

## UK inflation unlikely to return quickly after coronavirus

Headline UK inflation is set to head down towards zero over the summer, and with unemployment rising, we doubt we'll see price pressures rapidly return any time soon



What does coronavirus mean for UK inflation? Well in the short-term, the clear direction is down. A combination of a plunge in oil prices, and a fall in regulated water and household energy costs, saw headline inflation drop noticeably in April to 0.8% from 1.5%. Energy price weakness will drag headline CPI closer to zero through the summer.

**0.8%** UK April inflation  
(YoY%)

### Medium-term price pressures set to remain muted

On the medium-term outlook for inflation, there has been more of a debate. However with a 'V-shape' recovery looking unlikely now, and the rebound from Covid-19 set to be gradual, we doubt

inflationary pressures will meaningfully build for some time.

The most obvious reason for that is the slack in the jobs market. While the government's Job Retention Scheme has been successful in slowing the speed of unemployment so far, there are [growing fears that we could see a wave of redundancies](#) later in the year depending on how the furlough scheme evolves. This would imply that wage pressures are set to remain largely muted.

And while it is true that both the government and the Bank of England are pumping large amounts of money into the economy at the moment, neither are likely to generate any immediate inflation. Most of the fiscal support has been aimed at keeping firms and consumers afloat, rather than to stimulate spending (which by definition, is constrained by the lockdown).

The obvious counterpoint to all of this is that supply constraints could push some prices higher as demand begins to return. And there are probably some areas where that is true. Restarting supply chains will be no easy task, and some firms will need to rework theirs if some of their suppliers have not been able to recover, inevitably putting upward pressure on costs.

Equally in the jobs market, those structural skill shortages that were evident long before this crisis, could become magnified. One example might be those industries - for example agriculture and construction - which rely heavily on overseas workers, and could continue to experience disruption while international travel is constrained.

Still, the broader economic picture of consumer and business caution suggests that demand will take a long time to recover - and that implies inflation is going to stay generally muted.

We don't expect the UK economy to return to its pre-virus size until 2022 at the earliest, and we see the Bank of England adding further support over coming months in the form of extra QE.

## Author

**James Smith**

Developed Markets Economist

[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>.