

UK core inflation rises, but how long will it last?

We expect core CPI to fall back towards the 2% target over the next few months, although this is unlikely to stop the Bank of England hiking in May



We don't believe a strong first half of the year is likely to change the course of Bank of England rate cuts in 2024

2.7% UK core inflation
(YoY%)

The Bank of England has put markets on guard for another near-term rate hike, in no-small-part because policymakers expect underlying inflationary pressures to build – and at face value, the latest UK data backs them up.

Core inflation rose more than expected to 2.7%, as recreation prices fell considerably less rapidly than would be seasonally expected at the start of the year. Some of this is reportedly down to entrance fees at zoos and gardens, but given that much of the recreation category (things like computers and TVs) is fairly sterling-sensitive, we wouldn't expect this resilience to last. That's because the sharp fall in the pound after the Brexit vote has now more-or-less fed through to consumer prices and the rate of pass-through is starting to ease. The recent sterling strength will

only accelerate this process.

This should see core inflation slow fairly noticeably over coming months, potentially hitting the 2% target over the summer. In principle, this will take some pressure off the Bank of England to raise rates again, although policymakers are more heavily focused on wage growth. The news here has been more positive of late and suggests that pay may be starting to respond to skills shortages and a tighter jobs market. It's still early days (the latest pick-up comes off a low base), but we doubt the data over the next two-three months will change the minds of many policymakers about the direction of travel for wage growth.

For this reason, we've pencilled in a rate hike at the May meeting, although this is still contingent on the Brexit progress – chiefly an announcement on the transition period, as well as some further clarity on the government's preferred future trade model.

Author

James Smith

Developed Markets Economist, UK

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>.