

## UK inflation set to remain muted amid job market deterioration

We expect headline UK inflation to stay below 1% this year, and given the slack in the jobs market, we'd expect price pressures to stay fairly muted for some time



Source: iStock

A combination of falling petrol prices and a recent decline in regulated household energy costs kept UK inflation in check in May. Headline CPI slipped to 0.5% from 0.8% a month earlier, and we expect this inflation gauge to stay between 0-0.5% until the autumn, and probably below 1% through to the beginning of 2021.

None of this is that surprising, but there is still a bit of a debate about where inflation will go after that. However, as my colleague Rob Carnell [has written recently](#), our house view is that 'stagflation' is unlikely to be a by-product of the Covid-19 crisis.

Admittedly, there may well be some pockets where prices actually increase in the short-term. Supply chains are still heavily disrupted, and restarting them won't be easy, particularly given the ongoing risk of further localised lockdowns if Covid-19 flares up again in specific regions or countries. All of this inevitably means higher production costs.

---

*Inflationary pressures are likely to remain fairly muted for the*

## *time being*

---

However, the slack in the jobs market suggests we shouldn't expect a broader rise in inflation. While the government's furlough schemes have helped avoid the spike in unemployment seen in the US so far, [there are growing fears](#) about what will happen as this state support is unwound. With many businesses unlikely to be able to operate at their usual capacity, there will be pressure on profits and therefore staffing costs. That would imply wage pressures are set to remain generally muted.

The other argument that is often made in favour of inflation returning, is that governments and central banks are pumping vast amounts of cash into the system. But this is unlikely to lead to higher prices, at least in the short/medium-term. In the case of the government, its spending has so far been solely aimed at keeping firms and consumers afloat, rather than trying to stimulate demand (which by definition, is constrained by the ongoing lockdown measures).

The bottom line is that inflationary pressures are likely to remain fairly muted for the time being. This, in turn, will keep the pressure on the Bank of England to maintain its current degree of stimulus, and we expect a further £150 billion of QE to be unveiled this week.

### 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).