

# Stubborn UK services inflation reduces chance of June rate cut

UK services inflation came in way higher than expected in April, owing to a multitude of annual price hikes. While we shouldn't overstate the importance of this for the longer-term trend, these figures do reduce the chances of a June rate cut. Our base case is August



## Don't be too surprised by stubborn April services inflation

We've just had the latest UK inflation figures for April and the takeaway is that they reduce the chances of the Bank of England cutting rates at its next meeting in June.

Services inflation – the single most important indicator for the BoE – came in at 5.9%, much higher than consensus (5.4%), the Bank's own forecast (5.5%) or indeed our own (5.6%). We've long felt that this reading had the potential to be highly volatile owing to a multitude of annual price hikes that kick in at the start of the financial year, and that's exactly what we've seen.

We saw a very similar surprise last April, and much like then, we've seen a highly unusual and significant spike in rents. Last year this was subsequently revealed to be linked to social rents, which the ONS updates once per quarter in the index. That seems to explain much of the surprise, but there were sizable month-on-month increases in a range of other service-sector categories

too.

Importantly, this doesn't tell us too much about the trajectory of inflation – by definition much of this is linked to one-off annual price adjustments. This time last year, markets wrongly inferred from the April figures that the UK was in a more serious situation when it came to inflation than other economies. It would be a mistake to assume something similar again, and May's figures should be more predictable.

Indeed, looking at inflation more broadly, we still think headline CPI will slip below target when we get May's data and will float around 2% for the rest of this year. Today's data showed that it hit 2.3% in April, down from 3.2% in March. This should be helped by a likely further fall in household energy bills in July, as well as the potential for some additional, limited disinflation in food and core goods.

## Not a BoE game-changer, but June rate cut changes are reduced

The figures therefore aren't a total game-changer for the Bank of England which will look at the numbers and see more noise than signal. But we think it does reduce the chances of a rate cut at June's meeting, even though we'll get another set of data before that decision.

We certainly wouldn't rule it out though. The Bank is visibly divided and with very few media appearances by the internal committee members, it's frankly impossible to know how the deciding votes are likely to be cast. However, today's data supports our long-held base case that the first rate cut will come in August, which offers the BoE an extra inflation print to be more confident about the underlying trend. For now, we're sticking with that.

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