

Benign UK inflation set to persist in 2019

A potential rebound in oil prices may support headline inflation at the start of 2019, but the bigger picture over the next 12-months looks set to be one of more benign price pressures



Source: Shutterstock

Falling oil prices saw the headline rate of UK CPI edge lower from 2.4% to 2.3% in November, setting up what looks set to be fairly benign 2019 for inflation. Admittedly, if oil prices regain some poise as we move into the new year, as [our commodities team expects](#), then headline CPI could inch temporarily nearer to the 2.5% level again during the first quarter before drifting back to target over the summer.

For the Bank of England though, the key question is whether the recent upward trend in wage growth translates into greater core price pressure next year. For the time being, the stronger pay backdrop looks set to persist, with firms in various sectors reporting difficulties in attracting/retaining staff. In theory, that should slowly put upward pressure on consumer prices as firms look to pass these cost pressure onwards - although there are question marks over how able firms are to do this amid political uncertainty and a weaker demand environment.

In principle, if wage growth continues to outperform then the Bank of England will be keen to continue hiking rates in 2019 - potentially much earlier than markets currently anticipate. However, this relies on a workable Brexit solution being found, and of course, this remains a 'big if'. With economic growth stalling, we suspect the Bank will be forced to sit on its hands through much of the first half of next year, and potentially even longer should the article 50 period need to

be extended to allow more time to reach a Brexit solution.

2.3% **Headline inflation**

As expected

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