Four things to watch in the UK this week

Investors are still wary about the chances of a rate hike next year and that could be reinforced by UK data this week

Source: Bank of England

Following the Bank of England's historic rate rise, markets are currently looking for another hike next November. We're not ruling out a rate rise next year, and the Bank's communications have made it fairly clear that it would be happy to do so. But against a backdrop of sluggish growth, few signs of rising domestically-generated inflation and above all, a multitude of Brexit hurdles to overcome, we're yet to be fully convinced.

Aside from the weekend's stories about a possible leadership contest in the governing Conservative Party, this week markets will take their cue from a deluge of data and speeches. Here's what we'll be looking out for...

Carney speaks in Frankfurt and Liverpool

Along with some key data releases, markets will be keeping a careful eye on Governor Carney's speeches this week. Recently, market pricing for the date of the next hike has drifted in and out of 2018, suggesting investors are still split on whether the Bank will increase rates again next year.

So will Carney look to try to "talk back" markets to help cement expectations for a hike in 2018? We suspect he won't. On the Brexit front, there's a lot that can happen between now and

February - the next potential date if the Bank was looking to hike again quickly - so we suspect the Bank will want to keep its cards close to its chest on any future tightening. The latest noise over a possible Conservative Party leadership contest also adds an extra layer of business/market uncertainty.

3.1% Our headline CPI forecast

(YoY%)

Inflation

Pen at the ready Governor Carney! At 3.1%, Tuesday's figure would mean inflation is more than one percent above target, prompting a letter from the Bank of England to the Treasury. This is down to the ongoing pass through from weaker sterling, which will offset a 0.8% MoM fall in petrol prices.

But the letter-writing is unlikely to last for long. We think inflation is at a peak and we expect both headline and core CPI to trend downwards over coming months. As the effect of the pound's fall starts to dissipate, the question now is whether domestic price pressures will start to develop.

As with wage growth, we remain cautious here and note that without the pound's fall, inflation would probably be below target. Until domestic pressures emerge, we suspect the Bank of England will remain cautious.

2.1% Our wage growth forecast

(excluding bonuses)

Wage growth

We expect wage growth to remain virtually unchanged in Wednesday's data and if anything, could come in a touch below the 2.2% consensus.

But as we head into 2018, this is one area where the Bank of England remains very optimistic. The BoE expects pay growth to pick-up a notch given increasing job-to-job flows, and also better expectations for the next wage setting round early next year. But with Brexit still very uncertain, demand sluggish and import costs elevated, we think firms may be more frugal when it comes to pay rises than the Bank's 3% 2018 wage growth forecast anticipates.

Flat Our retail sales forecast

(MoM%)

Retail sales

After a brief reprieve at the end of the summer, retailers appear to have a had a tougher time in October. The month was unseasonably warm, which meant shoppers weren't replenishing their winter wardrobes. But consumers also remain very cautious more generally, in part because prices are still rising faster than earnings, keeping discretionary spending under pressure.

But as is often the case, volatility in the retail sales data means this may not quite translate into a correspondingly weak figure on Thursday. Our best guess is a flat reading.

Author

James Smith
Developed Markets Economist, UK
james.smith@ing.com