UK inflation rate hits 3% in January, sparking concerns at the Bank of England

The latest official statistics signal a sharper than anticipated uptick in inflation at the commencement of the year, as worries over sustained price pressures mount.

The headline inflation figure rose to 3.0 per cent in January, reported the Office for National Statistics (ONS), climbing from December’s 2.5 per cent and surpassing the 2.8 per cent projected by City analysts, as reported by City AM.

“Inflation increased sharply this month to its highest annual rate since March last year,” stated Grant Fitzner, chief economist at the ONS.

Amidst the figures, services inflation, a critical indicator of indigenous price movements, surged to 5.0 per cent from December’s 4.2 per cent, albeit falling slightly short of the Bank of England’s prediction.

Meanwhile, core inflation, which excludes erratic items such as food and energy, advanced to 3.7 per cent from 3.2 per cent, aligning with forecasts.

“The leap in CPI inflation was no surprise, but it was larger than everyone expected,” according to Ruth Gregory, deputy chief UK economist at Capital Economics.

A focal point of the inflationary increase, as outlined by the ONS, were airfares.

Andrew Bailey, governor of the Bank of England
(Image: Iain Buist/Newcastle Chronicle)

Typically experiencing a rise in December and a dip in January, this seasonal pattern was notably “less pronounced” this year, influenced by data gathered on typically quieter days like Christmas Eve and New Year’s Eve, leading to relatively lower recorded prices.

While prices did see a decline in January, the drop was from an already lower base. Airfares decreased by 19.0% in January, which is less than the 38.9% fall experienced the previous year.

“The rise was driven by air fares not falling as much as we usually see at this time of year, partly impacted by the timing of flights over Christmas and New Year,” explained Fitzner, according to the ONS.

The overall inflation increase was also influenced by the introduction of VAT on private school fees, resulting in a 13% price hike for the month, in contrast to no increase last year.

Additionally, food and non-alcoholic beverage prices escalated more rapidly than the previous year, especially for items like meat, bread, and cereals.

This data is particularly concerning for the Bank of England, coming just a day after new figures revealed an acceleration in wage growth during the last quarter of the previous year, pushing regular private sector pay to its highest since November 2023.

With inflation on the rise, these figures highlight persistent inflationary pressures within the UK economy, suggesting that the Bank of England will have to reduce interest rates at a “gradual” pace.

Zara Noakes, a global market analyst at JP Morgan Asset Management, commented that the figures are likely to “raise alarm bells at Threadneedle Street”.

The Bank of England’s latest projections suggest that inflation will continue to ascend throughout the year, with expectations of it peaking at 3.7% later in the year, driven by higher energy costs and increasing regulated prices, such as water bills and bus fares.

Analysts have cautioned that the rise in the minimum wage and employers’ national insurance in April could impose additional burdens on businesses, possibly leading them to increase prices.

However, Andrew Bailey, Governor of the Bank, has downplayed these concerns, stating that the expected inflation surge is not “a story about the fundamental state of the economy,” as it is largely influenced by external factors.

The Bank anticipates ongoing improvements in services inflation and wage growth throughout the year, which will facilitate further interest rate reductions.

“Ultimately today’s reading vindicates the Bank of England’s slow and steady approach to rate cutting,” commented Michael Field, chief equity strategist at Morningstar.

Market predictions suggest two more rate cuts this year.

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