

UK inflation jumps ahead of likely above-target spike later this year

Pandemic-related base effects and a 9% hike in household energy prices lifted the rate of inflation in April, and will likely push headline CPI above the Bank of England's target later this year. But will this last? With wage pressures likely to remain fairly unexciting, we think inflation is more likely to dip below 2% from spring 2022



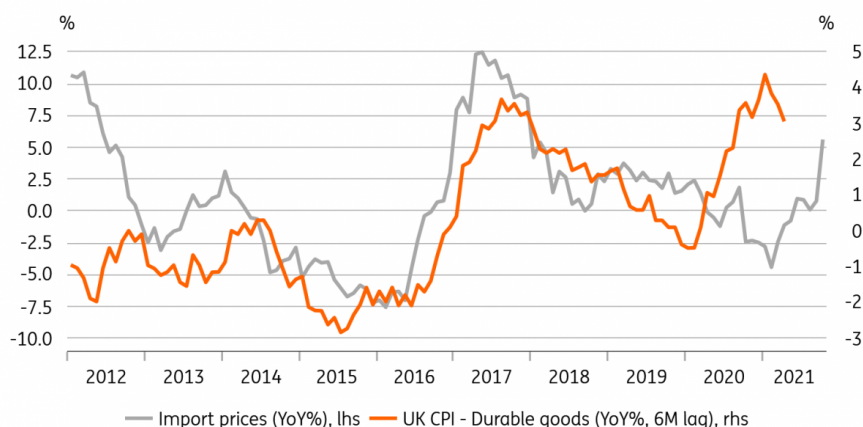
We don't believe a strong first half of the year is likely to change the course of Bank of England rate cuts in 2024

Like just about every country, the UK's inflation rate jumped in April on pandemic-related base effects. The increase in headline CPI to 1.5% from 0.7% is predominantly because we're now comparing prices to the depth of the Covid-19 crisis last year, while energy prices also received a lift last month when the regulator lifted the household electricity/gas cap by 9%.

All of this, of course, has been well telegraphed, as is the anticipated rise in inflation above target later this year. We expect inflation to edge higher again next month, and reach 2% for the first time over the summer, before remaining there through the fourth quarter and first quarter of next year.

This is mainly an energy story, but is also likely to be linked to some reopening-related spikes, as well as the lagged impact of global shipping issues. Durable goods prices are already rising at a faster annual rate than after the 2016 Brexit referendum, though this time without a depreciation in the pound.

Durables goods inflation has already been taking off



Source: Macrobond, ING

Ultimately though, what matters for the Bank of England is what happens to inflation in 2022 and beyond, and there aren't many clues in this latest data. But at this stage we think headline CPI will most likely dip back below target from around April next year. Much will depend on wage pressures, which despite the green shoots appearing in the jobs market, we think will most likely be fairly benign (though with signs of skill shortages in certain sectors emerging, this is likely to vary between industries).

The upshot is that the Bank of England is unlikely to be under any immediate pressure to begin a tightening cycle, particularly given that its QE expansion is already slated to stop at the end of this year. We expect the first rate hike in 2023.

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 www.ing.com.