

UK inflation hits 9% but it may well have peaked

While there are plenty of upside risks to UK inflation, we suspect April's 9% figure will mark the peak. Certain goods categories will start to pull down the headline rate, even if further pressure in food and services is yet to come. The key thing for the Bank of England is that inflation is likely to be below target by the end of 2023

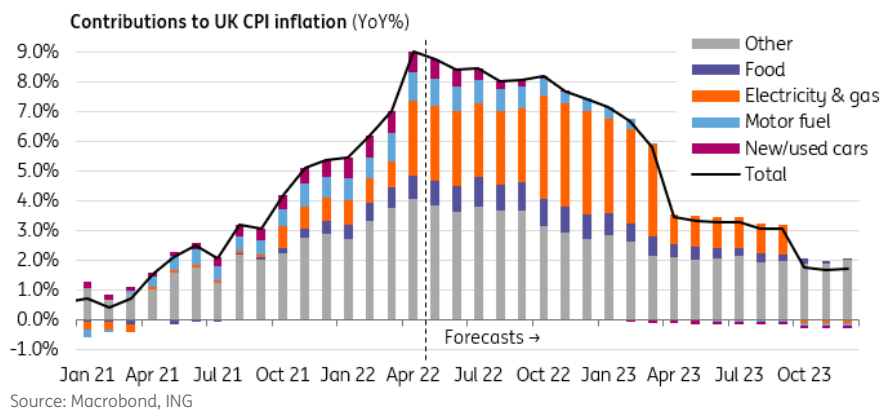


The Bank of England is having to tackle soaring inflation, which reached 9% in April

UK inflation reached 9% in April as the well-telegraphed 54% increase in the household energy cap fed through to the CPI basket. That change in electricity and gas prices, combined with the recent pressure on petrol costs, means energy is now contributing three-and-a-half percentage points to the overall inflation rate.

The key question now is whether inflation has peaked, and we think the answer is probably yes. Admittedly a lot hinges on the next energy price cap announcement in October, which we expect will deliver around a 40% increase in prices – or 30% once the government's £200/household rebate is factored in. We don't yet know exactly how that subsidy will be treated in the CPI figures, and while it is simply an accounting point, it might hold the key to answering whether we'll get a second 'twin peak' in inflation later this year (the chart below assumes the rebate is factored in).

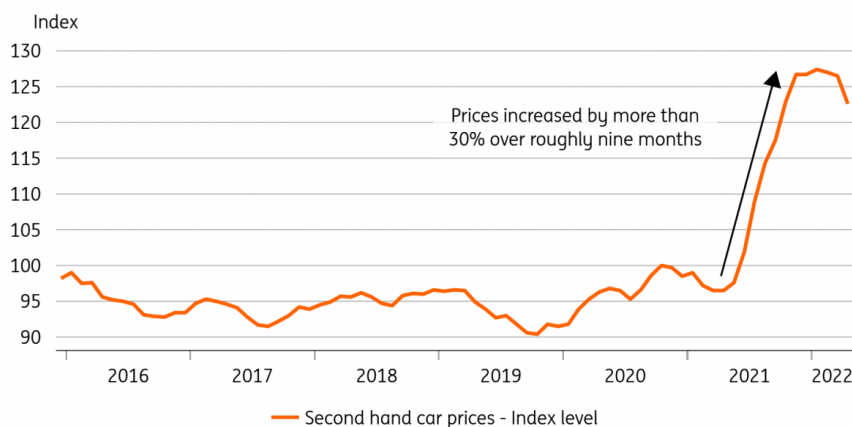
Energy is now contributing 3.5pp to overall inflation



Away from energy, there's going to be increasing downward pressure on the headline rate from certain goods prices. Like in the US, used cars are the most obvious example, and having risen by more than 30% over around nine months to January, prices fell by 3% last month. Given that the price increases really began to ramp up from last spring, we're likely to see the likes of used cars (and other similar goods categories) contribute less and less to the overall annual inflation rate.

That said, inflation is unlikely to fall quickly. That downward pressure from certain goods categories will be offset by increases in food prices as well as services. Yesterday's jobs numbers continued to show a tight hiring market characterised by ongoing labour supply issues, and in the short term that pressure on pay is likely to be passed onto consumers.

Used car prices have started to fall in level terms



Source: Macrobond, ING

In short, inflation is unlikely to dip much below 8% for the majority of this year. However, the headline rate will fall dramatically next April assuming we don't get another leg higher in electricity prices and indeed CPI will probably be a little below target by the end of 2023. The Bank of England's forecasts – or at least those based on market interest rate expectations – have shown something similar. We therefore expect another hike in June and August before the committee most likely pauses its tightening cycle.

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>.