

Benign UK inflation likely to keep BoE on hold in 2019

While a few one-off factors might see headline UK inflation rebound a touch in the short-term, the overall outlook is benign and we do not expect a rate hike from the Bank of England this year



Source: iStock

UK inflation came in slightly below consensus in March, keeping headline CPI below target for the third month running. While petrol prices rose by 1% on the month, helping to boost the year-on-year rate of inflation, food prices rose by less than what might have been expected. The British Retail Consortium had suggested that wholesale food costs had risen, on the back of adverse weather and higher global commodity prices. On that basis, overall inflation could receive some extra impetus next month, which when combined with the increase in the household energy cap, could see headline CPI nudge back to the 2% target.

1.9% Headline CPI
(YoY%)

Lower than expected

Whatever happens, the rest of this year looks set to be a fairly benign period for consumer price inflation, and in principle, this gives the Bank of England another reason to keep rates on hold for the time being. However, as [we noted on Tuesday](#), wage growth has been a larger consideration for policymakers and has continued to perform strongly. Regular pay is growing close to its fastest rate since the crisis as skill shortages intensify, albeit there are some subtle signs that momentum has eased slightly in the more recent readings.

Either way, this makes for a better fundamental backdrop for consumer spending. Household confidence has been depressed amid ongoing Brexit uncertainty, but the temporary reduction in noise over the next few weeks may help unlock some spending in bigger-ticket items – particularly given the warm weather expected over the critical Easter trading period.

However, the outlook for investment remains very challenging, with firms having to continue their preparations for a possible ‘no deal’ later in the year. That is likely to keep a lid on economic growth over the summer, and we, therefore, do not expect a Bank of England rate hike this year – unless a deal is approved much earlier than people are currently expecting.

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