

# UK Inflation Insight: September 2025

23 October, by Tim Davis

## September UK CPI versus Forecasts

mni

	Headline	Core	Services	Core goods (NEIG)	Energy	Food, alcohol, tobacco	Food and Non-alc bevs	Alc bevs and tobacco
Actual September	3.78	3.52	4.69	1.49	4.34	4.86	4.53	5.81
BOE Aug MPR forecast	3.99	3.77*	5.04	1.55	3.71*	5.08*	5.01	5.8
Surprise for BOE	-0.21	-0.25*	-0.36	-0.06	0.63*	-0.23*	-0.48	0.00
MNI Median	4.0	3.7	4.9	1.60	4.39	5.3	5.0	
MNI Mean	3.98	3.68	4.87	1.63	4.37	5.21	4.98	
Bloomberg Consensus	4.0	3.7	4.9					
August	3.79	3.59*	4.72	1.61	2.47*	5.33*	5.12	5.92
Aug BOE Surprise	0.00	-0.03*	-0.08	0.04	0.44*	0.01*	-0.09	0.28

Source: MNI, ONS, BOE

Note: BOE forecasts for Core, Energy and food, alcohol, tobacco calculated by MNI

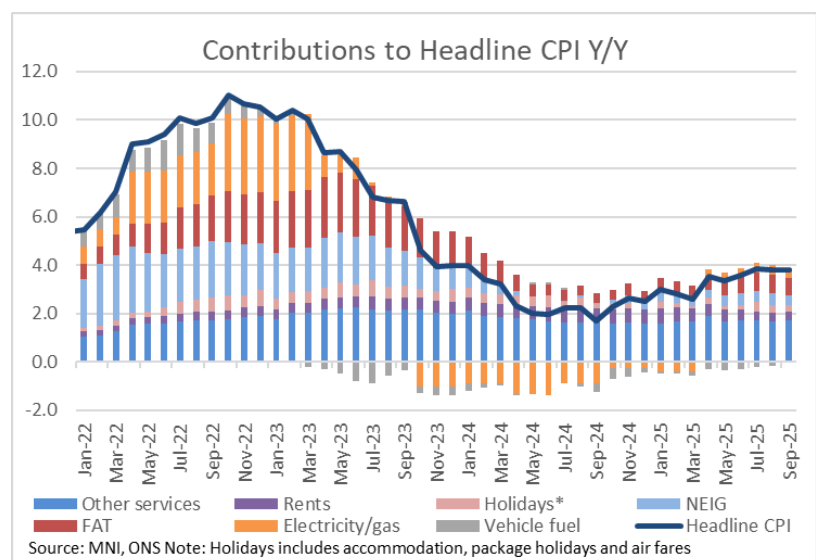
Headline CPI was 0.21ppt below the BOE's forecast at 3.78%Y/Y with food the biggest surprise (the MNI median expectation was 4.0%Y/Y). Softness is also evident in services which came in at 4.69%Y/Y (0.36ppt below the BOE's forecast). There was a smaller, but still notable 0.2ppt downside surprise for consensus within services.

Only around a quarter to a third of this weakness to be potentially reversed in October data

Of the 0.21ppt downside surprise to the BOE's forecast the potential that could be categorised as likely to get reversed (that wasn't already expected in October CPI forecasts) only contributed 0.05-0.07ppt in our view - so somewhere between a quarter and a third of today's surprise: 0.02-0.04ppt or so from transport services (which we estimate is broadly the surprise from that category) and around 0.03ppt from cultural services (if it returns to its 12-month Y/Y mean). Possibly 0.01-0.02ppt from "maintenance and repair of motor vehicles" from base effects being reversed, too. It's hard to make the argument for other parts "needing" to reverse, although there can be some natural rebounds in some categories.

Prospect of a November cut has notably increased after this release and soft wage data

Combine this with last week's softer-than-expected wage data which saw private regular earnings data come in on course to see a 0.3ppt downside surprise for Q3 (see [our full review here](#)). It may be enough to see a Q4 cut much more in play with Governor Bailey's vote expected to be very uncertain. We think that Ramsden and Breeden also haven't ruled out voting for cuts. In the absence of the upcoming Budget we think that a cut would be the default situation here but with a large fiscal event (that could push inflation higher if something like a VAT increase was considered) we are on the fence whether we have seen quite enough to get another 5-4



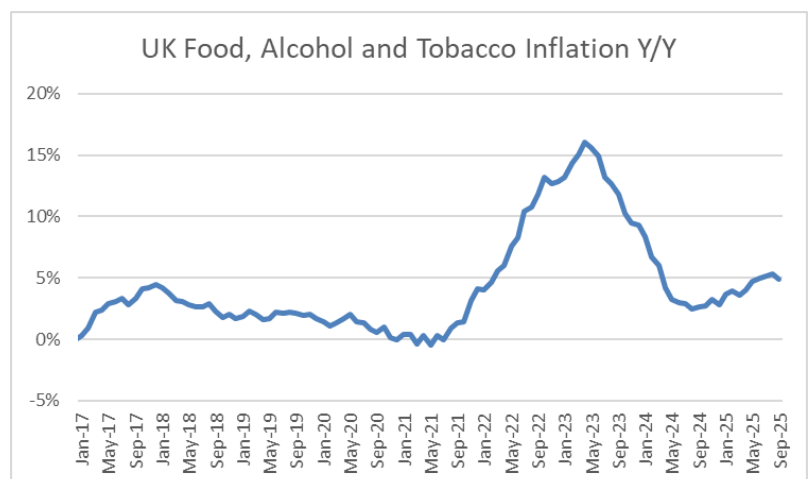
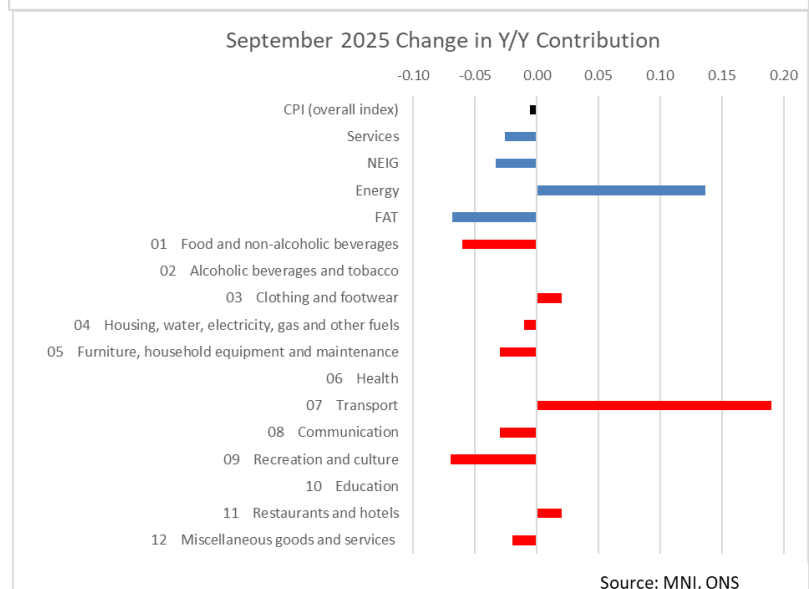
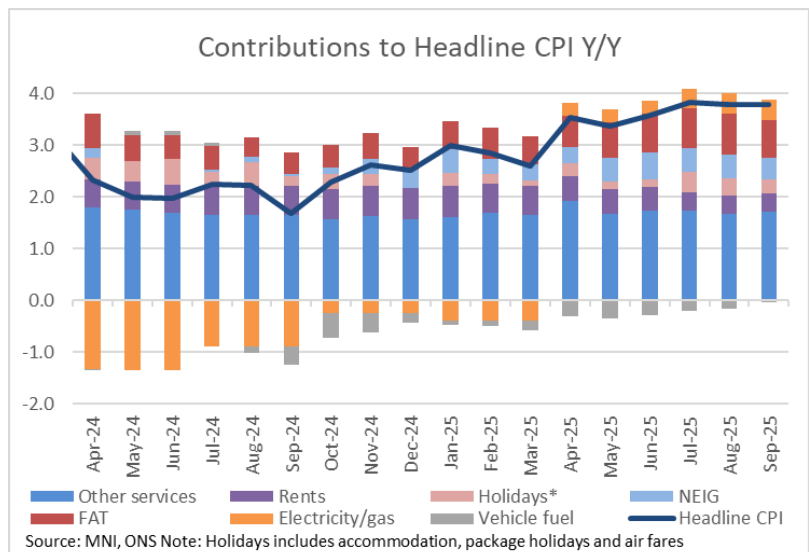
vote in favour of a 25bp cut. We would still be very surprised if any of August's hawkish dissenters supported a Q4 cut.

Market pricing has shifted decisively with 8.1bp of cuts priced in for the November meeting implying around a 1/3 probability of a 25bp cut. Ahead of the data only 2.1bp was priced for November (and intraday we reached 10.5bp at the peak). A cumulative 16.9bp is now priced by December (implying around a 2/3 probability of a 25bp cut this year – this was pricing around a 1/4 probability ahead of last week's labour market release). Pricing further out the curve has moved to see up to 11.5bp more cuts with the first cut more than fully priced by February (31.9bp up from 22.9bp pre-data) and a second cut almost fully priced by April (48.7bp priced up from 37.6bp pre-data). This all looks more appropriate to us than ahead of the data; we have long warned we thought the market was underpricing the prospect of cuts but it is questionable how much below 3.50% MPC members will want to take the terminal rate. Pricing of cuts past April remains relatively flat with around 12.7bp (around half a 25bp cut) priced between April and November 2026.

We think after this data, its almost 50/50 for the prospect of a November cut.

## Food inflation decelerated more than expected; first Y/Y pullback since March

The "Food and non-alcoholic beverages" category saw the biggest surprise here, down to 4.53%Y/Y from 5.12%Y/Y in August and 0.48ppt below the BOE's forecast (the MNI median had looked for a similar print to the BOE forecast but had some minor downside skew). The deceleration looked relatively broad-based with a focus on vegetables but there are still some stand out subcomponents such as beef, dairy products, chocolate and sugar that are running at double digit percent growth in Y/Y terms. Food and non-alcoholic beverages contributed 0.06ppt to the move in headline CPI (around 0.05ppt of this had been a surprise).



### Alcohol and tobacco pricing below consensus but in line with BOE forecast

Alcohol and tobacco seem to be broadly in line with the Bank's forecasts (based on our calculations) but were softer than consensus expected. Overall the broad FAT category (food, alcohol and tobacco) had been expected by the MNI median to contribute a positive 0.03ppt to headline CPI but it contributed negative 0.06ppt. So that accounts for around 0.09ppt of the 0.2ppt downside surprise to consensus.

### Energy pulled higher by base effects which were expected by consensus

Energy was broadly in line with consensus expectations at 4.34%Y/Y (the MNI median had been 4.39% but analysts had been looking within the 4.3-4.4% range). This was an increase from 2.47%Y/Y in August and was almost entirely driven by base effects from petrol. This contributed around 0.11ppt positively to headline CPI this month (but was of course more than offset by changes elsewhere. Despite being fully expected by consensus it is still an upward surprise to the BOE's forecasts (which are a little stale as they were produced for the August MPR so are using July commodity price data as an input). The BOE forecast of -2.41%Y/Y for fuels and lubricants compared to the actual outturn of -1.22%, so provides around a 0.03ppt upside surprise to the BOE's forecast.

### Air fares were not a major driver in September

Air fares were marginally softer than expected at -28.8%M/M - it had been expected in the mid -20s so is not a big driver of the surprise here. There were some other parts of transport services that were relatively soft and we estimate that around 0.02-0.04ppt of the downside contribution to headline CPI could be reversed in October.

### Cinemas, theatres and concert prices move lower; potential for some pullback in October

Cultural services contributed -0.06ppt to headline CPI (and around double that to services CPI). That wasn't expected to be quite so soft but is a hugely volatile category. The entire downside contribution came from "Cinemas, theatres, concerts" which only rose 0.1%Y/Y (down from 7.0%Y/Y in August). The average for that over the past 12 months is now 3.6%Y/Y - so there is some scope for that to rebound next month. If this reverted to the average Y/Y rate in October it would contribute around 0.03ppt to headline CPI.

### Further strength for canteen prices but restaurants remain unwilling to pass on higher costs

Within catering services, there is further strength within canteens - which are now up 9.4%Y/Y but have rise 8.7% cumulatively since June (and were negative last year). In contrast "restaurants and cafes" - which we pointed out have not shown any major rises - saw another 4.1%Y/Y print and have now consistently shown 3.9-4.2%Y/Y prints since February and are not responding to wholesale food price increases yet. This suggests to us there is weak pricing power for restaurants with consumers choosing not to eat out as much if prices go up further.

### Other services implications

There was no upside from education, which came in a little softer than expected rising 7.2%Y/Y (down from 7.5%Y/Y in August). This reflects slightly smaller increases in September private school fees than last year. Education will be in focus again next month when university tuition fees increase.

Banking services also contributed -0.02ppt to headline CPI.

Maintenance and repairs of vehicles contributed +0.03ppt to headline CPI – part of this move looks driven by base effects.

### Core goods inflation broadly in line with expectations

Within core goods (NEIG) saw a 0.06ppt downside surprise to the BOE at 1.49%Y/Y (from 1.61%Y/Y in August). Weakness has been seen in furniture (-0.02ppt to headline CPI), household appliances (-0.02ppt to headline CPI), books (-0.02ppt to headline CPI). Clothing was on the stronger side, contributing +0.03ppt to headline CPI

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