

## UK inflation now very close to the peak

We expect the Bank of England to hike rates in November, but a lack of domestically-generated inflation means that any subsequent tightening will be limited



Source: iStockphoto

At 3%, September's UK inflation rate is the highest it has been in five years and will continue to test the patience of the hawks at the Bank of England. But the key question is how much of this spike is domestically-generated.

Well, firstly the latest headline figures were boosted by a 2.1% pick-up in fuel costs as pump prices respond to the recent increase in oil prices. But more importantly, it is clear that the impact of the pound's post-Brexit plunge is still very much at play. Food prices, which are highly influenced by import costs, increased sharply by 0.8% on the month.

**3.0%** Headline CPI  
(YoY%)

As expected

But neither of these factors tell us much about underlying momentum in prices. One way of stripping out these drivers is to look solely at the basket of goods that have a low import content

(less than 20%) – and by this measure, inflation would actually be below target if the impact of sterling and energy are ignored.

It's likely to be a similar story in tomorrow's jobs report. Wage growth – a crucial input into the Bank's decision making process – is likely to dip back to 2% and we think is likely to stay at, or below, this level for the next few months.

It's also worth noting that this is probably about as high as inflation will go. We may see a slight pick-up to 3.1% in October, but thereafter headline CPI should gradually start to ease back.

So whilst we think a November rate hike is highly likely, for now we think the lack of domestically generated inflation combined with a sluggish growth outlook (and don't forget all the noise surrounding Brexit) mean that any subsequent tightening is likely to be very limited.

## Author

### James Smith

Developed Markets Economist, UK

[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 [www.ing.com](http://www.ing.com).