



What's your inflation yardstick?

Inflation was in the news last month in various guises.

August was a month when inflation hit the headlines several times trailing a cloud of acronyms:

- The Bank of England Quarterly Inflation Report (QIR) revealed that the Bank now expects inflation (as measured by the Consumer Prices Index – CPI) “to peak around 3% in October”. The Bank expects inflation will still be above its 2% central target by the end of the first quarter of 2020. This forecast assumes that interest rates will rise by 0.5% over the period, in line with market expectations. The Bank is relatively unconcerned about missing its target, saying that the overshoot “reflects entirely the effects of the referendum-related fall in sterling”.
- Shortly before the QIR was published, news emerged that CPIH, the inflation measure favoured by the Office for National Statistics (ONS), had been approved as a National Statistic by the Office for Statistics Regulation. CPIH is a variant of the more widely quoted CPI, the “H” being shorthand for the addition of owner occupiers’ housing costs (including council tax). CPIH could ultimately replace both the CPI and the now discredited RPI. The ONS view of the RPI is that it “is a flawed measure of inflation with serious shortcomings and we do not recommend its use.”
- In mid-August, the ONS issued inflation statistics for July, showing CPI and CPIH both running at an annual 2.6%, but RPI 1% higher. The July RPI is an important number, because it sets the basis for next year’s rail fare increases (although the government *could* change its mind and choose something below 3.6%).
- The government’s use of RPI to ratchet up revenue was also in evidence on the day the inflation data was published. Almost simultaneously the Student Loans Company confirmed that from 1 September the minimum interest rate for English and Welsh student loans started within the last five years will be based on the March 2017 RPI (3.1%), with a maximum addition of up to 3% taking the overall interest rate up to a ceiling of 6.1%.

Whatever your chosen yardstick for inflation, it is important not to forget its impact on your financial planning. At the current 2.6% CPI/CPIH rate, the buying power of £1 will be little more than 75p in 12 years’ time. Use today’s RPI and the same result arrives after just eight years.