

## Falling UK core inflation another headache for the Bank of England

We doubt the latest unexpected fall in core inflation will stop the Bank of England raising rates in August, but it makes the prospect of additional tightening later this year look even more unlikely



We don't believe a strong first half of the year is likely to change the course of Bank of England rate cuts in 2024

At 1.9%, UK core inflation has unexpectedly fallen below target for the first time since March 2017. Reading through the details, it seems that clothing prices played a key role. Prices do tend to fall at this time of the year, but the latest 2.2% decline in clothing costs in June was much steeper than usual. One possible explanation is that retailers are being forced to bring forward discounts as consumers continue to take a cautious approach to spending. If that is the case, then we may see core inflation nudge back up to 2% next time if July's discounts are consequently less steep.

Either way, there's no escaping the fact that core inflation continues to slip as the effect of the sterling's post-Brexit plunge fades. We doubt this will bat too many eyelids at the Bank of England at the next meeting, and we still expect the committee to raise rates in August. After all, policymakers are more focussed on wage growth, which despite a slight slowdown in momentum, has been performing better this year.

However, if core inflation were to continue falling faster than the Bank expects, then we think this would make a second rate hike in 2018 even more unlikely. Once the central bank has hiked rates in August, we think heightened Brexit uncertainty could make it very

complicated for policymakers to raise rates again before May 2019.

## 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 [www.ing.com](http://www.ing.com).