

UK inflation likely to fall to 2% in April despite latest uptick

The latest rise in UK inflation – from 3.2% to 3.4% in December – shouldn't last. We expect headline CPI to get to 2% and even temporarily dip below in April. That should unlock further rate cuts in March and June, earlier than markets expect



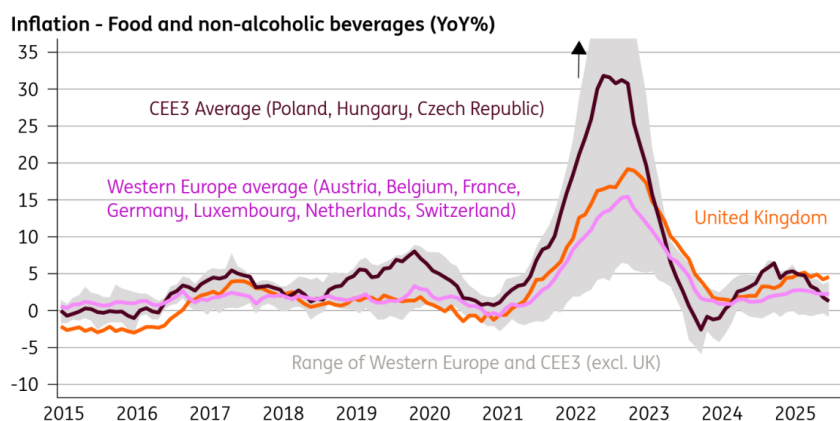
UK food inflation is higher than in the rest of Europe

Two things stand out in the latest UK inflation numbers:

First, food inflation notched higher – up from 4.2% to 4.5% – but is still well below the Bank of England's most recent forecast (5.3%). Remember, food inflation has been a key bugbear of the hawks at the Bank of England. The fear has been that higher supermarket prices are very noticeable for consumers and risk fuelling a surge in inflation expectations and a more persistent bout of price pressure.

Those fears look overblown – and there's no reason why UK food inflation shouldn't follow the rest of Western Europe/CEE and move lower over the coming months.

UK food inflation is higher than the rest of Europe



Source: Macrobond, ING

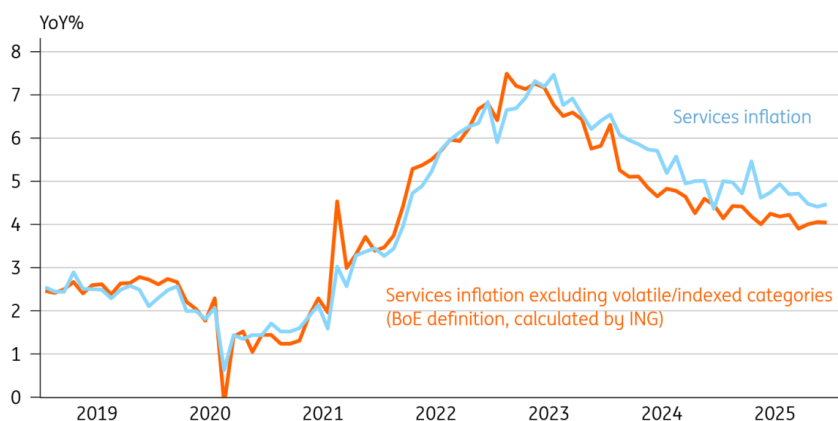
Second, air fares. These are notoriously volatile, especially around Christmas. The rise in plane ticket prices was unusually muted at that point in 2024 and the fear was that a surge at the end of 2025 could temporarily push up services inflation, depending on the day the Office for National Statistics measured them. In the end, the rise was again relatively modest by historical standards.

Obviously, this is all just noise. And more importantly, we calculate the Bank of England's preferred gauge of "core services" inflation – which excludes certain volatile/indexed categories – at 4%, as it has been for three months now.

That suggests nothing here is going to move the dial at the February Bank of England meeting. Officials will want to see more progress on services inflation. And given officials have hinted at a slower pace of cuts, we doubt the Bank will do anything other than keep rates unchanged at its next decision.

But as we said at the start, the inflation backdrop should look a lot better from April. A whole range of services prices are only updated once annually, at the start of the financial year. We already know that last year's 25% rise in water and sewerage (the latter being a service) won't be replicated to anywhere near the same extent this year. Nor are we seeing a repeat rise in vehicle duties. That and other more muted price rises this year should bring services inflation down from 4.5% in December to around 3% post-April.

'Core services' inflation sits at 4%



Source: Macrobond, ING calculations

What does that mean for rate cuts? The Bank will be keen to see April data – released in May – but that doesn't preclude action before then.

We think that if the weak hiring backdrop and benign wage growth trend continues over the next couple of reports, the Bank will be comfortable cutting rates in March. Then, if we're right about the April inflation data, it should feel able to cut rates again in June. That would leave the Bank Rate at 3.25%.

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