

## Economic Research Unit



### UK CPI inflation data this week could sway market view on rates

*Currently market expectations are split on whether the Bank of England will cut rates from 5.25% at the June 20th policy meeting. However, this week's UK CPI release should show inflation in April falling close to, or even slightly below, the Monetary Policy Committee's (MPC) 2% target. Of course, this will reflect negative contributions from energy and food, but with core CPI inflation expected to come in at 3.6%. Nonetheless, the evidence in recent weeks that UK jobs growth is faltering, following the technical recession in H2 2023, may convince the MPC to cut rates in June. The number of pay-rolled employees was 30.15 million in April, up just 0.5% on the year, the softest pace of growth since the pandemic. Also, the ratio of numbers unemployed (1,468,000) to vacancies (898,000) at 1.6x is now back at pre-pandemic levels, demonstrating the loosening of labour market conditions over the past year.*

**Market expectations still split on prospect of Bank of England rate cut in June :** The forward Overnight Index Swap (OIS) curve currently implies the Bank of England's Monetary Policy Committee (MPC) will cut rates from 5.25% currently to 4.65% by end-2024, 3.95% by end-2025 and to 3.7% by end-2026. Options prices currently place a 58% probability the MPC will cut at its next policy meeting on June 20th. However, this week's UK CPI inflation release for April could well sway market expectations the Bank of England's monetary policy will remain at such restrictive levels for such an extended period.

**UK CPI inflation may have fallen below 2% in April:** UK CPI inflation fell to 3.2% in March, albeit with the core rate (excluding food and energy) higher at 4.2%. However, the market consensus forecast is that headline CPI inflation in April (published this Wednesday May 22nd) fell to 2.1%, only just above the MPC's 2% target. This is because past energy prices hikes are falling out of the annual comparison and now making negative contributions to the UK CPI inflation rate. However, there are also signs of disinflation in food and manufactured goods prices. So it is quite possible UK CPI inflation fell slightly below 2% in April, although with core inflation closer to the market expectations for 3.6% last month.

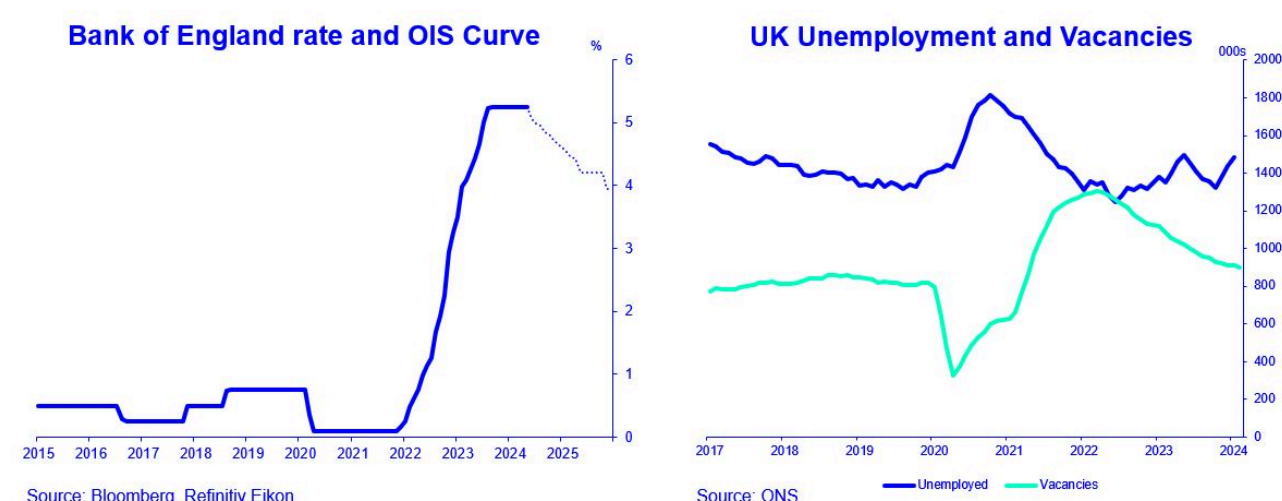
**Despite sharp pay growth and high services inflation:** Falling energy prices, the unwinding of supply-chain bottlenecks built up during Covid19 and spare capacity in global manufacturing now clearly point to disinflation in goods prices. However, it is the 6% UK CPI Services inflation in March has concerned more hawkish MPC members, concerned that pay growth could sustain persistent inflationary pressures over the medium-term. On that point, last week's UK labour market data showed average weekly earnings up 5.7% on the year, and regular earnings (excluding bonus payments) up 6.0%. So survey evidence suggesting pay growth is waning is not yet evident in the official wage data.

**Jobs figures suggest UK labour market is loosening:** Whatever this Wednesday's CPI inflation figures show, it is the recent evidence UK jobs growth has stalled that may sway the MPC towards a rate cut. UK employment fell by 178,000, or by -0.5%, to 33 million in Q1 2024 according to the Labour Force Survey (LFS). Hence, the unemployment rate in Q1 2024 rose to 4.3%, up from 3.8% in Q4 2023. Timelier HMRC data, based off income tax receipts, shows employees in April were 30.15 million, up just 0.5% on the year, the softest pace of growth since the pandemic. The figures also show the ratio of numbers unemployed (1,468,000) to vacancies (898,000) at 1.6x is now back at pre-pandemic levels.

**Bank of Ireland Group Chief Economist Conall MacCoille will be hosting an Interest Rate Outlook Webinar on Tuesday 21st May at 9am. If you would like to attend, please register at the link below.**

<https://events.bizzabo.com/603583>

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