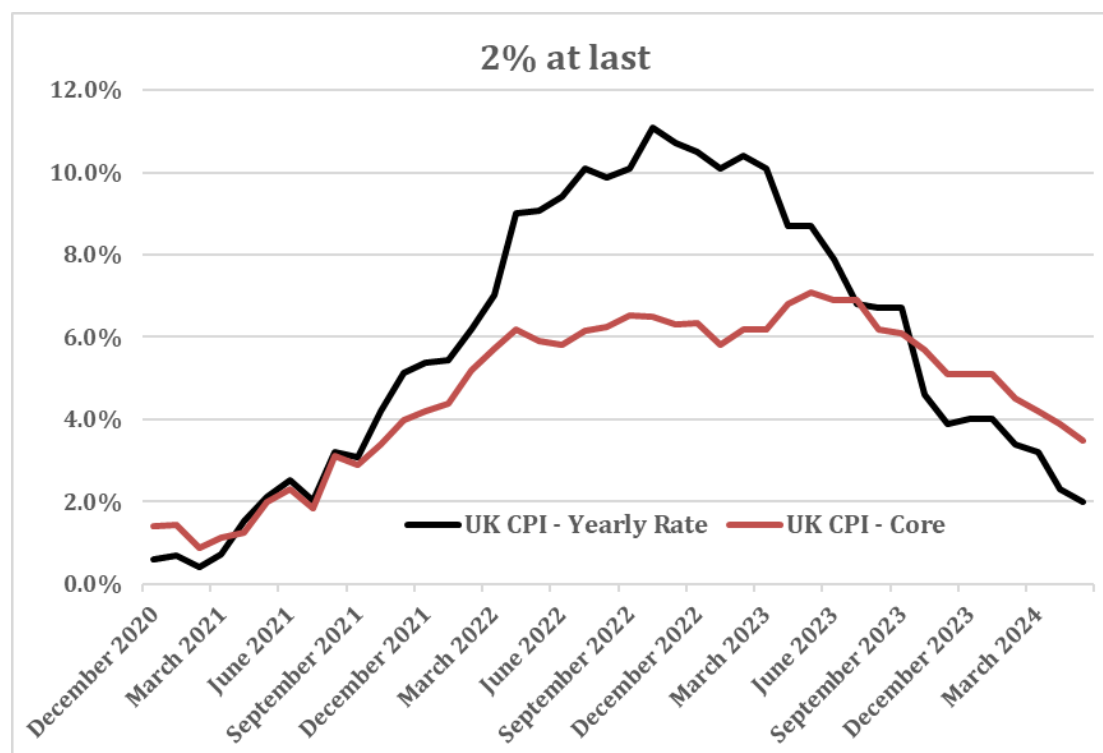


May inflation numbers

Synopsis: The UK CPI inflation rate for the May 2023 was 2.0%, 0.3% down from April and back on target for the first time since July 2021.

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In a rare piece of good news for Rishi Sunak, the CPI annual rate for May was 2.0%, down 0.3% from April, dead on Bank of England target and in line with the Reuters consensus forecast. UK annual inflation is now comfortably below that of the Eurozone (2.6% for May) and USA (3.3% in May).

The monthly UK CPI reading was up 0.3% from April. The CPI/RPI gap was unchanged at 1.0% with the RPI annual rate also falling by 0.3% to 3.0%. Over the month the RPI index rose by 0.3%.

The ONS's favoured CPIH index dropped 0.2% to an annual 2.8%, leaving it an unusually high 0.8% above the CPI. A large part of that excess is due to the owner occupiers' housing (OOH) category, which has a 16.5% weighting in the CPIH but is absent from the CPI. The OOH is up 6.7% over the past year.

The ONS attributed the reduced level CPIH inflation to three main downward drivers and one main upward driver...

Main Downward drivers

Food and non-alcoholic beverages Prices rose by 1.7% in the year to May 2024, down from 2.9% in the year to April. The May figure is the lowest annual rate since

October 2021. The rate has now eased for fourteen consecutive months from its March 2023 high of 19.2%.

Prices fell by 0.3% between April and May 2024, compared with a monthly rise of 0.9% a year ago. Prices have been relatively high but stable since early summer 2023, compared with sharp rises over the previous 12 months. Annual rates eased in nine of the eleven food and non-alcoholic beverages classes, the exceptions being oils and fats, and milk, cheese and eggs.

Recreation and culture Prices rose by 0.2% between April and May this year, compared with a larger monthly rise of 0.7% a year ago. The annual rate eased to 4.1% in the year to May 2024, down from 4.6% in the year to April. The annual rate in May was equalled in February 2023, and the rate was last lower in January 2022, when it was 2.9%.

The easing in the annual rate between April and May 2024 was the result of small downward effects from a variety of the more detailed classes. The largest came from pets and related products, package holidays, books, and cultural services. Prices of package holidays and cultural services rose this year by less than a year ago.

Furniture and household goods Prices rose by 0.2% between April and May 2024, compared with a larger monthly rise of 1.1% a year ago. On an annual basis, prices fell by 1.8% in the year to May, compared with a fall of 0.9% in the year to April. The annual rate in May 2024 was the lowest since December 2000.

The main contribution to the easing in the rate came from electrical appliances, where prices fell by 2.5% in the month to May 2024, compared with a monthly rise of 2.2% in May 2023. Prices of most products in this category fell this year but rose a year ago.

Main upward driver

Transport Overall prices rose by 0.3% in the year to May 2024, compared with a fall of 0.1% in the year to April, the first annual price rise since October 2023. On a monthly basis, prices rose by 0.7% this year, compared with 0.3% a year ago. The increase in the annual rate was the result of upward effects from motor fuels and, to a lesser extent, transport services, partially offset by lower second-hand car prices.

Eight of the twelve broad CPI divisions saw annual inflation decrease, while three rose and one was unchanged. The category with highest annual inflation rate remains alcoholic beverages and tobacco (3.9% of the Index) which recorded an 7.8% annual increase. Nine divisions (all bar Alcoholic Beverages and Tobacco, Health and Restaurants and Hotels), accounting in total for 79% of the Index, posted an annual inflation rate below 5.0%. Four (Housing, Water, Electricity, Gas and Other Fuels; Furniture; Food and non-alcoholic beverages; Household Equipment and Maintenance; and Transport) were less than 2.0%.

Core CPI inflation (CPI excluding energy, food, alcohol and tobacco) fell 0.4% to 3.5% again in line with consensus expectations. Goods inflation in the UK fell 0.5% to -1.3%, while services inflation continued to be sticky, down 0.2% at 5.7%.

Producer Price Inflation input prices fell by 0.1% in the 12 months to May 2024, against a revised fall of 1.4% in the year to April 2024. The corresponding output (factory gate) figures saw a 1.7% annual rise against a previous revised 1.1% increase. As last month, the ONS notes that 'Based on the provisional data, the annual inflation rates for both input and output PPI are at their highest levels since May 2023.'

Comment

The Bank of England will announce its latest interest rate decision on Thursday. While CPI hitting target will be good news for the Bank, it will still be concerned about annual earnings growth which hit 6.0% (ex-bonuses) for February-April 2024 according to the ONS report of last week. That rate of pay increase, which is reflected in the 5.7% services inflation rate, is not compatible with 2% inflation. However, in the middle of an election do not expect to hear many calls for pay increases to be lowered.

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