

## Benign UK core inflation means rate hike unlikely during 2019

Stripping away the hike in household energy costs, the core inflation picture still looks fairly benign and this is likely to keep the Bank of England on hold this year. That said, with wage growth close to cycle highs, a November rate hike shouldn't be totally ruled out



Shoppers in Liverpool, UK

Headline inflation moved above the Bank of England's 2% target in April, but this is largely down to an increase in a recently-introduced household energy price cap. The UK energy regulator's decision lifted household electricity/gas prices by roughly 10% in April, but given recent declines in wholesale gas prices, this cap could be lowered again later in the year.

Housing costs aside, underlying consumer price pressures appear more benign. At 1.8%, core inflation is a touch below target and we expect it to stay there for much of this year. In principle, this is another reason to think the Bank of England will keep rates on hold for the foreseeable future.

That said, wage growth has been a bigger consideration for policymakers for some time, and this is continuing to run close to cycle-high rates. Pay has been rising more quickly amid growing skill shortages in the jobs market, particularly in areas such as construction and hospitality.

## *Some further tightening shouldn't be completely ruled out in November*

Admittedly, there have been some tentative warning signs emerging on employment - hiring surveys have hinted at a reduced appetite to hire, particularly for full-time positions. This, combined with the fact that Brexit uncertainty will continue to keep a lid on growth (via lower investment), suggests to us that the Bank of England is likely to keep rates on hold through this year.

Having said that, some recent hawkish comments from Governor Mark Carney signal that some further tightening shouldn't be completely ruled out in November if either a Brexit deal is ratified (unlikely) or the Article 50 period is extended further.

**2.1%** UK headline inflation  
(YoY%)  
Lower than expected

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