



Deflation arrives

The official rate of inflation fell below zero in April: prices are now dropping year on year.

The April reading for the Consumer Prices Index (CPI) was an annual rate of -0.1%, which is the lowest level since the index was officially launched in 1990. On an unofficial 'back-tested' estimated you have to go back to 1960 to find a similar figure.

Negative inflation – deflation in the economist's jargon – had been in the offing for some time, but the consensus forecast for the April inflation figure was that it would stay at the 0% recorded in February and March. What seemed to have made the difference in April was the timing of Easter and its effect on transport costs. The year's peak Easter air and sea fares missed the data collection dates for the inflation number crunchers, helping to keep down that element of the index.

The Retail Prices Index (RPI) – no longer an official inflation measure – was still in positive territory at +0.9%. Similarly 'core inflation', which strips out the volatile elements such as fuel from the CPI, was +0.8%, down from 1% in March.

The main drivers for the current 'lowflation' numbers are falling food and oil prices over the last 12 months. Oil prices have already recovered from their lows, so as the year moves on, positive CPI figures will probably return. The Bank of England still expects the CPI to be running at around its central target figure of 2% in two years' time.

No inflation means that, for now, the miserable interest rates available from banks and building societies are not causing the buyer power of deposits to drop. However, this temporary phenomena is no excuse for leaving long term capital languishing in short term accounts.

The value of investments 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.