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UK: ONE-OFFS PUSHED INFLATION ABOVE 2% IN APRIL

Berenberg Macro Flash

UK inflation, April 2019

yoy	CPI	Core CPI
Actual	2.1%	1.8%
Previous	1.9%	1.8%
Consensus	2.2%	1.9%
Berenberg	2.1%	1.9%

Temporary factors pushed April inflation to a four month high. The annual change in the consumer price index was 2.1% in April (from 1.9% in March), in line with our expectation but 0.1ppt below consensus. Two one-off factors were behind the rise: 1) the temporary jump in air fares linked to the timing of Easter which increased transport costs; 2) and a rise in costs of housing and household services linked to the increase in Ofgem's energy price cap. We expect headline inflation to hover just north of 2% for the remainder of 2019 before growing wage costs drive inflation towards 2.5% by the end of 2020. With Brexit still unresolved, the risks to the UK economic outlook are high. The medium-term risks to inflation are tilted to the upside in case of a hard Brexit (20% risk).

Key takeaways from the April inflation data:

- 1) Despite the rise headline inflation, core inflation remained unchanged on the month at 1.8% - Chart 1;
- 2) Goods price inflation remained stable at 1.4% while the annual rate of inflation in domestic-oriented services jumped to 2.9%, the highest rate since November 2017 - Chart 2;
- 3) The annual rise in prices was broad-based across major categories, with the largest contributions from housing, water, electricity and gas (up 3.4% yoy) and transport (up 4.6% yoy) - Chart 3;
- 4) Producer input price inflation accelerated to 3.8% yoy from 3.2% in March. Producer output price inflation slowed a little 2.1% yoy in April from 2.2% in March.

Medium-term inflation risks add to BoE headache: Inflationary pressures are building. Wage growth has accelerated while productivity growth has stagnated, pushing up unit labour costs - Chart 4. Eventually the BoE will need to follow up on its words and hike the bank rate. While the BoE would probably prefer to wait until Brexit is resolved to avoid adding to the current climate of Brexit uncertainty, it might not have that luxury. We thus look for the next hike 25bps in August. Brexit has made life difficult for the BoE and its credibility has suffered as a result. The BoE's own surveys show that a record balance of households surveyed has no idea where interest rates are heading over the next 12 months - [Waning BoE credibility: causes and consequences](#). The more the BoE's credibility is diminished, the less effective the bank is at conducting monetary policy and delivering on its policy objectives. This has wide-reaching consequences for the UK economy.



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Chart 1

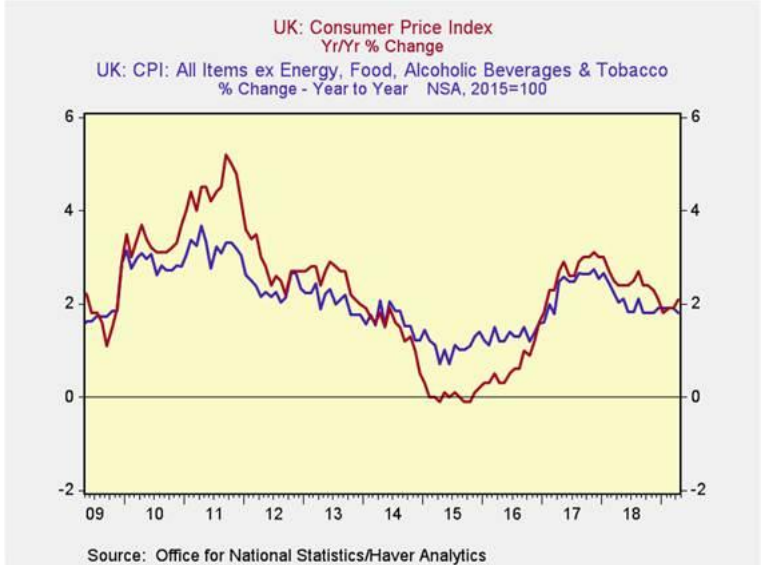
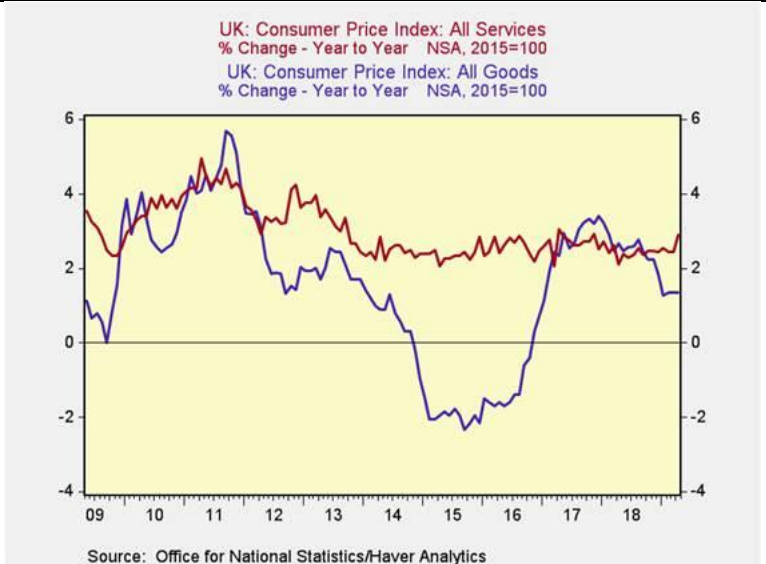


Chart 2



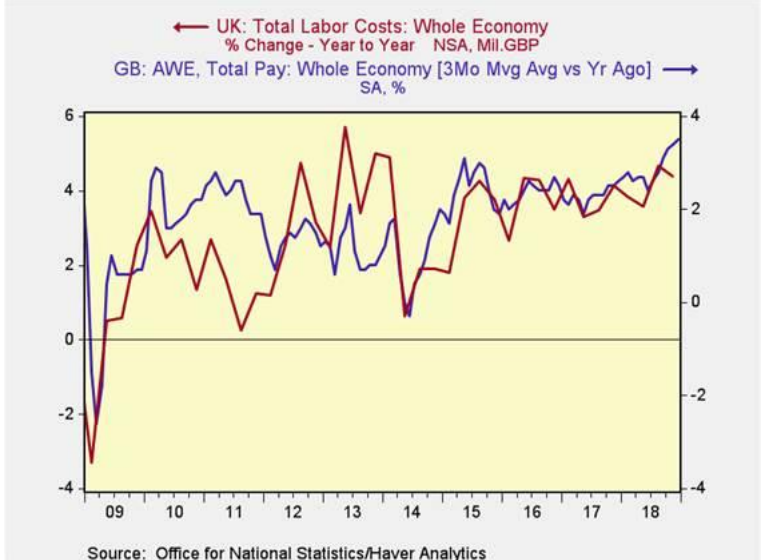


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Chart 3



Chart 4



yoy%	APR	MAR	FEB	JAN	DEC	JAN
CPI	2.1	1.9	1.9	1.8	2.1	2.3
Core	1.8	1.9	1.9	1.9	1.9	1.8

Source: ONS



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