UK inflation hits a peak

At 3%, inflation looks like it has peaked and without further signs of domestically-driven price pressures, the Bank of England will tread carefully

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3.0% Headline CPI (YoY%)

Governor Carney has narrowly avoided writing a letter to the Chancellor as headline inflation stayed put at 3% year-on-year in October. Food prices rose fairly rapidly for the second month running, as the effect of the weaker pound continues to exert upward pressure on shelf prices, offset only slightly by a 0.4% fall in petrol prices.

But for the Bank of England, what matters most is that this probably represents the peak for inflation. Over the coming months, we expect headline CPI to inch lower, reaching the 2.3/2.4% area by Easter time. As the currency effect starts to peter out, the question is whether domestically-generated price pressures take over.

We'll get some indication of this in tomorrow's jobs report, where we see a risk of a disappointing wage growth figure. As we head into 2018, the Bank of England remains relatively optimistic that pay rises will pick-up a notch. But given political uncertainty, rising import costs and slow growth, we think the Bank's 3% forecast for next year could prove to be optimistic.

We don't rule out a rate hike in 2018, but Brexit negotiations will be a big factor and there are a lot of hurdles to overcome over the next few months. Until there is further clarity on the transition deal and "sufficient progress" vote in December, we expect the Bank to keep its cards close to its chest on the timing of its next move.

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