

UK inflation resurgence points to final 25bp rate hike this week

January's dip in services inflation seems to have been a temporary one, and the bounceback in core CPI in February is unwelcome ahead of the Bank of England's meeting this week. We expect a final 25bp hike on Thursday



UK inflation remained at double-digit levels in February

10.4% Headline inflation in February, up from 10.1% in January

A day before the Bank of England announces its latest decision, it is faced with an unwelcome resurgence in UK core inflation. Core CPI is back up at 6.2% (from 5.8% in January), and more importantly shows that the surprise dip in services CPI last month was a temporary one.

Policymakers have signalled this is an area they're paying particular attention to, not least because service-sector inflation tends to be more 'persistent' (that is, trends tend to be more long-lasting than for goods) and less volatile. Inflation in hospitality is proving particularly sticky.

The caveat here is that the Bank has indicated it is paying less attention to any one single indicator, and is focused more on a broader definition of “inflation persistence” and price-setting behaviour. And in general, the data has been encouraging over the past month or so. The Bank’s own Decision Maker Panel survey of businesses points to less aggressive price and wage rises in the pipeline, and the official wage data finally appears to be gradually easing.

Core services inflation has bounced back after January's dip

UK core inflation measures

YoY% (Not adjusted for VAT changes)



Source: Macrobond, ING calculations

Core services inflation excludes air fares, package holidays and education. Core goods excludes food, energy, alcohol and tobacco. Series vary slightly from BoE estimates, partly due to lack of VAT adjustment

We suspect the Bank will want to see more evidence before ending its rate hike cycle entirely, and that’s particularly true after these latest inflation numbers. We’re still narrowly expecting a 25bp hike on Thursday, and we think the BoE will take a leaf out of the European Central Bank’s book and reiterate that it has the tools available if needed to tackle financial stability, thereby allowing monetary policy to focus on inflation-fighting. This was the mantra it adopted last October/November during the mini-budget and LDI pensions fallout in UK markets.

However, assuming the broader inflation data continues to point to an easing in pipeline pressures, then we suspect the committee will be comfortable with pausing by the time of the next meeting in May.

[Click here to read our full Bank of England preview](#)

Author

James Smith

Developed Markets Economist

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>.