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Western European Indicators and Insights

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UK: Inflation peaks?

Exceeding most expectations, September consumer price inflation jumped 0.7 percentage point to 5.2% Y/Y, a three-year high. Prices rose 0.6% in M/M terms, largely a reflection of a sharp rise in energy costs, mainly a result of a series of increases in utility charges. These categories are also responsible for the higher Y/Y rate, along with some base-effect induced rise in transport price inflation. Indeed, the latter helped push up the core rate (which excludes energy, food, alcohol and tobacco) to a four month high 3.3%.

These higher-than-generally expected numbers will cause some further reverberations, but are still very much in line with the anticipated rise that policy-makers have been envisaging as a likely peak for UK inflation. Indeed, although inflation of late was (yet again) marginally above that projected in the latest Inflation Report, the BoE has been warning repeatedly that CPI inflation could move above 5% as a result of the utility price increases very much evident in this release (the later accounted for two-thirds of the overall jump in the Y/Y rate). Most likely, these data will prove to be the peak, although some further utility price impact has yet to come through, possibly threatening the October numbers. Regardless, any clear fall back in the headline inflation rate is unlikely until base effects come into very clear play in the new year.

Obviously, the strength in prevailing inflation did not prevent the BoE from resuming asset purchases earlier this month, albeit with it notable that (due to timing constraints) the MPC was not offered its usual advance warning of the latest CPI numbers. Even so, it seems that the committee did cling to 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. Regardless, while some MPC members may have been uneasy about the move, the extent of which will be evident once the minutes to the meeting are published on Wednesday, it is clear that the BoE is justifiably focusing on the risks to the real economy and financial system. The question is whether the BoE actually has any greater influence to address these risks than the clear powerlessness it has faced in regard to short-term inflation dynamics.