BUZZ-ONOMICS

A CLEAR AND ACCESSIBLE GUIDE TO THE STORIES THAT MATTER

St Catherine's BRAMLEY

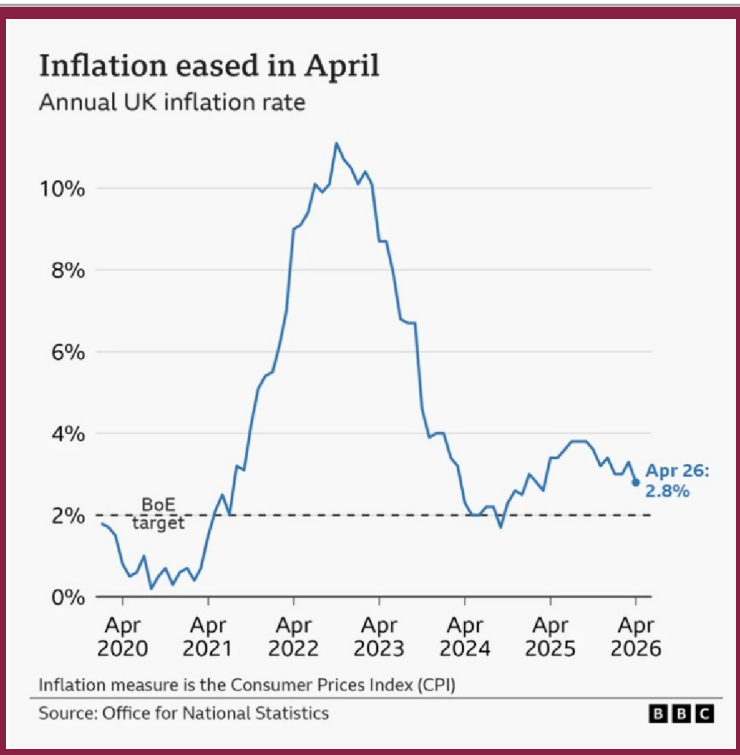
Wednesday morning brought the news that inflation has fallen more than expected. Inflation shows the annual increase in the price level. The latest figure (for April) shows an increase of 2.8% compared with the previous year. This is still above the government's target of 2%. One of the reason is the fall in the energy price cap. But inflationary pressures remain high. Some are calling it the "lull before the storm". Petrol and diesel prices are edging ever higher, as are food and flights. Inflation is not expected to reach double digits as seen in 2022/3 (see top chart) but for some it will mean an unwelcome squeeze on their standards of living.

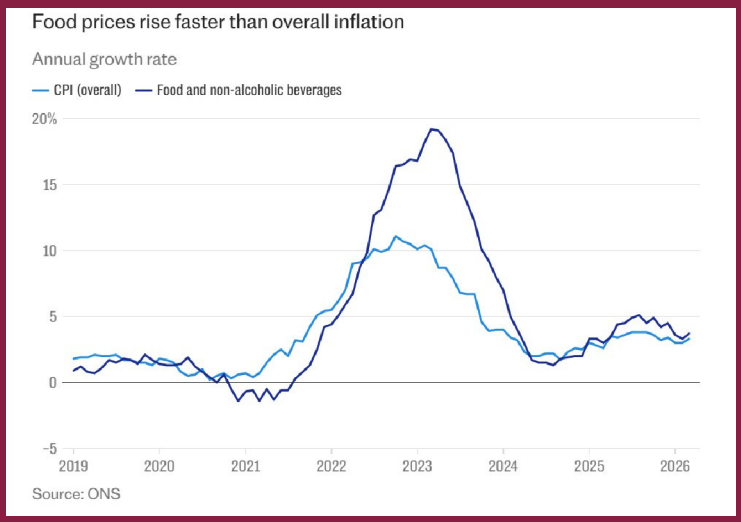
In response the government has eased sanctions on Russian oil. The move follows shortages of jet fuel and rising diesel prices. Now such products are allowed to enter the UK provided they have been refined in other countries. Not all agree with this decision with some saying the UK should be drilling for North Sea oil instead. In response the government said it was committed to strengthening sanctions against Russia whilst protecting critical supply chains and market stability.

It has also been reported that the Chancellor, Rachel Reeves, is asking supermarkets to cap some food prices in an effort to limit effects from the Iran war. The middle chart shows that food inflation is frequently above general inflation. The food items targeted are understood to include bread, eggs and milk. In return supermarkets who agree to take part will be excused from net zero packaging policies which charge retailers per tonne of packaging. Policies aimed at supermarkets selling healthier food may also be delayed.

Not all are happy with the proposal. Some are saying supermarkets will be tempted to source cheaper (and presumably lower quality) food. Others that supermarkets will put up prices on other goods to protect their profit margins. Supermarkets already have significant bargaining power when it comes to buying from small UK suppliers (this is called monopsony power) and the risk is that they will exploit it even further. Some suppliers may be driven out of business. All this comes at a time when supermarkets have complained about rising costs such as higher National Minimum Wage (see bottom chart) and higher National Insurance contributions.

Finally the Competition and Markets Authority (the regulatory body responsible for protecting consumer interests) has been given greater powers to investigate and prevent price gouging. This is when retailers unfairly increase prices during a crisis,





Charts above and below - The Telegraph



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