

UK inflation holds steady despite surging fuel costs

Once energy prices are stripped out, we expect core inflation to fall back to the Bank of England's 2% target as early as next month



Source: Shutterstock

2.4%

UK headline inflation

(YoY%)

As expected

UK inflation has held steady at 2.4%, despite the sharpest rise in fuel prices since 2011 and some upward pressure from air fares (the notorious 'Easter effect'). Given how far petrol prices have moved so far this year – there are reports that some supermarkets have raised prices every day since March – we expect headline inflation to remain sticky around this level over the summer.

Were it not for energy costs though, we suspect inflation would be falling further. Prices have mostly adjusted to the pound's post-Brexit plunge, and we expect core CPI to fall back to the 2% target next month, and we think it will stay there or just below for at least the next few months.

On the face of it, the fact that core inflation is now back at target takes some pressure off the Bank

of England to raise rates further – though when it comes to judging underlying inflationary pressures, it's wage growth that policymakers have their eye on. The momentum in pay so far this year has been solid (albeit a little slower more recently) and we think BoE voters will remain comfortable that the overall trend is upwards.

This is why we still think the Bank of England has a preference to hike rates again fairly soon if it can, though of course this heavily depends on the activity data. We still think an August rate rise is more likely than not, but this does rely on the economy showing more convincing signs of recovery after the weak first quarter. So far, the story has been at best mixed, with manufacturing and retail faltering.

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