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Western European Indicators and Insights

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UK: Inflation rises.

How much of a worry to the BoE?

Matching expectations, August consumer price inflation edged up by 0.1 percentage point to 4.5% Y/Y, a three-month high. Prices rose 0.6% in M/M terms, however, a reflection of a sharp bounce in the price of clothing and household goods, both these categories also responsible for the higher Y/Y rate (alongside higher utility charges). Meanwhile, and notably, the core rate (which excludes energy, food, alcohol and tobacco) remained at 3.1%, as record-high clothing price inflation was tempered by a sharp fall back in airfares

These numbers will cause some reverberations, especially as it is unlikely that UK inflation has peaked. Indeed, further rises in utility charges are due in this and the coming month which could very well take the headline CPI figure to 5%-plus. In addition to which, there is no sign that the undoubted hesitancy of the UK consumer is causing any downward pressure on the prices of more discretionary goods.

This far from reassuring short-term inflation outlook has been readily acknowledged by the BoE and is embodied in its existing inflation forecast, which also underscores that the weakness in real activity should take inflation back to (if not below) target within the next two years. As a result, the inflation backdrop and near-term outlook should be no barrier to further BoE stimulus, if that is what the committee wants. However, it is far from clear that is what the MPC wants at this juncture, with some members much more nervous about the impact of a more sizeable inflation target overshoot. With this in mind, it is likely that the minutes to the September MPC meeting (due Sep 21) will detail the scale and form of any fresh divisions within the BoE hierarchy.