

## Zero Inflation

*Annual inflation has been zero for two months.*



Both the February and March readings for annual Consumer Prices Index (CPI) were a big fat zero, the lowest level since the index formally started in 1997. Were it not for rounding, the March figure would have been negative – something we could see for April.

The flat-lining in prices is mainly down to year on year declines in two major components of the Index:

- Food and non-alcoholic beverages were 3% cheaper than a year ago in March; and
- Transport was down 1.9% over the year.

Together these components account for a little over a quarter of the index, hence the headline figure. One number that financial analysts look at is still in positive territory: core inflation. This measure is the CPI stripped of its volatile and tax-driven elements (food, energy, alcohol and tobacco). It stands at +1.0% and gives some comfort for economists worried about deflation (falling prices) leading to an economic slowdown.



The current period of zero-ish inflation does not seem due to last. The mathematics of measuring annual price changes mean that by autumn 2015 the fuel price drops of autumn 2014 will start to disappear from year-on year comparisons, thereby unwinding the previous inflation declines. That factor explains why the Bank of England is not concerned and is still talking in terms of raising interest rates.

*The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.*