

UK inflation pushes higher but hike remains unlikely

UK consumer price inflation is getting closer to 3%, but slower growth and political uncertainty mean there is little chance of an interest rate rise.



Source: Shutterstock

2.9% Our May UK CPI forecast
YoY%

Better than expected

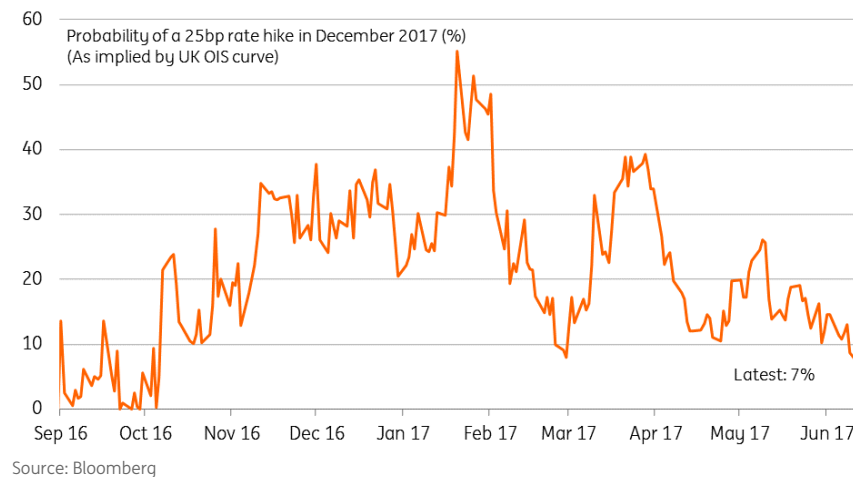
Weaker GBP and higher utility prices are pushing up inflation

The pounds collapse since last June's EU referendum has seen import prices rise across the board, but it has been most felt in food and fuel costs. This has seen headline CPI rise to 2.9%, primarily due to higher utility bills with providers having announced significant price hikes in response to

wholesale price moves. There are also tens of thousands of households impacted by fixed term deals coming to an end this month. There people will find themselves put automatically on higher price tariffs.

However, there is going to be some offset from a temporary drop in motor fuel prices (they have risen again in early June), but with an increasing number of retailers facing higher import costs as their currency hedges come to an end we suspect headline inflation will rise to 2.8% before hitting 3% in 4Q17.

Markets think a pre-Brexit rate hike is unlikely



Expect a disappointing labour report on Wednesday

Wednesday's labour report is likely to show wages remain little changed so the squeeze on spending power looks set to intensify. Already, there are worrying signs for consumer spending with this week's retail sales report likely to post a heavy decline after a bizarrely strong outcome last month.

The pain is likely to get worse before it gets better.

Indeed, Visa, the payment card provider, reported that according to its own internal data consumer spending is now falling when adjusted for inflation. The pain is likely to get worse before it gets better.

The outcome of the election is not helpful for the growth story either. The uncertainty that this generates is prompting a steep fall in business confidence. The Institute of Directors found that 57% of their members were either "quite" or "very" pessimistic about the UK economy over the coming year versus just 20% who described themselves as optimistic.

We don't expect a pre-Brexit rate hike

Given the lack of positive newsflow on the domestic economy and the political uncertainty the UK faces it is not surprising that financial markets are pricing in a less than 10% chance

on an interest rate rise this year, with the probability of a rate rise by the end of 2018 put at just 33%.

Given the lack of domestic price pressures (as highlighted by subdued wage growth) we don't expect an interest rate hike before the official deadline for Brexit talks to conclude in 2019.

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