

Inflation set to remain above 2% target in August, say experts



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UK inflation is expected to remain above the 2% target when official figures for August are released on Wednesday amid a resurgence in price pressures across the key services sector.

Most economists are predicting that the latest data from the [Office for National Statistics](#) (ONS) will show Consumer Prices Index (CPI) inflation unchanged at 2.2% last month, after rising for the first time this year in July, up from 2% in June.

The figures are set to reveal a marked jump in services inflation – covering prices in areas such as hotels, package holidays, hospitality and culture – with a possible impact of the last leg of Taylor Swift's UK tour.

The second leg of that tour falling into August could have

boosted hotel and thereby services price inflation once more

Sandra Horsfield, Investec economist

Economists are pencilling in a rise in services inflation to 5.6% in August, up from 5.2% in July.

This is likely to reinforce expectations that the Bank of England will hit the pause button on interest rate cuts when it decides on Thursday.

While inflation in the sector is volatile, it has been stubbornly high and has been watched closely by Bank policymakers.

The Bank itself has forecast that service inflation is set to pick up this autumn before falling back again by the year-end.

[Experts](#) believe the official data will show services inflation – and wider CPI inflation – coming in below the Bank's predictions.

But this is unlikely to persuade policymakers to vote for another rate cut this month after last month's reduction to 5% from 5.25%.

Robert Wood at Pantheon said: "We expect services inflation to run weaker than the Monetary Policy Committee (MPC) forecast for the rest of this year, but rate-setters will focus on the trend; the persistent component of inflation is fading only gradually, so rate cuts will be unhurried, too."

Pantheon is predicting inflation to edge up to 2.3% in August, as it believes rising airfares and hotel prices will push it further away from the 2% target once again.

[Investec](#) experts, however, are pencilling in a fall to 2.1% thanks to lower fuel prices on forecourts, although they believe hotel prices will be pushed up.

Sandra Horsfield, an economist at Investec, said: "Similarly, to the extent the jump and then fall in hotel price inflation in June and July this year was indeed linked to temporary extra demand for accommodation for the first UK leg of Taylor Swift's Eras tour, the second leg of that tour falling into August could have boosted hotel and thereby services price inflation once more."

But she said overall inflation was likely to remain below the bank's forecast for 2.4% in July and August.

"If our lower estimates are correct, this should give the MPC some more comfort that the degree of restrictiveness in monetary policy can be dialled back further," she said.

Ms Horsfield added that it is unlikely the MPC "will feel the need to do so as soon as next week", but "the obstacles to a series of rate cuts in future look more and more surmountable".