

Daily Dose of Macro & Markets 21st August 2025: “UK Inflation: Under the Bonnet –> Better Than Expected”

The ‘Daily Dose of Macro & Markets’ is our new publication designed to speak to the key global macro debates that matter for markets (with 1 - 3 charts and two paragraphs). This product will be published every Tuesday, Wednesday and Thursday morning (early London time).

Key Quote: Office for National Statistics –> UK Inflation Report

“The rise in the annual rate reflected a large upward effect from airfares which rose by 30.2% between June and July 2025, compared with a rise of 13.3% between the same months in 2024. The monthly rise in July 2025 is the largest July increase since collection of airfares changed from quarterly to monthly in 2001 and was probably influenced by the timing of school summer holidays. Returning European flights were during the school term in 2024, whereas returning European flights were during the school holidays in 2025, which may have made these flights more expensive.”

Sources: ONS, 20th August 2025,

<https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/july2025>

UK Inflation: Under the Bonnet –> Better Than Expected

On the surface, it doesn't look good. All the key UK inflation measures continued to accelerate in July (on an annual basis – fig 1). Headline CPI was 3.89% (versus 3.7% consensus); Core annual inflation was 3.8% (vs. consensus of 3.7%); while CPI services increased to 5.0% Y-o-Y (from 4.7% last month and against expectations of 4.8% - see table 1). Old measures of UK inflation (RPI & RPIX) also came in worse than expected.

With that, UK inflation continued its renewed upward trajectory (which started last September - fig 1).

Table 1: UK consumer price inflation – forecast and actual

	Date	Time	C	A	M	R	Event	Period	Surv(M)	Actual	Prior	Revised
31)	08/20	07:00	UK				CPI MoM	Jul	0.0%	0.1%	0.3%	-
32)	08/20	07:00	UK				CPI YoY	Jul	3.7%	3.8%	3.6%	-
33)	08/20	07:00	UK				CPI Core YoY	Jul	3.7%	3.8%	3.7%	-
34)	08/20	07:00	UK				CPI Services YoY	Jul	4.8%	5.0%	4.7%	-
35)	08/20	07:00	UK				CPIH YoY	Jul	4.1%	4.2%	4.1%	-
36)	08/20	07:00	UK				Retail Price Index	Jul	405.1	406.2	404.5	-
37)	08/20	07:00	UK				RPI MoM	Jul	0.1%	0.4%	0.4%	-
38)	08/20	07:00	UK				RPI YoY	Jul	4.5%	4.8%	4.4%	-
39)	08/20	07:00	UK				RPI Ex Mort Int.Payments (YoY)	Jul	--	4.7%	4.3%	-

Source: Bloomberg

Under the surface, though, whilst inflation is too high in the UK, **there are some mitigating factors.**

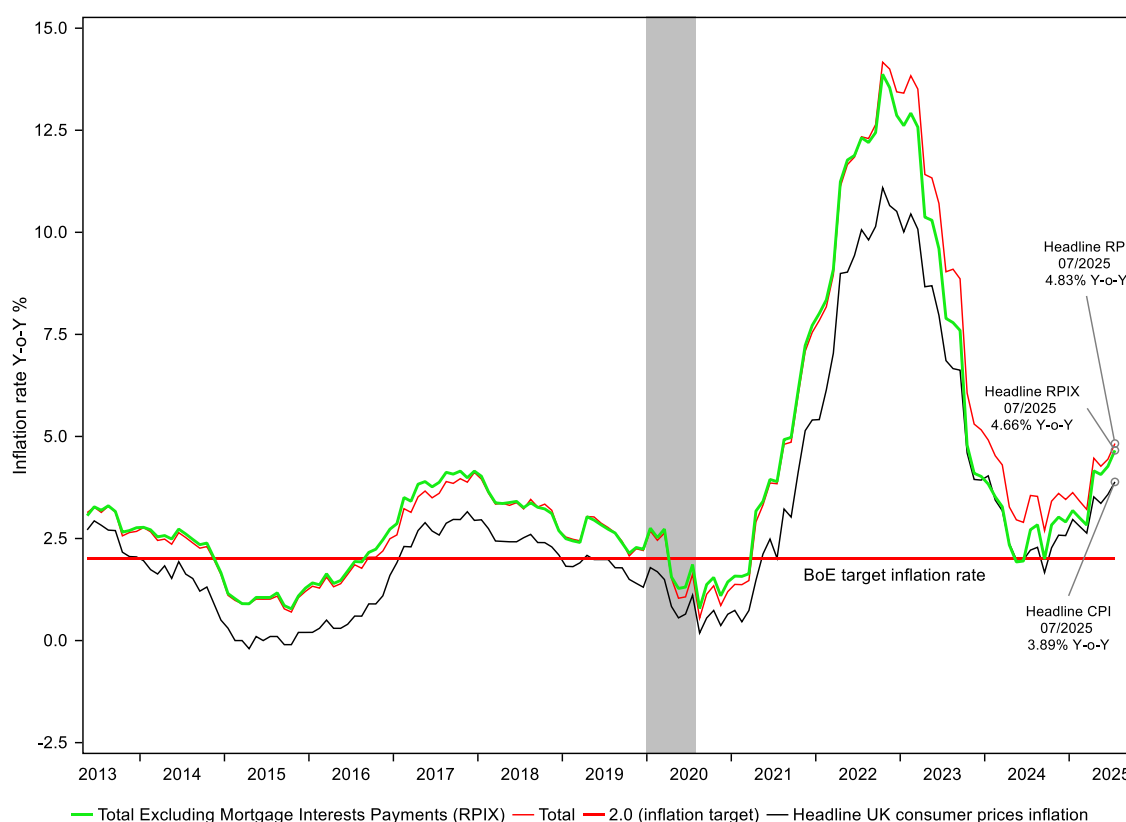
Of particular note, there was widespread deflation (on a monthly basis) amongst the key sub categories that make up headline CPI. That is, broad based **inflation momentum was encouraging in July** (as illustrated by the fall in monthly inflation pervasiveness index, fig 3).

The key 12 sub categories, which make up CPI, include: i) ‘Food and non-alcoholic beverages’; ii) ‘clothing and footwear’; & iii) ‘health’, amongst others (see fig 2). As the chart shows, five of those twelve were negative (on a monthly rate of change). That is highest number since July 2024 (also five negative), with January 2024 the last month when more sub categories were deflationary (i.e. six in total).

As a result, all goods inflation was down 0.6% (M-o-M in July), which given goods prices have been accelerating (since September last year) is encouraging. Service sector inflation, therefore, was the main driver of higher than expected headline inflation. The pick-up in services, however, was due (according to the ONS) to a **statistical seasonal quirk**. That is, ‘transportation’ prices (which rose by 2.2% month on month and have a 13.2% weighting in headline) were up sharply because of the timing of the UK’s school holidays (with that influencing airfare pricing – see quote above). If correct, then much of that is likely to reverse in the August data (when published).

In that sense, there’s a strong argument for the BoE to discount much of the negativity surrounding this month’s inflation, and look through it and focus on the trend and likely reversal in the August data when it’s published on 17th September (i.e. the day before the next BoE MPC meeting). Market expectations for September is for ‘no change’ in UK base rates. By the December meeting, the probability of a 25bps cut is around 50% (and was barely changed yesterday).

Fig 1: UK headline consumer price inflation (CPI, RPI & RPIX, Y-o-Y %)



Source: Longview Economics, Macrobond

Fig 2: UK Inflation – 12 key subcategories (M-o-M %)

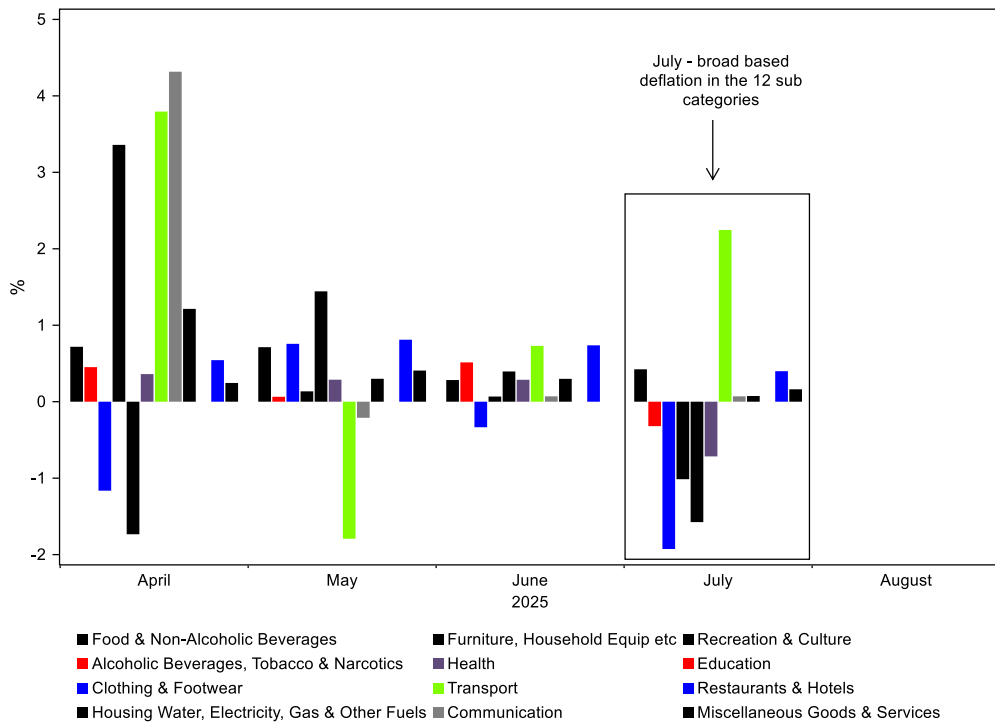
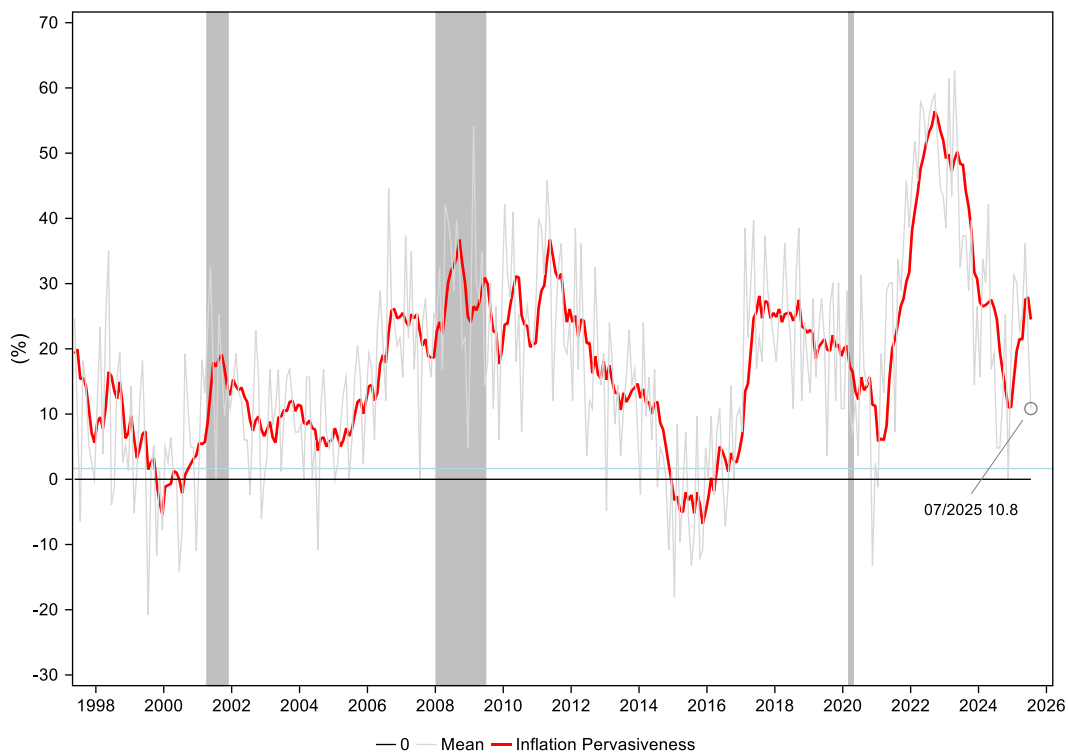


Fig 3: UK inflation pervasiveness* (calculated using all key subcomponents)



*i.e. Calculated as the percentage of all component prices rising by 0.3% M-o-M or more, less the percentage of those that are deflationary.