MaddyFeed: What you need to know about the UK economy's inflationary pressure

Every week, Maddyness curates articles from other outlets on a topic that is driving the headlines. This week, we're talking about the tide of inflationary pressure that is sweeping the UK, with the Consumer Price Index reaching its highest level for almost 30 years.

Temps de lecture : minute

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Uncomfortable numbers

January’s inflation rate of 5.5% – the highest in the UK for 30 years – is expected to climb to 8% in April when household energy bills climb by hundreds of pounds. The result will be a further squeeze on the living standards of British households.

The inflation rate is determined by the Consumer Price Index (CPI), which tracks the changing value of a set basket of goods and services in the UK, and is measured by the Office for National Statistics (ONS).

The set basket of goods and services is constantly being updated in line with consumer preferences. For example, in 2021 hand sanitiser was added, but sandwiches bought at work were removed.

Read more at *BBC News* and *The Guardian.*

Increasing food insecurity

Price increases signal inflation; inflation signals price increases. The 5.5% figure is an average across the board, and therefore some individuals will experience a much greater squeeze than others, depending on their basket of goods.

Jack Monroe's insightful tweet-thread on how the index used to calculate inflation is not representative of the real effects of rising prices on those with the least can be read *here*.

This contextualises the 4.7M adults – or 8.8% of UK households – who experienced food insecurity in January 2022, according to The Food Foundation. This is an increase from 7.3% in July 2021.

Of those, 1M reported that they or someone in their household had to go a whole day without eating because they could not afford to access food.

Read more at *Sky News.*

Private renting rates tighten the vice

The UK housing market is also experiencing a particularly hot run, with private rents rising at the fastest rate in five years.

The average cost of renting for UK tenants rose by 2% in 2021, which is the largest annual increase since 2017, according to figures from the Office of National Statistics.

Part of the reason behind the increase is the loosening of COVID-19 restrictions, which is encouraging students and office workers back to major cities in the UK. Commercial renters in London will be particularly affected, with rents rising 11% in a year as businesses encourage employees to return to the office.

Read more at *The Guardian* and *City AM.*

The consequence of rising interest rates

Uncertainty around rising inflation rates will have a significant knock-on effect in the world of business, innovation and investment. To cool a hot economy, central banks may increase a country’s interest rate. This is exactly what the Bank of England has done, increasing the (Bank Rate) interest rate from 0.25% to 0.5% this February. But with the Bank of England aiming for 2% inflation, further interest rate hikes may be on the horizon.

In Europe, rising interest rates have led to cooling down of the tech funding market. And whilst some believe that a downturn in economic health is an opportunity for the market to distinguish those startups that are worthy of investment and those that are not, the likely consequence across the board is a gradual deflation of funding at all stages.

Read more at *Sifted.*

A solution for crypto? Or more hot air?

The moment inflation starts to increase, crypto-hawks profess the preferred stability of cryptocurrencies. With the UK’s inflation rate reaching its highest rate in thirty years, many are seriously assessing the value of cryptos.

In contrast to fiat currencies – which are (somewhat) limitless and centralised – cryptocurrencies are designed to have a limited supply and are decentralised.

Crypto-advocates say that the limited supply of, say, Bitcoin – which was designed with an absolute limit of 21M Bitcoins – promotes supply-side certainty. A fixed supply protects bitcoin-holders against the effects of over-zealous quantitative easing. Yet, such arguments will need to be taken with a pinch of salt, especially when one considers the continual yo-yoing of Bitcoin’s price.

One way to read the long-term stability of cryptos is to track where institutional investors are investing their money. Warren Buffet’s Berkshire Hathaway recently invested $1B into crypto-friendly Nubank, whilst dumping shares in Visa and Mastercard.

Yet it is perhaps too soon to know where Berkshire Hathaway stand on cryptocurrencies. This is because its vice chairman, Charlie Munger, recently likened cryptocurrencies to '*venereal disease*'.

Read more at *City AM* and *Forbes.*

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