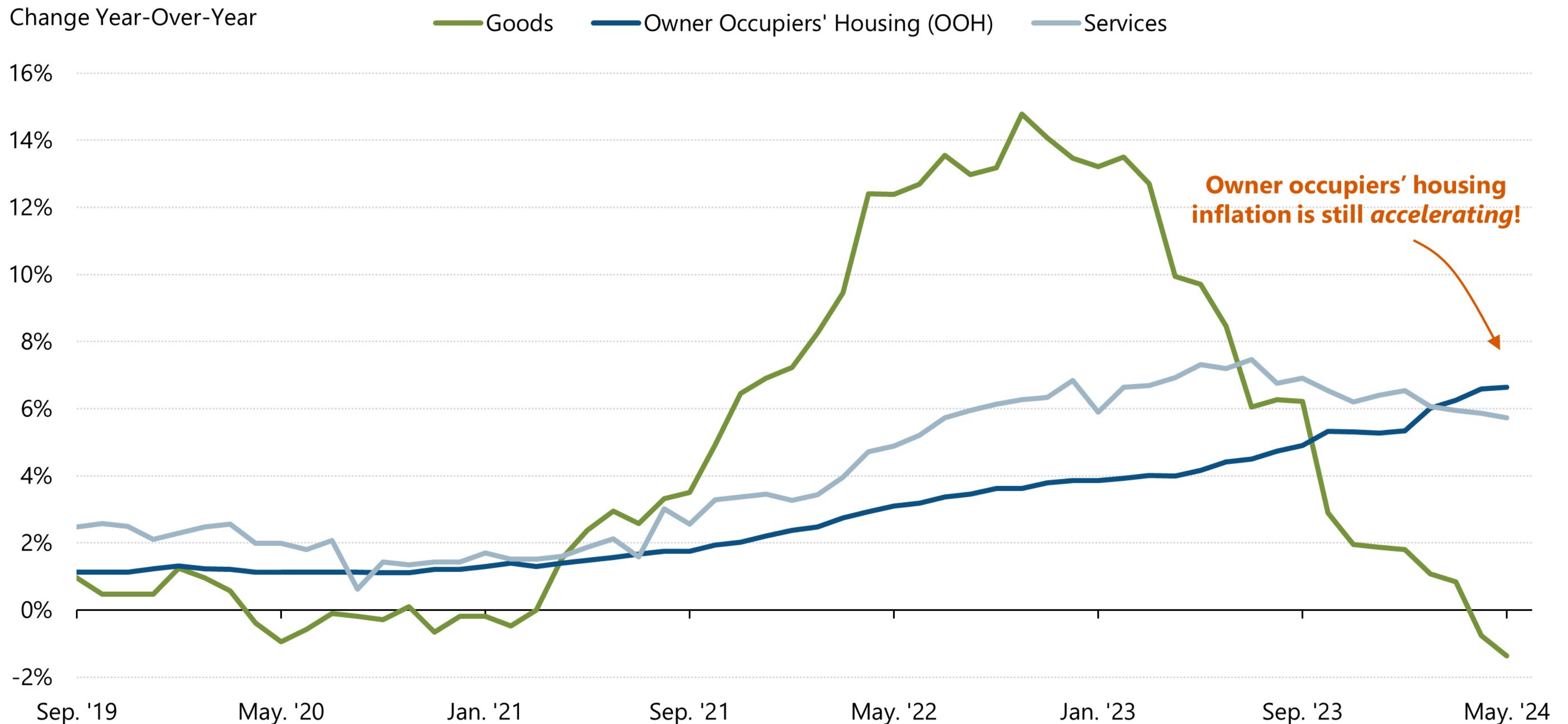


It's All Good

U.K. CPIH* Components: Goods, Services, and Owner Occupiers' Housing

For The Week Ending 06/21/2024



Source: U.K. Office for National Statistics

*Consumer Price Index (CPI) including owner occupiers' housing

This week, media headlines heralded the “good news” that U.K. inflation slowed to 2% in May. However, a day later, during the Monetary Policy Committee (MPC) meeting, the BoE held rates steady at 5.25%. Why, if inflation is 2%, should Bank Rate remain at 5.25%, as policymakers voted by a 7 to 2 margin? First, inflation registered 2% year-over-year in May only after excluding owner occupiers' housing (OOH) costs. Meanwhile, the BoE's preferred measure, the CPIH (CPI including OOH costs), slowed to 2.8%, which leaves inflation well above the BoE's target. In addition, falling goods prices drove most of the recent disinflation in CPIH. More alarmingly, services prices hovered near 6% while OOH prices accelerated. The BoE noted that “key indicators of inflation persistence...remain elevated.” Investors are confident in a BoE rate cut by September, but is everything on the inflation front all good?