

What to expect from October's UK data deluge

A further spike in inflation may embolden the hawks, but we think the data will give the Bank of England few reasons to embark on a fierce tightening cycle



Source: Bank of England, Shutterstock

What we expect from UK data

Given recent comments, there's little doubt UK rate hikes are on the way. The Bank of England is keen to get out of "emergency mode" as the initial Brexit shock fades. But the Bank is also pinning its hopes on a sizable pick-up in wage growth and even perhaps more contentiously, a smooth Brexit. On the former, data over the next week is likely to show the economic backdrop is still relatively benign.

So while a November hike looks pretty much a done deal, we think the amount of subsequent tightening will be pretty limited and very gradual.

Inflation: Set to hit five year high

The hawks at the Bank of England have said they have "limited tolerance" to above-target inflation and this month, Governor Mark Carney could come tantalisingly close to writing to the Chancellor

explaining the recent spike. Headline inflation looks set to hit 3% for the first time in five years on the back of a 2.2% increase in fuel prices in September, as well as the ongoing pass-through from the weaker pound.

But once you take out the effect of the post-Brexit fall in sterling, inflation looks much more subdued. By one measure, which excludes goods with a high import-intensity and energy products, inflation would be below target. It's worth noting this is pretty much as high as headline inflation is likely to get - we expect CPI to peak just above 3% in October before gradually edging lower in 2018.

Find out more about the pound's impact on inflation [here](#)

3.0% Our CPI forecast
(YoY%)

Jobs report: Focus on wage growth as household squeeze persists

The jobs market has been pretty resilient over the past few months, but the real gamechanger is wage growth. The Bank expects wage growth to pick-up rapidly over the coming months as job market slack continues to erode. But while there has been increased momentum in the pay numbers over the past few months, for now, we think it is more a case of temporary drags fading rather than a sign of a new upward trend.

But even with a consistent increase in the level of regular pay over the next few months, wage growth is unlikely to go much above 2% until at least the second half of 2018. And with inflation set to hover around the 3% level for the next few months, that will maintain pressure on household budgets.

2.0% Our wage growth forecast
(YoY%)

Retail sales: Back to reality?

A 1% rebound in retail sales in August brought some better news on the consumer front after a particularly bad second quarter. The question now is whether this is the start of a new trend. There were conflicting signals from Visa and the British Retail Consortium on overall performance in September. But what is clear from both is consumers are still very cautious when it comes to discretionary spending, particularly on big-ticket items.

Given the ongoing household squeeze highlighted above, we don't expect an imminent recovery in consumer spending.

-0.2%

Our retail sales forecast

(MoM%, excl. auto fuel)

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