

## Surprise dip in UK inflation makes 2017 hike more unlikely

The slowdown in UK inflation casts further doubt over Bank of England's recent hawkish signals.



Source: Bank of England

A fair chunk of the slowdown in the headline rate can be put down to lower petrol prices, which fell by around 1% in June. But given the relatively sharp drop in the core rate from 2.6% to 2.4%, which excludes energy, today's weakness appears to be broad-based. Clothing prices were down noticeably, which combined with a drop in recreational items (things like games, cultural services and toys), suggests that retailers still have to offer heavy discounts in the face of lower consumer demand.

# 2.6%

Headline CPI (YoY%)

(Previously 2.9%)

Worse than expected

The Bank of England has taken a noticeably hawkish line recently, but today's data casts doubt over a rate hike later this year. Even if inflation does recover (we expect the weaker pound to ultimately keep headline inflation in the 2.5-3% region for the rest of this year), the decision to hike rates still hinges on the growth outlook.

---

*Today's data casts doubt over a rate hike later this year.*

---

Governor Carney recently suggested that the Bank needs to see stronger investment and a recovery in wage growth before tightening policy. But political uncertainty, the deteriorating outlook for consumer spending and rising cost bases from higher import prices mean that both look unlikely to materialise.

Throw in the recent weakness in construction, trade and production figures, which could see 2Q GDP come in at a disappointing 0.2-0.3% again, then a 2017 rate hike still looks unlikely.

## Author

**James Smith**

Developed Markets Economist

[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 <http://www.ing.com>.