# Sharp drop in UK inflation green lights Christmas rate cut

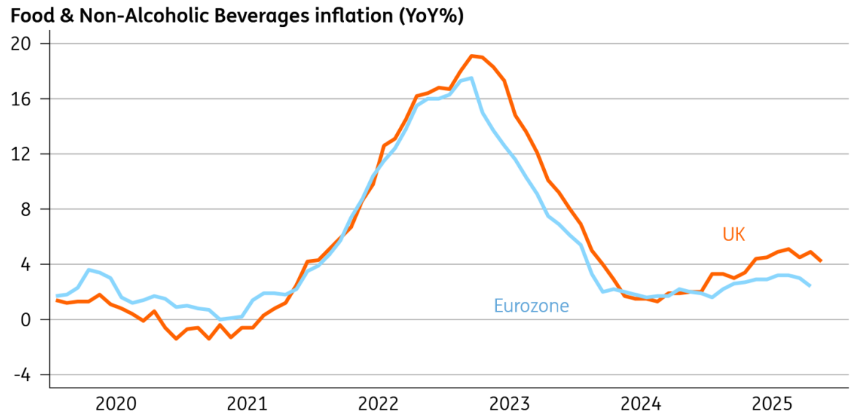
November's drop in UK inflation is just the latest sign that price pressures are abating and that the Bank of England has more work to do. We expect a rate cut on Thursday and two more next year

UK inflation cooled in November, signalling easing price pressures

Christmas has come early for the doves at the Bank of England, with inflation coming in well below expectations in November. Headline CPI slipped back from 3.6% to 3.2% – and the core was lower too.

That's thanks to a sizeable drop in food inflation, down to 4.2% from 4.9%, mirroring a similar trend in the eurozone. That's almost a percentage-point lower than the Bank of England was predicting just eight weeks ago. This matters because hawkish officials are concerned that the recent spike in headline inflation – particularly around food – could seep into consumer expectations and fuel a more persistent bout of price pressure. Those concerns now look increasingly overblown.

## Food inflation dropped sharply in November

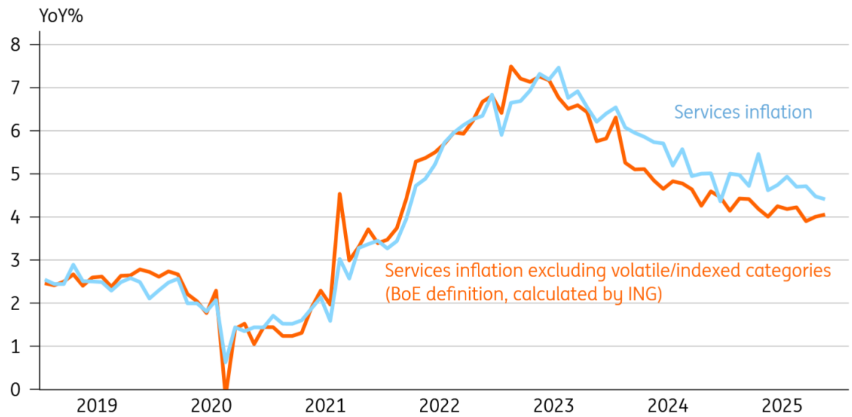



Source: Macrobond, ING

That was helped by decent price falls across a range of consumer good categories – notably clothing and household products – though this obviously coincides with Black Friday, a sales event that seems to start earlier and becomes broader with each passing year. Consequently, we're wary about reading too much into this.

The news on services was better too. Remember this is the bit of the inflation basket that officials tend to put greater focus on, given it is less volatile and more intrinsically linked to the underlying performance of the economy. Services inflation slipped a couple of tenths of a percentage point to 4.4% – a drop from 5% in July. But some of that improvement is in categories the Bank is less interested in – and our calculation of the BoE's favoured "core services" measure has been essentially flat at 4% for the past three months.

## The BoE's 'core services' measure has stabilised around 4%




Source: Macrobond, ING calculations

What next? We're likely to see headline inflation edge higher again in December, helped by an artificial boost from airfares. Christmas usually pushes up flight prices significantly, but last year the timing of when these prices were measured meant the increase was recorded as considerably more modest than usual. That is unlikely to be the case again this year, though, needless to say, this is just a temporary quirk.

Noise aside, this latest drop in inflation fits into a broader body of evidence suggesting that price pressures are cooling. We expect headline inflation to fall pretty close to 2% by May.

Taken together with the rapid slowdown in wage growth, we think it will become increasingly clear that the UK is becoming less of an outlier on inflation. After a rate cut at Thursday's meeting, we expect two further cuts in February and April 2026.

## Author

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