Fuel and transport costs push up UK inflation

UK inflation has taken some by surprise and risen for the first time in eight months, with the main driver being fuel and transport costs. CPI annual inflation - the Government's target measure - rose to 1.5% in October, latest official figures from the Office for National Statistics show (17 November). This is up from 1.1%t in September.

By far, the largest upward pressure affecting the change in the annual rate of inflation came from transport which was largely driven by the purchase of second-hand cars, stimulated by the Government's car scrappage scheme.

The price of second-hand cars rose at their fastest ever rate between September and October this year, increasing by 1.1 per cent. This in turn also impacted the annual rate of inflation for second hand cars in October, reaching a record high of 13.2 per cent. A key driver of the upward movement in prices also came from increased transport costs, where petrol prices fell by 0.7 per cent between September and October this year.

Inflation in other key areas of household expenditure remained steady, with electricity prices 8.2 per cent lower than a year earlier in October, wand gas prices down 5.9 per cent in the month of October, although there were further upward pressures from landline telephone charges.

The largest downward pressure affecting the change in inflation came from banking services, where prices fell by more than a year ago due to reductions in bank overdraft charges and mortgage arrangement fees.

Why do I need to know this?

Inflation is a measure of rising prices and it's useful to know how much the cost of goods is rising because some salaries and pensions are linked to inflation - so salaries might increase at the same time that food and other goods in the shops rise in price, essentially easing the burden on your pocket.

It's also good to have an idea about whether prices will be going up in the coming months so you can plan your finances and if inflation comes back to the target level of 2 per cent, then the Monetary Policy Committee (MPC) - who decide whether to increase, hold or decrease interest rates - may begin to start changing them.

What the economists say

Henderson economist, Simon Ward said: "The rise in consumer price inflation from an annual 1.1 per cent in September to 1.5 per cent in October marks the start of a trend that is likely to carry the headline rate above 3 per cent in January. Inflation should subside over the remainder of 2010, but is unlikely to fall below the 2 per cent target.

Nick Beecroft, senior FX consultant at Saxo Bank, added: "Given the fact the MPC's November Inflation report expected inflation to decline during 2010 and 2011, but thereafter their projections have inflation on a steadily rising path through the 2 per cent target, the MPC hawks will be keen to see an end to these upside surprises, otherwise their fingers will start to twitch on the interest rate rise trigger."

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