

16th February 2022

UK inflation at 5.5%yy for Jan-22

- This is ahead of 5.4%yy survey estimate...
- ... and an increase from 5.4%yy last month
- Represents a new 30-year high

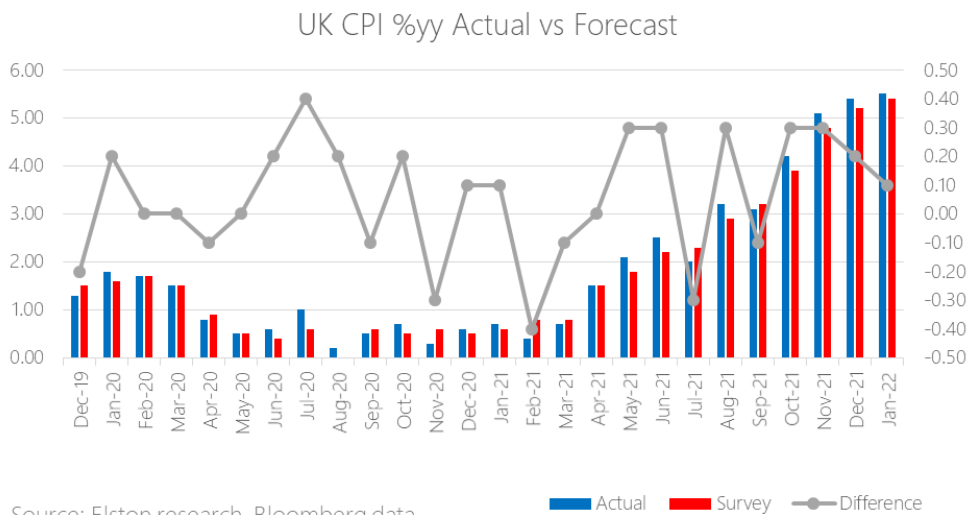
Latest UK inflation figure

The latest UK inflation came in at 5.5%yy for January 2022, compared to 5.4%yy survey estimate. This is up from 5.4%yy last month and is above expectations.

Higher prices of energy, clothing, housing and transport all contributed to the highest UK inflation rate in 30 years. Inflation pressure is continuing broadening and expected to peak in April when the rise in tax and price cap for energy bills takes effect.

In the chart below we show how UK inflation has consistently surprised on the upside.

Fig.1. UK CPI figures vs survey estimates

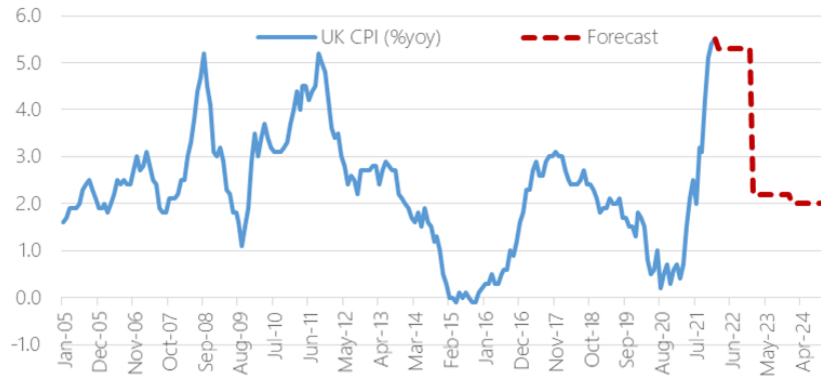


Long-term picture

Once inflation spike moves past the peak, it should moderate. Whilst consensus estimates inflation settling at around 2.0% in 2023/24. We think there is upside risk to this expectation, as inflation will more likely settle at above pre-COVID levels as, unless there's a demand shock, the

structural changes in supply chains, jobs market and wholesale energy will take a while to wash through.

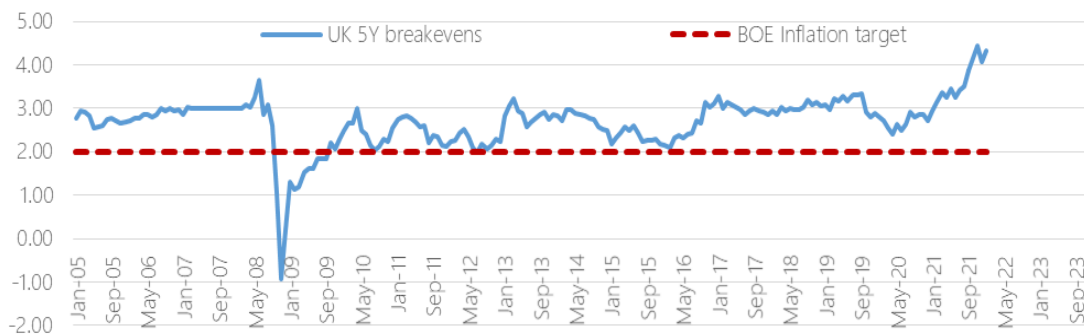
Fig.2. UK CPI history and consensus estimates



Where are breakeven rates?

More relevant is forward looking inflation levels and direction. UK 5-year breakeven rates are at 4.32%, vs 4.07% last week.

Fig.3. UK 5 year breakeven rates



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