

## INFLATION

The UK's inflation rate, as measured by the Consumer Prices Index, was unchanged in May at 0.3%, figures show.

Commented [A1]: What is CPI

The Office for National Statistics (ONS) said the rate was kept low as a fall in the price of clothing offset rising transport costs.

The Bank of England has an inflation target of 2%, but has failed to meet this for more than two years.

Commented [A2]: Do you think inflation is good for economy?

Analysts said the low rate of inflation meant it was unlikely the Bank would raise interest rates for some time.

Commented [A3]: Why?

The ONS said the main upward pressure on the inflation rate came from transport costs, which rose by 0.9% between April and May, partly due to higher diesel costs.

However, offsetting this was clothing and footwear prices, which dropped 0.2% between April and May, while food and drink prices fell 0.4%.

The rate of inflation as measured by the Retail Prices Index, which includes some housing costs, rose to 1.4% in May from 1.3% the month before.

Commented [A4]: What is a Retail Prices Index.

### MPC meeting

In the years since the financial crisis of 2008, the Bank has been trying to lift economic activity and it has kept interest rates at record lows of 0.5% for seven years.

Commented [A5]: How does it impact economy. explain

The Bank's interest rate-setting committee, the Monetary Policy Committee, meets this week to discuss interest rates. At its last meeting, all nine members of the MPC voted not to change interest rates.

Commented [A6]: Discuss the role of MPC

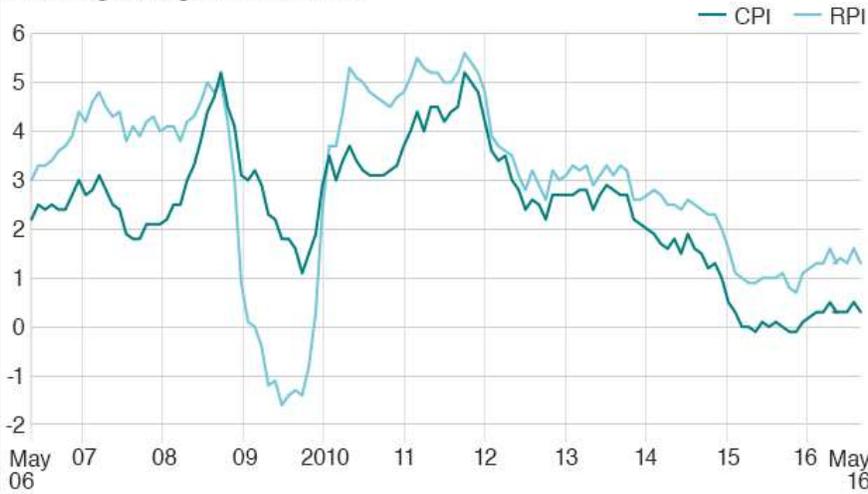
The Bank's most recent forecast, in May, said inflation would remain below 1% until late into 2016, and would stay below the 2% target until 2018.

Commented [A7]: What other measure can government take to boost inflation.



### Inflation - May 2006 - May 2016

Percentage change over 12 months



Source: ONS



Commented [A8]: Study the chart and analyse an specific trends.

Weak energy prices have helped to cut inflation in the past couple of years. The price of oil is currently about \$50 a barrel, less than half the peak of \$115 reached in 2014.

Commented [A9]: Do you think Price of Oil can affect inflation in the economy. Why?

Food prices in the UK have also fallen due to a price-war between the major supermarkets.

Commented [A10]: Competition leads to lower prices!!

The picture of low inflation and interest rates is a similar one in many developed world economies.

Chris Williamson, chief economist at Markit, said the inflation figures added "to the view that no hike in interest rates is on the horizon" and gave "policymakers leeway to add stimulus to the economy if needed".

He added: "Subdued wage growth should help keep the headline rate down below the Bank's target."

Commented [A11]: How does wage growth contribute to inflation?

Source: BBC