

## The UK inflation numbers aren't as bad as they look

Services inflation, which rose much further than expected, was driven by a big change in road tax and the timing of Easter. It should fall back from April's 5.4% figure to the 4.5% area this summer, keeping the Bank of England on track for quarterly rate cuts through this year and into 2026



The news on services inflation should be about to get much better. Away from road tax and travel, several other key areas saw further disinflation in April

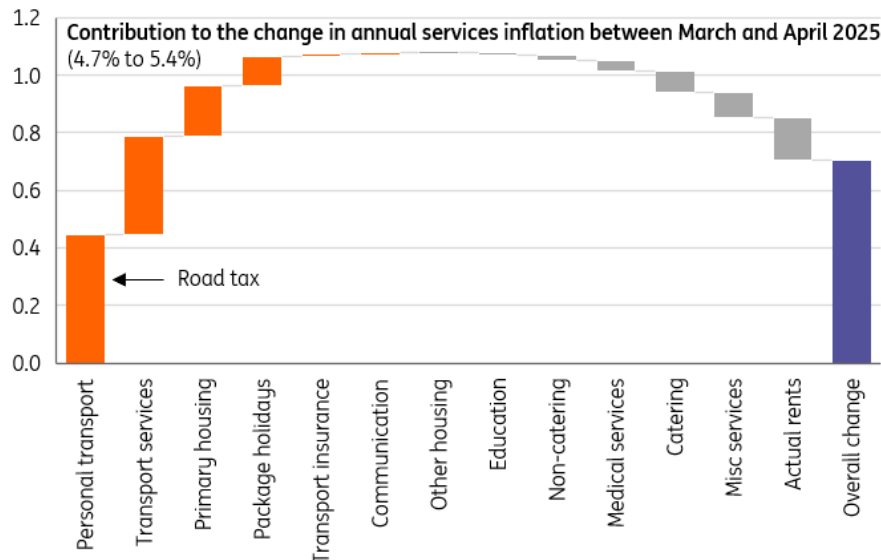
The latest UK inflation data puts the final nail in the coffin of a Bank of England rate cut in June, though of course that already looked highly unlikely.

Headline inflation rose by almost a full percentage point between March and April to 3.5%. Much of that was down to the well-advertised rise in household energy and water bills. But crucially for the BoE, services inflation surged too, from 4.7% to 5.4% in April. Remember, this is the part of the inflation basket that the BoE cares most about. And this was a much larger pick-up than we or the Bank had expected.

When you drill into it, though, the rise doesn't look nearly as problematic as it might at first glance. We calculate that half of that change was solely down to the rise in road tax – the contribution from “personal transport” services rose by 0.5ppt. That will stick around for the next 12 months,

then drop out of the annual comparison. The Bank of England will almost certainly ignore this, as it does with changes in other taxes like VAT.

## The rise in services inflation was down to road tax and the timing of Easter



Source: Macrobond, ING calculations

Aside from road tax, the remainder of the latest increase in services inflation can be almost entirely accounted for by air fares and package holidays, both of which were affected by the timing of Easter. Last year, Easter was in March, which skewed the annual rate of change. But the day these prices were collected this year fell right before Good Friday itself, which is unusual. In other words, the rise in plane tickets – 28% on the month – was even more exaggerated than usual. This will drop out over the next few months.

[As we wrote yesterday](#), the news on services inflation should be about to get much better. Away from road tax and travel, several other key areas saw further disinflation in April. Restaurants/cafes, medical care services and rents all saw their respective rates of annual inflation fall.

Rent is particularly interesting because it is contributing a full percentage point to services inflation right now, but that contribution is set to halve by the start of next year. That's partly because the government cap on social housing costs is much lower this year than last.

More generally, surveys show that pricing power is ebbing away. We expect services inflation to fall back to the 4.5% area this summer and lower still in 2026, when things like road tax drop out of the annual comparison.

That's still too high for many of the Bank of England's rate-setters, which is why we have long argued policymakers are unlikely to speed up the pace of easing this year. But we think an August cut is still highly likely, and the quarterly pace of rate cuts can continue through this year and into 2026.

## 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).