

NEWS ANALYSIS UK

Caution on UK economy as inflation hits four-year high

By **Jessica Tasman-Jones** 13th June 2017 10:34 am



Downward pressure from airfares and motor fuel have failed to hold back inflation as it hits 2.9 per cent in the latest ONS figures, adding to disappointing UK economic data.

The figure exceeds expectations with economists predicting 2.7 per cent from the May data, while the Bank of England previously forecasting that inflation would peak at just under 3 per cent in Q4.

Today's data from the ONS represents a four-year high.

"The general mood on the economy has become one of caution over the past few weeks, with first-quarter GDP figures disappointing, consumer spending looking weaker and Brexit-related uncertainty looming large. However, growth is expected to pick up somewhat in the second quarter, and it looks like the election result could make for a 'softer' Brexit, which could prove positive for the economy" says Ben Brettell, senior economist at Hargreaves Lansdown.

A report released by Visa this week showed spending falling 0.8 per cent year-on-year in May.

Brettell points out that the monetary policy committee's most hawkish member, Kristin Forbes, leaves the committee next month and is the only one voting for higher interest rates.



“The balance of probability suggests the Bank will continue to ‘look through’ higher inflation and leave rates on hold to support the economy, but if inflation continues to surprise we could start to see members revising their positions,” Brettell says.

The UK election has exacerbated pressure on the pound, points out Viktor Nossek, director of research at WisdomTree in Europe.

“The pound has come under pressure once more and is now at its lowest level for months.

“It’s expected to remain volatile and succumb to more downward pressure, providing yet another unwelcoming rise to import cost induced inflationary pressures for consumers.

Nossek adds that a deceleration of GDP and retail sales alongside weakening business sentiment means the Bank of England is unlikely to tighten any time soon.



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