

It takes considerable inability to get so much, so wrong...

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As the [Guardian reports](#) this morning:

[Retail] industry figures show prices rose at an annual rate of 1.3% in March, down from a rate of 2.5% in February – the slowest pace since December 2021, according to the latest monitor from the British Retail Consortium (BRC) trade body and the market research firm NielsenIQ.

Non-food inflation dived to just 0.2% from 1.3% in the previous month, while food inflation fell to 3.7% from 5%.

I suspect that most people will see this as good news. Prices are still rising, as the government and most economists would desire, but at a much slower rate now. I have three thoughts.

Firstly, the risk of deflation now looks to be real. If prices of non-food items continue to tumble, there are real signs of a dramatic shortage of demand within the economy that might make this possible. There are always problems when this happens because deflation easily tips over into ever-deepening recession. Those problems would be best avoided. Easing of monetary policy, to make sure that prices only stabilise, rather than fall too significantly, would now seem to be a priority.

Secondly, given that energy prices are also falling, these price falls suggest that the continuing downward trend in overall inflation is very likely.

Thirdly, in that case, there is one set of prices that are now very clearly out of line with the whole economic environment. These are rent and mortgage costs, both of which are heavily influenced by the Bank of England's interest rate policy. Whilst it is undoubtedly true that financial markets are now pricing some expectations of declining interest rates into their mortgage offers, there will be no significant move until the Bank of England cuts their rate, and the same will be true with regard to the pressure on rent increases.

The result is that real household costs, not necessarily properly reflected in inflation

calculations, are still rising in too many cases, and this is the likely cause of the downward pressure on prices elsewhere, which is now reaching the worrying stage where deflation could result. All the indications are that there is an urgent need for a cut in interest rates of a significant amount very soon. The problem is that nothing of that sort is currently even being hinted at as a policy option from the Bank of England.

Putting these three factors together, I continue to believe that if any organisation has mismanaged this crisis, it is the Bank of England. They raised interest rates when they had no reason to do so. Now, they are refusing to reduce rates on a timely basis when there is every reason for them to fall because the economic harm that they are creating is significant.

It takes considerable inability to get so much, so wrong, so often, but the Bank of England has achieved it.

Most worrying of all, though, Labour has committed itself to the perpetuation of the Bank's incompetent control of the economy. In that case, there may be trouble ahead.