



**UK INFLATION POISED TO MOVE SHARPLY HIGHER IN THE COMING MONTHS**

**UK inflation rate eases in September from August's nine-year high**

The September inflation report showed the annual rate of UK CPI inflation moderate from 3.2% to 3.1% - directionally in line with our view, and softer than the unchanged reading that markets had expected. The move lower in September inflation was partly a result of base effects from restaurant prices moving higher last September after reductions in August associated with the Eat Out to Help Out Scheme.

**However, inflation set to move sharply higher from October...**

The moderation in September, however, is likely to represent only a temporary reprieve as we expect the inflation uptrend to have resumed in October. The main impetus to the move comes from already documented increase in energy prices, in particular, the lifting of the energy price cap by Ofgem means that household energy prices, as captured by the ONS, will have risen by c.12% from the 1<sup>st</sup> October. Moreover, elevated oil prices mean that motor fuel prices are also likely to rise further over the next two months. For October and November combined, we expect pump prices to rise by around 4.6% (relative to a decline of 0.7% over the same period last year).

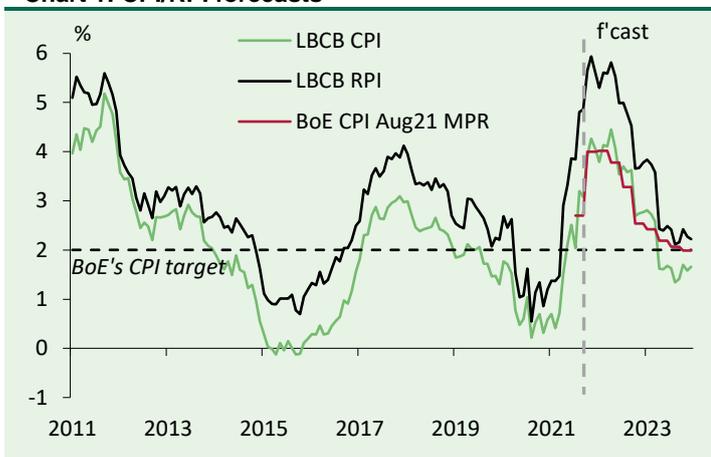
Near term, our refreshed forecasts (overleaf) envisage annual CPI inflation moving up to 4.3% in November. However, with electricity and gas forward prices pointing to a further sizeable increase in the energy price cap from 1<sup>st</sup> April 2022, of around 23%, we now see the peak in the current cycle occurring a little later, with annual CPI inflation expected to hit 4.5% next April.

**...and stay well above target through 2022, before easing back below 2% in 2023**

Meanwhile, ongoing supply chain issues suggest that CPI is likely to remain above or around the 4% mark for much of H1 2022. Producer prices have continued to climb, with the rate of input and output price inflation picking up further in September. Data from our own [UK Recovery Tracker](#) have shown an unprecedented pick up in the pace of pipeline price pressures in recent months. In the latest report, there was a marked pick up in the number of firms citing that salary pressures had led a rise in overall costs.

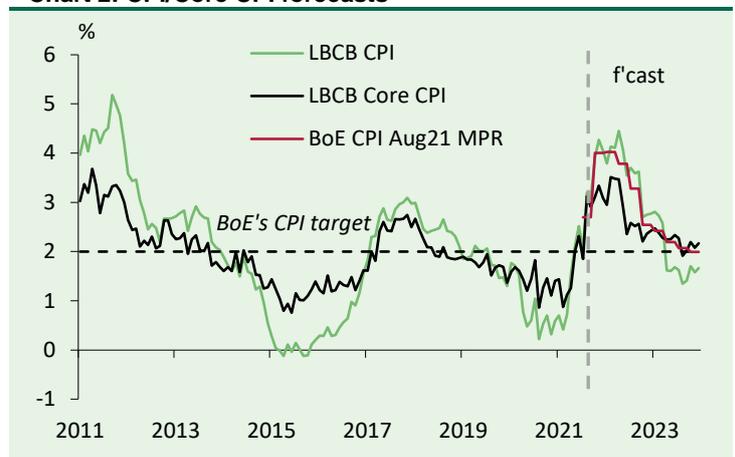
However, on the basis that much of the rise in material costs reflected supply chain issues that would suggest that these price pressures will moderate in time as disruptions ease. That would support the view that the pronounced period of above-target inflation expected over the coming months in the UK, will ultimately prove transitory, albeit with CPI holding above the 2% target well into 2023.

**Chart 1: CPI/RPI forecasts**



Source: LBCB Analytics, ONS, Macrobond, as of 21/10/2021

**Chart 2: CPI/Core CPI forecasts**



Source: LBCB Analytics, ONS, Macrobond, as of 21/10/2021