

## UK inflation shock raises chance of June rate hike

UK inflation came in way higher than expected in April, which undoubtedly puts pressure on the Bank of England to hike by another 25bp in June



Food prices are now the big inflation headache

UK inflation has come in higher than pretty much anyone, including members of the Bank of England's committee, expected in April. Headline inflation came in at 8.7%, higher than the 8.2% consensus. Core inflation picked up from 6.2% to 6.8%. This undoubtedly makes life harder for policymakers and no doubt raises the chance of yet another 25bp rate hike in June.

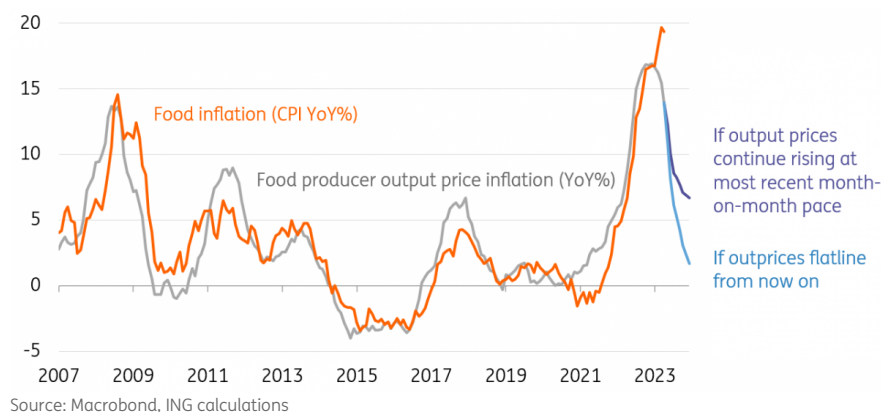
Of course, April's headline figure was still much lower than it was in March. That's a well-telegraphed effect of last April's 50% surge in electricity/gas prices dropping out of the annual rate. By July, when consumer bills are set to fall by roughly 20%, utilities will be contributing almost nothing to the overall inflation rate – and by October, will be a net drag.

Instead, it's food prices that are now the biggest headache. We're now in an unusual situation where food inflation – at around 19% YoY – has diverged noticeably from the relevant producer output price measure. The latter has undoubtedly peaked on a year-on-year basis. Assuming the most recent month-on-month increases in output prices were to continue through the remainder

of this year, it implies that food inflation should be back to the 6% area or below by Christmas.

In practice, we doubt the deceleration will be that aggressive, but there are nevertheless good reasons to think that food will be contributing less to overall inflation by the end of the year.

## Consumer and producer food inflation is diverging



Ultimately though, what matters for the Bank of England is services inflation, and that edged up to 6.9% from 6.6% previously – higher than expected. Much of this seems to be down to firms making more widespread changes to prices that are typically reset on an annual basis. Some of this was expected, for example, telecoms prices typically change this time each year. But there were some surprises, including rents which rose by 1.4% on the month, which was the highest month-on-month increase in more than a decade.

There are good reasons to think services inflation is at its peak, and we think the fall in gas prices should alleviate one major source of cost pressures in the sector. Nevertheless, this latest data raise the chance of another rate hike next month.

It's not a foregone conclusion, not least because we still have another set of data before the meeting, and remember the jobs/wages data has been moving in the right direction, as have broader survey measures of price-setting behaviour. If nothing else, market pricing, which on the back of this data is now pricing more than three additional hikes from the BoE, looks too aggressive.

### 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).