

## Sticky UK inflation leaves November rate cut hanging in the balance

Inflation is more or less at a peak, though it's likely to stay in the 3.5-4% area for the rest of this year. Rising food inflation is a particular bugbear of the Bank of England. Yet we aren't in the camp that thinks rate cuts are over, given the prospect of further progress in services inflation and wage growth



Food inflation nudged above 5% as expected

At 3.8%, the latest UK inflation data certainly isn't welcome news for the Bank of England ahead of its decision on Thursday, where it's widely expected to leave rates on hold.

Yet the latest data doesn't dramatically move the needle one way or another on the prospect of a further rate cut later this year.

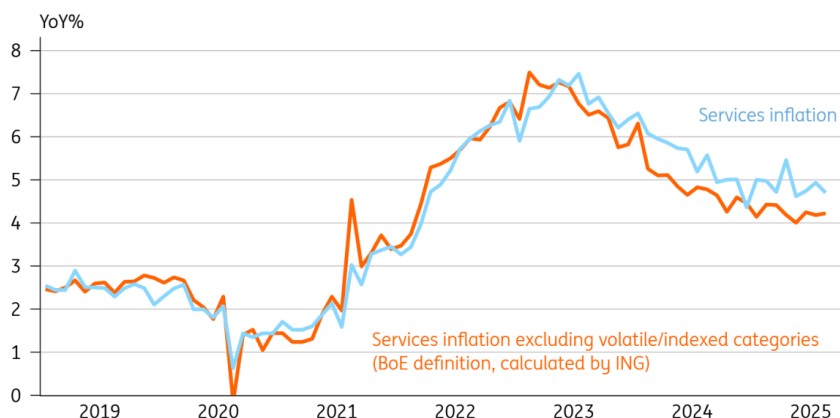
Food inflation nudged above 5%, as both we and the BoE had anticipated. That's a particular bugbear of officials right now, given the formative role food prices play in inflation expectations, but also because of the correlation with restaurant/café prices.

Catering makes up 40% of the Bank's preferred measure of "core services" inflation, which gauges the segment of the inflation basket most intrinsically linked to the underlying performance of the UK economy. Inflation in the hospitality sector has been stuck around 4% this year, which we think

is linked to pressure from April's payroll tax and National Living Wage hikes.

Speaking of the service sector, inflation here did come in a tad lower than the Bank expected at 4.7%, though mainly because of volatile air fares. Indeed, if we look at the "core services" basket, which excludes volatile and indexed items, we calculate that it stayed unchanged at 4.2%.

## The BoE's 'core services' metric stayed at 4.2%



Source: Macrobond, ING calculations

However, we think there is still scope for services inflation to undershoot the Bank's forecasts further in the next release for September. And more broadly, we are seeing a significant easing in rental growth, which is set to be a significant source of service sector disinflation over the coming months.

If we're right about that, it would tip the balance slightly more in favour of a November rate cut, which we still narrowly expect. Certainly, we aren't in the camp that thinks rate cuts are over. Services inflation should show more visible progress next spring, while wage growth should ease below 4% by year-end. Add in the fact that the late-November autumn Budget is likely to be dominated by tax rises, and we think there's still a decent case for UK interest rates to fall two or three more times by next summer.

### 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).