

MNI UK Inflation Preview: August 2024

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(Re-sent with correct table)

The August inflation print will have already been seen by the MPC – under the early access agreement they had been given the Monday morning. The report follows a big downside miss in the July data – with the largest driver by far much softer-than-expected accommodation prices.

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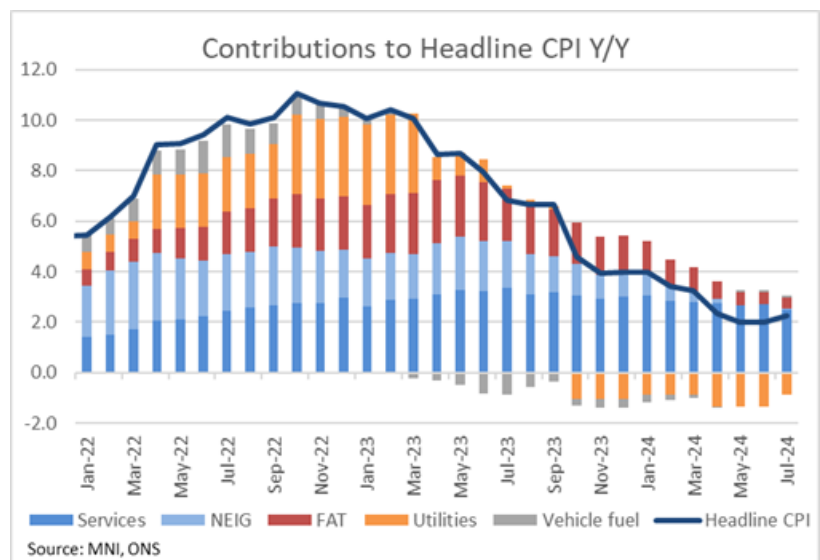
Accommodation prices alone contributed negatively 0.18ppt to the Y/Y change in headline CPI – and around double that for services CPI. The vast majority of analysts expect a reversal in this category. Indeed, there is also the potential for hotel prices to be taken on the day of a Taylor Swift concert, as she had concerts at Wembley on 15, 16, 17, 19 and 20 August. The last date could potentially clash with the survey date (which is likely to be either 13 or 20 August).

The concert prices could also provide some upside to August services inflation (albeit these have a much smaller weight). Note that concert prices are taken across the entire month (rather than solely on the survey date) and therefore there is potential for some upward pressure here, too.

In addition, the July survey date was a little on the early side (and hence further from the summer holidays). Air fares were low in the July data and are expected to also put some upside pressure on services CPI.

Altogether, the lowest sellside estimate for services CPI in the previews that we have read came in at 5.38%, over two tenths above the 5.17%Y/Y print seen in July. The median of the previews that we have read came in at 5.5%Y/Y (with the mean at 5.55%, the Bloomberg median was a little higher at 5.6%). The highest estimates in the previews that we read of 5.7%Y/Y were all, however, still below the BOE's 5.84%Y/Y forecast (from its August MPR).

The surprise to services in July was the main story, but it was also noteworthy that both core goods (non-energy industrial goods) and food prices surprised to the upside versus the BOE's forecasts. Core goods prices rose 0.11%Y/Y in July, a tenth higher than the BOE's 0.01%Y/Y forecast. For August the BOE looked for the rate to be unchanged from July (at 0.01%Y/Y again). There were only four sellside estimates that we saw for this category, but three of those look for core goods prices to be marginally higher than in July, possibly partly due to higher shipping costs. Food prices, meanwhile, were expected at 1.31%Y/Y by the BOE in July but came in at 1.48%Y/Y. There will also be some focus on both of these categories for the wider inflationary impacts. Services will likely remain the biggest story, but both core goods prices and food prices have until recently been falling, so if they begin rising earlier than expected that will still have knock-on effects for headline inflation.



Summary of Analyst August Inflation Expectations

	Headline	Core	Core Goods	Services	FAT*	Energy
July	2.23	3.29	0.11	5.17	2.94	-10.88
August (median)	2.2	3.6	0.1	5.5	2.6	-13.3
August (mean)	2.23	3.56	0.10	5.55	2.68	-13.35
August (BOE)	2.37		0.01	5.84		
Bbg consensus	2.2	3.6		5.6		
HSBC	2.4	3.8		5.6		
Daiwa	2.3	3.7				
BNP Paribas	2.3	3.6		5.7		
Citi	2.3	3.6		5.7		
JP Morgan	2.3	3.6		5.7		
ING	2.3	3.6		5.6		
TD Securities	2.3	3.6		5.5		
Deutsche Bank	2.22	3.52	0.2	5.49	2.8	-13.9
Goldman Sachs	2.21	3.54	0.14	5.57	2.64	
SEB	2.2	3.6				
SocGen	2.2			5.6		
Lloyds	2.2			5.5		
UBS	2.2			5.5		
RBC	2.2			5.4		
Bank of America	2.18	3.42	0.15	5.38		-12.84
UniCredit	2.1	3.3				
Barclays	2.08	3.43	-0.10	5.51	2.60	-13.30
Morgan Stanley				5.5		

*FAT: Food, alcohol and tobacco

Source: Analyst previews, Bloomberg (consensus), MNI

Sell Side Inflation Previews (A-Z)

Bank of America

- Headline: +2.18% Y/Y – “Risks are to the upside”.
- Core CPI: +3.42% Y/Y
- Core goods: +0.15% Y/Y – “But rising shipping costs put upside risks to core goods inflation.”
- Services: +5.38% Y/Y – “upside risks. This should reflect base effects along with unwinding of some of the weakness seen in services inflation in July...There could also be a potential upside impact from the Taylor Swift tour in London (August 15-20) on accommodation prices.”
- Energy: -12.84% Y/Y – “Weekly petrol prices declined in August, which should drive the decline in energy inflation.”
- FAT: Food inflation expected to be flat at 1.49%.

Barclays

- Headline: +2.08% Y/Y (+0.18% M/M NSA)
- Core CPI: +3.43% Y/Y (+0.28% M/M NSA) – “ticking up...on base-effects in services”.
- Core goods: -0.10% Y/Y (+0.1% M/M NSA)
- Services: +5.51% Y/Y (+0.4% M/M NSA) – “Hotel prices are in focus again as Taylor Swift return, and while we do not expect a strong boost this time around, uncertainty remains... The uptick in the y/y measure is likely to be driven by base-effects in transport services and package holidays and hotels.”
- ‘Transport services’ forecast to rise 1.1% M/M with airfares prices expected to rise c10% M/M, ‘Package holidays and hotels’ expected to rise 0.2% M/M – “Our recent analysis of high frequency and timely hotels data suggests that, while there likely was an impact on hotel prices [from Swift Era tours], this time around it may have occurred sufficiently outside the two possible ONS collection dates to not have an impact on the CPI data.”
- Finally on services, Barclays expect ‘Housing services’ prices to increase 0.4% M/M – “the new methodology...has led to stronger m/m prints...in theory it should therefore also eventually but relatively swiftly capture the slowing that has been suggested by private sector surveys for many months. However, ... in the absence of signs of softening in data, we have assumed rents remain strong in August.”
- Energy: -13.3% Y/Y (-1.1% M/M NSA) – softening “July is set to be driven by pump prices.”
- FAT: +2.6% Y/Y (+0.3% M/M NSA) – “based on the signal from the August BRC food-price index”.
- “Our expectation is for the BoE to stay on hold next week... even in case of a large surprise to our expectations in August CPI, we do not think there would be enough there to sway the MPC materially at this meeting.”

BNP Paribas

- Headline: +2.3% Y/Y – “primarily be the result of base effects...persistent price pressures in services should not be ignored.”
- Core CPI: +3.6% Y/Y
- Services: +5.7% Y/Y
- “We think this emphasises that the road back to target is likely to be bumpy, perhaps justifying some caution from the BoE.”

Citi

- Headline: +2.3% Y/Y
- Core CPI: +3.6% Y/Y
- Services: +5.7% Y/Y
- “MPC have guided towards quarterly rate cuts, any surprises is unlikely to change Thursday’s decision, but rather guidance.”

Daiwa

- Headline: +2.3% Y/Y – “We expect the services component to rebound in August... [and due to] lower petrol prices, we expect headline inflation to come in below the Bank’s projection of 2.4%Y/Y. So, while inflation will still be on track to rise back above 2.5%Y/Y in October due to Ofgem’s increase in the household energy price cap, the August inflation data should remain consistent with ongoing gradual dissipation of inflation persistence risks.”
- Core CPI: +3.7% Y/Y

Deutsche Bank

- Headline: +2.22% Y/Y (+0.32% M/M) – “Risks to our forecasts are skewed higher”.
- Core CPI: +3.52% Y/Y (+0.38% M/M)
- Core goods: +0.2% Y/Y (+0.45% M/M)
- Services: +5.49% Y/Y (+0.33% M/M) – “picking up in August, on the back of strong base effects (coming from last year’s weaker airfares and accommodation prices).
- Expect housing inflation “to remain fairly robust”, private rents to pick up 0.5% M/M, while non-private rents will remain flat. DB trackers point to seasonal push up in transport and travel services prices, with a 4-5% increase in airfares. Meanwhile, catering prices forecast to rise 0.4% M/M – with “risks skewed higher”, accommodation prices forecast to decline 1.2% M/M and 0.4% M/M increase in recreation and cultural services prices.
- Energy: -13.9% Y/Y (-0.68% M/M) – “– driven in large part by a big fall in pump prices.”
- FAT: +2.8% Y/Y (+0.5% M/M) – “We may be at a turning point when it comes to food inflation. Our selected surveys show a mixed picture in August.” See food prices rise 0.5% M/M, and alcohol prices up 1.2% M/M.
- “Looking ahead, we maintain our CPI projections of 2.5% y-o-y this year, with core CPI tracking at 3.7% y-o-y. Services CPI, we think, will settle nearer 4.75% y-o-y in Q4-24.”
- “In our view, should services CPI stay unchanged at 5.2% y-o-y, widening the MPC’s forecast error to 0.6pp, this could warrant a rethink on whether the MPC will be willing to cut Bank Rate again this month.”

Goldman Sachs

- Headline: +2.21% Y/Y
- Core CPI: +3.54% Y/Y
- Core goods: +0.14% Y/Y (+0.37% M/M NSA)
- Services: +5.57% Y/Y (+0.41% NSA) – “We think that the increase will be driven by a higher annual rate of inflation on hotel prices and airfares – which tend to be volatile – and underlying services inflation measures that exclude these components are likely to show more progress...we do think that the Eras tour could result in higher live music prices.”
- “The annual rate of services excluding airfares, accommodation and non-private rents, for example, is likely to decline.”
- Energy: -0.79% M/M NSA
- FAT: +2.64% Y/Y (+0.36% M/M NSA)
- “Looking ahead, we expect the annual rate of services inflation to fall back again in September before decelerating gradually to 4.9% at the end of the year. We expect further steady progress next year, with the annual rate of services inflation likely to reach 3.7% by December 2025.”

HSBC

- Headline: +2.4% Y/Y (+0.5% M/M) – “base-effects story, but relating to core inflation rather than energy.”
- Core CPI: +3.8% Y/Y – “We also expect slightly above-average monthly core inflation momentum.”
- Services: +5.6% Y/Y – “Services inflation saw ‘one-off’ weakness last August, which should add an uplift this August.”

ING

- Headline: +2.3% Y/Y (+0.4% M/M)
- Core CPI: +3.6% Y/Y
- Core goods: +5.6% Y/Y
- Services: “Services inflation is likely to notch a fair bit higher in the August data. That sounds bad, but this is down to basis effects in price categories that we know the Bank of England is minded to ignore...our favoured measure of “core services” inflation ... is likely to stay unchanged, down at 5.1%.”

JP Morgan

- Headline: +2.3% Y/Y – “We look for another impact on accommodation prices in August from the second round of Taylor Swift concerts...The difference this time is that the concerts were clustered in London rather than around the country. On the one hand this could mean there is more concentrated price pressures, but equally it could be argued that the impact is smaller as there is more capacity in the capital.”
- Core CPI: +3.6% Y/Y
- Services: +5.7% Y/Y

Lloyds

- Headline: +2.2% Y/Y (+0.3% M/M)
- Services: +5.5% Y/Y – “report is expected to show some reversal with services CPI expected to move up”.

Morgan Stanley

- Services: +5.5% Y/Y

RBC

- Headline: +2.2% Y/Y
- Services: +5.4% Y/Y – move upward “partially as some of the previous month’s fall in accommodation prices unwinds”.

SEB

- Headline: +2.2% Y/Y (+0.3% M/M) – “unchanged in August as lower energy prices are offset by higher core inflation”.
- Core CPI: +3.6% Y/Y
- Services: “Service inflation declined in July, but we predict a rebound in August, partly due to base effects from temporarily low price in August 2023”.

Société Generale

- Headline: +2.2% Y/Y - “good news, but probably not enough to move the dial towards a cut”.
- Services: +5.6% Y/Y

TD Securities

- Headline: +2.3% Y/Y
- Core CPI: +3.6% Y/Y
- Services: +5.5% Y/Y

UBS

- Headline: +2.2% Y/Y
- Services: +5.5% Y/Y

UniCredit

- Headline: +2.1% Y/Y – “Downward contributions are likely to come from motor fuel prices and food prices...Headline inflation is likely to pick up slightly in 4Q24, as the downward contribution from energy prices fades.”
- Core CPI: +3.3% Y/Y
- Services: “Services inflation could pick up...led by a rebound in hotel prices.”

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