

Further blow to rate cut hopes as figures show retailers have pushed up food prices by 7%

Kathryn Hopkins

Food prices in the UK rose by 7% in June compared with a year before as retailers continued to pass on rising costs.

The British Retail Consortium's shop price index showed annual food price inflation up from 4.7% in April to 6% in May and 7% last month.

Fresh food prices rose 8.4% year on year in June.

Non-food items were up 0.8% between May and June and by 0.2% annually, the first increase since the series began in December 2006. Overall shop price inflation was 2.5% in June.

That will make grim reading for the Bank of England's monetary policy committee, which will announce its decision on interest rates at noon today.

Howard Archer at consultants Global Insight said: "While shop prices continue to be pushed up primarily by high food

prices, the Bank of England will also note that non-food prices edged up in June, which will lift concern that retailers are increasingly trying to pass on their elevated costs."

The MPC is expected to leave rates on hold at 5% amid widespread signs of no let-up in inflationary pressures.

However, a "shadow" monetary policy committee at Cazenove yesterday voted 8-1 to cut rates to 4.75% "to help offset the negative cash flow effects associated with tighter credit conditions and rising food and energy prices".

But Archer believes the new data will



Fresh food rose by an annual 8.4% in June, a month that traditionally sees locally grown soft fruit appearing in shops

deter the Bank from cutting rates. "The marked jump in shop prices in June reinforces belief that the Bank of England will keep interest rates unchanged tomorrow, even though latest data and survey evidence suggest that the economic downturn is deepening and recession is becoming a very real danger.

"Indeed, the latest data highlight that the Bank of England remains trapped between the rock of rising inflation and the hard place of markedly slowing economic activity."

PricewaterhouseCoopers' latest UK economic outlook report today adds to the gloom, predicting that consumer spending growth will slow to 0.5% in 2009 due to higher food and energy bills.

John Hawksworth, head of macroeconomics at PwC, said the poorest households would be hit hardest by the squeeze "owing to the larger share of their incomes dedicated to paying for food and household energy bills in particular".