Inflation hits 2.3% in October, driven by higher energy bills and housing costs

Inflation has once again surpassed the Bank of England's two per cent target, according to the most recent data released today. The Office for National Statistics (ONS) reports that consumer price inflation (CPI) reached 2.3 per cent in October, exceeding economists' predictions.

Experts had anticipated a CPI of 2.2 per cent, a rise from September's 1.7 per cent. The primary contributors to this increase were higher energy bills, with regulator Ofgem raising its price cap on household bills by 9.5 per cent last month, and housing costs.

Both rental prices and owner-occupied housing costs saw a surge of 7.4 per cent more than triple the headline rate of CPI. These latest inflation figures cast some doubt over the future direction of interest rates, as reported by City AM.

Andrew Bailey, the Bank of England's governor, has cautioned that services inflation "is easing only gradually" and a "more substantial fall" is unlikely within this year. Bailey also indicated that policymakers are still assessing the impact of measures in Chancellor Rachel Reeves' inaugural Budget on the UK economy.

Following Reeves' decision to raise taxes on employers, the central bank adjusted its inflation forecasts for the next three years upwards. Business groups have warned this could result in higher prices and a slowdown in hiring.

Addressing MPs at the Treasury Select Committee, Governor

Bailey acknowledged that job losses were a realistic possibility.

Andrew Bailey, Governor of the Bank of England, expressed concern over potential job losses in the retail sector as highlighted by the British Retail Consortium (BRC). “I saw the BRC’s letter and I think they’re right to say, I think there is a risk here that the reduction in employment could be more,” Bailey stated.

He also noted that businesses are likely to face “there will be more pressure on firms’ margins”, but predicted that profits would “probably rebuild those profit margins over time.”

The data brought uncertainty regarding the future direction of interest rates.

Paresh Raja, CEO of Market Financial Solutions, said: “After years of sky-high inflation, any uptick in the CPI figure is understandably met with a healthy dose of trepidation. But the economy has turned a corner, and inflation will now regularly rise and fall so long as it hovers close to the two per cent target, smaller shifts are perfectly fine.

“Much of the noise surrounding the monthly inflation data comes down to the impact on interest rates and the cost of borrowing. The Bank of England has signalled its intent to steadily cut rates, and even the fallout from the recent Budget did not derail those plans.”

With an upcoming meeting in December, he suggested: “There could be one final base rate cut for the year when the Bank next meets in December, and today’s modest CPI uptick ought not to dramatically alter the decision-making progress. Indeed, the expectation remains that the base rate will continue to fall over the coming year.”

Quilter Investors’ investment strategist, Lindsay James, said:

“Last month’s surprise fall in inflation, which left it below the Bank of England’s two per cent target for the first time in over three years, has proven very short lived.”

She added: “Energy prices take some of the blame, after the Ofgem price cap on household bills lifted by nearly 10% last month, but other areas including the services sector have also contributed to the uptick, and the retail sector has also warned of potential inflationary pressures in the near future.

“With just one more MPC meeting before year end, it is looking increasingly likely that the Bank will close out 2024 with a hold on rates. This is a clear reminder that short term inflationary pulses may return, potentially caused by factors such as obstacles to trade, labour market tightness, taxation and volatility in food and energy prices.”

Meanwhile, Darren Jones, the Chief Secretary to the Treasury, stated: “We know that families across Britain are still struggling with the cost of living. That is why the Budget last month focused on fixing the foundation of our economy so we can deliver change. That includes boosting the National Minimum Wage, freezing fuel duty and protecting working people’s payslips from higher taxes. “But we know there is more to do. That is why the Government is focused on economic growth and investment so we can make every part of the country better off.”