

## UK inflation dips, but Brexit still the sole focus for the Bank of England

UK inflation edged lower in January, but what matters more for the central bank is the recent strength in wage growth. That said, the outlook for interest rates is still solely dependent on Brexit and that means policymakers will remain on the sidelines for the time being



Source: Shutterstock

For the first time in two years, UK inflation is back below the Bank of England's 2% target. That said, the fall from 2.1% to 1.8% in January largely reflects the dip in global oil prices towards the end of last year. Our commodities team expects prices to stabilise more-or-less this quarter, which should mean a more benign year for UK inflation. Depending on what happens to petrol prices, we expect headline CPI to remain fairly sticky in the 1.5-2% region for much of this year.

# 1.8%

## Headline CPI (YoY%)

Lower than expected

For the Bank of England though, what matters is where inflation goes beyond 2019. Wage growth has stayed strong, and amongst the short-term Brexit warnings, the Bank of England still hinted last week that mounting domestic inflationary pressures could require a faster pace of tightening than currently anticipated by markets. This is one reason why we don't think a rate hike should be ruled out just yet this year.

Whether core inflation does respond to higher wage pressures relies partly on corporates having sufficient pricing power to pass the costs on. In the current consumer environment, this may not be the case.

As ever though, the outlook for interest rates really depends on Brexit, and with a growing likelihood that the saga could stretch to the eleventh hour, the economy is in for a bumpy ride over the next few weeks. Reports indicate it might not be until the 21 March EU Council meeting before talks reach a crunch. For businesses, this would mean not knowing what trading terms they'll face as soon as the following week.

At the very least, this uncertainty will keep hiring and investment on hold, keeping a lid on growth. In the meantime, the Bank of England will remain firmly on the sidelines.

## Author

### James Smith

Developed Markets Economist, UK

[james.smith@ing.com](mailto:james.smith@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person

for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.