



Another inflation measure

The latest inflation figures showed virtually zero inflation and nothing to worry about...or did they?

The July Consumer Prices Index (CPI) was marginally higher than expected at 0.1%. However the reading marked the sixth consecutive month in which the CPI had been within 0.1% of zero. So has inflation disappeared?

The answer's not that simple. While the government's favoured measure of inflation, the CPI, is dormant, one of the other yardsticks watched by economists is showing signs of life. 'Core inflation', which is the CPI excluding the volatile elements of energy, food, alcoholic beverages and tobacco, jumped 0.4% in July to an annual 1.2%. Although the Bank of England's inflation target is set in terms of the CPI (2.0% \pm 1%), the interest rate setters on the Monetary Policy Committee will have noted the core increase.

A very similar situation exists across the Atlantic. Annual consumer price inflation in July was 0.2% in the US, but core inflation was 1.8%. In both cases it is two of the elements stripped out to create the core figure which are causing the difference – energy and food. Both sets of commodities have been falling in price under global influences – they are beyond the control even of central banks.

In the United States the core inflation figure is one reason why interest rates are currently expected to rise before the end of this year – possibly later this month. The UK is unlikely to be far behind with its first *upward* move since July 2007.

Markets are already starting to react to perceptions of imminent rate rises here and in the US. If you have not reviewed your investment holdings in the light of the end of ultra-low rates, now is the time to do so.

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. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.