# Rising UK wage growth dominates sub-target core inflation for BoE

UK core inflation stayed below target again in October and is likely to stay there over coming months. But signs of rising wage growth are still the key for Bank of England policymakers and could prompt a rate hike in May - assuming, of course, a 'no deal' situation is avoided

Source: Shutterstock

In principle, the fact that core inflation is now stabilising below the Bank of England's 2% target should alleviate some of the pressure to hike rates over the coming months - assuming, of course, Brexit runs smoothly.

Core CPI remained unchanged at 1.9% in October, although interestingly this is being propped up to some extent by higher recreation prices. Admittedly, this is a category that contains some quite volatile items, but it also encompasses various goods that are fairly sensitive to fluctuations in the value of the pound - things like computers and TVs. Now that the post-Brexit sterling decline is more-or-less reflected in prices, the rate of inflation for these goods should really be falling a bit faster. If we see a bit of a correction over the next 2-3 months, we could see core inflation dip a little lower to around 1.7%.

It's a similar story for the headline rate of inflation. The noticeable rise in petrol prices since March has kept headline CPI sticky around 2.4%, despite a further 0.2% fall in food prices between September and October. However, as base effects kick-in, we'd expect CPI to trend back to 2% by the second quarter of next year.

The bottom line is that, come May 2019, the inflation picture may be looking a little more benign. But as we noted yesterday, policymakers are banking on the recent rise in wage growth to persist. Given the UK is predominantly a service-based economy, and wages account for a large portion of service-sector costs, in theory, companies will look to pass this onto consumers in the form of higher prices.

With that mind, we think the Bank of England is keen to continue hiking rates, although of course, this remains heavily contingent on Brexit. Despite the positive headlines of the past 24 hours, there are still big questions surrounding the Parliamentary vote on the final deal.

But if the deal is ultimately approved by MPs, then this would probably unlock a May rate hike from the Bank of England.

## Author

**James Smith**
Developed Markets Economist, UK
james.smith@ing.com