

## 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.

## Author

**James Smith**

Developed Markets Economist

[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 <http://www.ing.com>.