Persistent high inflation costs heavily on British economy: report

LONDON, May 20 (Xinhua) -- High inflation is to remain for a long period of time in Britain, costing heavily on the economy, the Ernst & Young ITEM Club said in a special report on Monday.Persistent high inflation has knocked almost 3 percent off Britain's growth over the last three years and is set to remain above the government's 2 percent target for the foreseeable future, according to the report.Based on the group's estimation, the high inflation averaged 2 percent over the last three years, rather than 3.5 percent, has eaten up British economy more than 10 billion pounds (15.20 billion U.S. dollars)."High inflation has had a corrosive impact on the UK economy over the last three years, eating into household spending power which has taken its toll on the high street," said Carl Astorri, senior economic advisor to the Ernst & Young ITEM Club.The report said food prices have soared by nearly 40 percent in Britain since 2007, while businesses and consumers have also had to endure the impact of rising oil and commodity prices, a weakening pound, plus hikes to VAT and tuition fees."But it could have been worse. Our modelling shows the Monetary Policy Committee (MPC) of the central bank were right to stick to their guns, allowing inflation to overshoot and avoid tightening monetary policy."The alternative scenario would have seen interest rates rise by 3.5 percent in 2011, choking off the recovery even earlier and adding an additional 625,000 people to UK dole queues," Astorri said.According to the report, Britain's Consumer Price Index (CPI) inflation will hit 3 percent over the summer to ease back to 2.5 percent by the autumn.It said that even once temporary factors, such as the rise in tuition fees, have fed through the system, underlying inflationary pressures will have started to build again.Explaining the factor behind the high inflation, the report said as Britain's economic recovery continues to strengthen, workers will have greater bargaining power to push for wages increases while businesses will be in a better position to grow their profit margins with price hikes.Rising import prices from the emerging markets are also set to continue, driven by increasing labour costs as their economies mature, it added.The group predicted that Britain's CPI inflation rates will stand at 2.9 percent in 2013, before settling at 2.6 percent in 2014 and 2015.Astorri warned that the high inflation over the long term would create challenges for the central bank's monetary policy makers."With inflation still above 2.5 percent, it is going to be tough, particularly if the MPC wants to follow the US Federal Reserve's example of only increasing interest rates once unemployment has fallen below 6.5 percent," Astorri said.Under such situation, Astorri believed that it would be a difficult tenure for Mark Carney, who is to replace Mervyn King to take the post as British central bank governor in July.Carney was chosen as the next Bank of England governor by finance minister George Osborne last year. (1 pound=1.5 U.S. dollars)