As they note, most sectors made a contribution to the fall in inflation or were stagnant. Transport costs are now in negative territory i.e. they are deflating:

Figure 6: Transport, particularly motor fuels, made the largest downward contribution to the change in the annual CPIH inflation rate

Contributions to change in the annual CPIH inflation rate, UK, between May and June 2023



Food clearly remains problematic. The only possible blame is Brexit:



What to make of all this?

The Bank of England will highlight this comment:

\* On a monthly basis, CPI rose by 0.1% in June 2023, compared with a rise of 0.8% in June 2022.

To do so would, however, be absurd for three reasons.

Firstly, inflation is an annual and not a monthly measure.

Second, 0.1% is within the range of statistical error.

Third, annually the rates are declining.

There can, on this basis, be no justification for an increase in interest rates when the Bank of England monetary policy committee next meet in early August. There should instead be no change, or even a fall in rates as it is now obvious that the heat is going out of UK inflation.

But I am not optimistic: the Bank of England does not have a mission to control inflation. It thinks it has a mission to maintain high interest rates and any excuse will do for it in pursuit of that goal.