

## UK inflation set to peak around 11% after energy price support

Headline inflation will rise a little further having eased back below 10% in August, and it's likely to stay around 11% into early next year before falling back more dramatically. However, the Bank of England is watching wage growth more closely, as the hawks worry that worker shortages could lead to core inflation staying more persistently above target

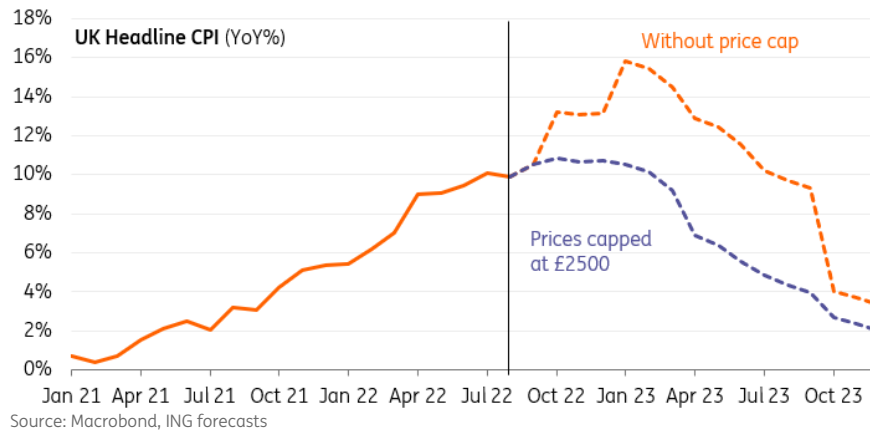


The absence of another upside surprise to UK inflation this month takes a bit of pressure off the Bank of England to move even more aggressively when it meets next week. Headline CPI came in a touch lower than both consensus and last month's level, at 9.9%, and that's largely because of a near-7% fall in petrol/diesel prices during August. We expect another 2% decline in next month's figures.

The introduction of a government cap on household energy prices means that we should now be fairly close to the peak in these headline figures. The fact that electricity/gas bills won't be rising by around 80% in October and a further 30-40% in January means that the peak in CPI should be around 5 percentage points lower. With the government due to cap the average household energy bill at £2500, up from around £2000 now, we expect a peak in the region of 11% in October. That's

compared to 16% in January which is what we'd forecasted before the support was announced.

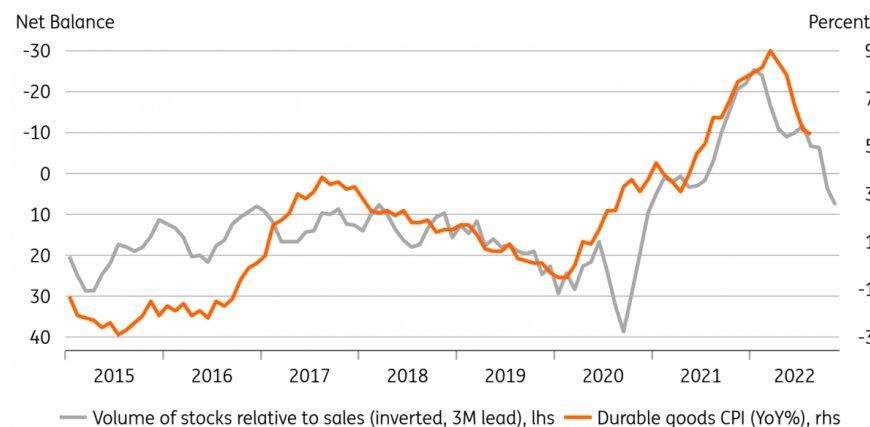
## UK inflation now set to peak at around 11% after energy price support



We'd expect inflation to stay around there until early next year, before cooling more quickly as energy base effects kick-in. We think it could be more-or-less back to the Bank of England's 2% target by the end of next year, crazy as that currently seems.

But what policymakers are more interested in is core inflation – or to put it more accurately, the more persistent parts of the inflation basket. Here the news is mixed. On a month-on-month price basis, the increases we saw in August do seem fairly broad-based. However, there are signs that 'core goods' inflation is easing off, linked perhaps to the rise in retailer inventory levels relative to sales. That's a function of supply chains beginning to improve, and in some cases commodity prices having fallen, which is coinciding with reduced demand for goods.

## Higher inventories and lower sales reducing pressure on goods prices



However, the Bank is more focused on wage growth, and [as we noted yesterday](#), the worker

shortages that have plagued the jobs market for several months now don't appear to be resolving themselves very quickly. The BoE's hawks are concerned that this will translate into persistent pressure on wage growth.

We aren't totally convinced this will be enough to swing the pendulum in favour of a 75 basis-point rate hike next week, despite both the ECB and Federal Reserve going down this path. It's a pretty close call, not least because the hawks will be worried about the recent slide in sterling, and markets are closer to pricing a 75bp move than a 50. But for now, we think another 50bp move next week is the most likely outcome, followed by another such move in November.

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