

## UK inflation set to stay above 9% throughout 2022

UK inflation remains above 9% and the recent rise in energy costs will probably help the headline rate go slightly into double-digits from October. The chances of a 50bp Bank of England rate hike in August are rising, though we think there's only so much further it can hike in the current fragile growth environment



UK inflation has edged a touch higher to 9.1%, helped by another chunky rise in food prices, along with another 2% increase in fuel costs.

We'd previously tentatively said that inflation looked like it had peaked – or at least wouldn't go more than another few tenths of a percentage point higher. That's probably true in the near term, and we expect to see the headline rate inch only slightly higher over the next couple of months. That's linked to another circa 10% rise in petrol/diesel prices in June. However, when you factor in the recent leg higher in natural gas, coupled with broader price pressure elsewhere, we'd now expect to see headline CPI go a little above 10% in October. That's when Ofgem will next increase the household energy cap, and current futures pricing suggests that could go higher by another 45-50% - though in practice, government support payments mean that will be lower, especially for lower-income households.

# 9.1%

## UK inflation

(YoY%)

As expected

With the prospect of inflation staying above 9% throughout this year, it's perhaps unsurprising that the Bank of England hawks are becoming more vocal. Catherine Mann, who was among those voting for a 50bp hike last week, has argued the Bank should move aggressively to protect the value of sterling. Today's inflation data perhaps bolsters the camp looking for another 25bp, in that for a second consecutive month the numbers have come in more-or-less in line with expectations, ending a relentless run of above-consensus numbers.

Nevertheless, with the Fed highly likely to follow through with a second consecutive 75bp hike in July, we think there's a growing chance that the BoE follows suit with its first 50bp move – especially given that it's now fully priced.

But in practice, there's only so far we think the BoE can hike in an environment of fragile growth, and an inflation backdrop that's largely out of the Bank's control. By October energy will be contributing over five percentage points to the overall headline rate.

While we see scope for a 50bp hike in August, we still find it hard to see the central bank taking rates anywhere near as far as the Fed. We're pencilling in a further 75bp of tightening in total.

### 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>.