

UK Inflation Insight: May 2025

18 June, by Tim Davis

May 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 May	3.36	3.54	4.68	1.57	-1.68	4.68	4.42	5.45
BOE May MPR	3.36	3.67*	4.73	1.86	-1.2*	4.0*	3.48	5.4
Surprise for BOE	0.00	-0.13*	-0.05	-0.28	-0.53*	0.70*	0.94	0.01
MNI Median	3.3	3.5	4.75	1.3	-1.7	4.5		
MNI Mean	3.29	3.49	4.78	1.31	-1.65	4.48		
Bloomberg Consensus	3.3	3.5	4.8					
April	3.53	3.83*	5.42	1.08	-0.94*	4.01*	3.43	5.71
April (VED adjusted)	3.40	3.67*	5.17					
Apr BOE Surprise	0.09	0.06*	0.42	-0.59	-0.85*	0.44*	0.47	0.37
Apr BOE Surprise (VED adj)	-0.03	-0.10*	0.17					

Source: MNI, ONS, BOE

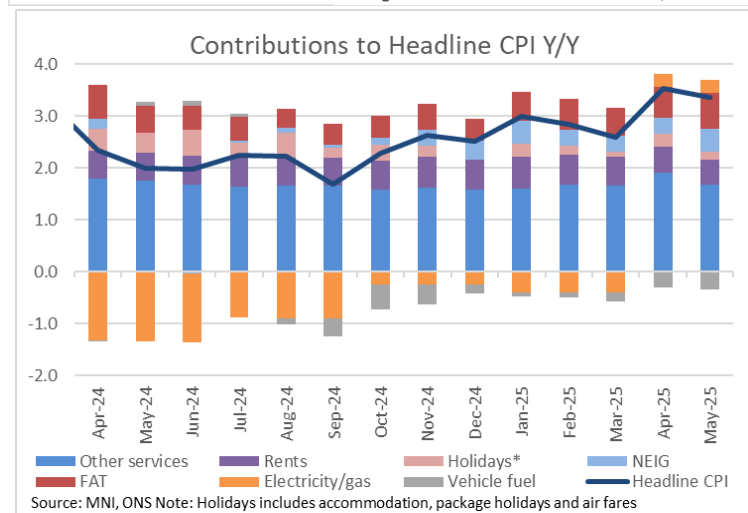
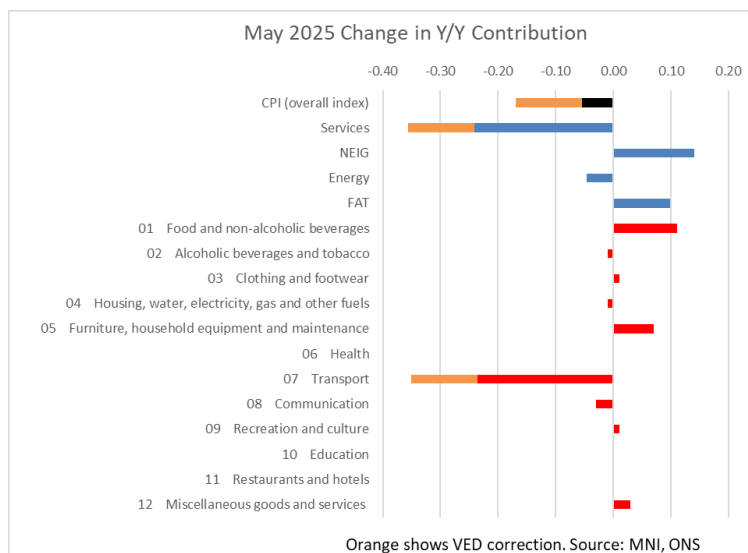
Note: BOE forecasts for Core, Energy and food, alcohol, tobacco calculated by MNI

Headline CPI for May came in at 3.36%Y/Y exactly in line with the BOE's forecast (published in its May MPR), albeit with a different component split. With the number rounding to 3.4% there was a marginal upside surprise to the MNI median of 3.3% (which was also the Bloomberg consensus). Services CPI was a slight downside surprise to both the market and BOE at 4.68%Y/Y (BOE 4.73%, MNI median 4.75%, Bloomberg consensus 4.8%) while core at 3.67%Y/Y was higher than market estimates but lower than the BOE's forecast.

Compared to the April prints, food added 0.10ppt to the change in headline CPI from April and core goods contributed 0.14ppt.

The core goods impact means that the BOE was surprised 0.28ppt to the downside versus 0.59ppt to the downside last month. There was an increase in furniture and major household appliances prices with broad based increases across the rest of the category. This suggests an unwind of some Easter-related discounting in the category. We had noted the potential for upside to core goods prices in our preview.

Food and non-alcoholic beverages surprised the BOE by 0.94ppt to the upside (double the 0.47ppt upside surprise seen in April). This may potentially



be partially due to more passthrough of the national living / minimum wages than the BOE expected. We also saw upside risks to this category in our preview but even we were surprised at the scale of the increase.

Going into the print, we knew that the ONS had calculated VED (road tax) incorrectly and that would pull services CPI 0.25ppt lower. There were also reversals of Easter impacts with a negative 0.26ppt contribution to services CPI from air fares and 0.08ppt from boat fares (the impact on headline CPI was roughly half of these levels).

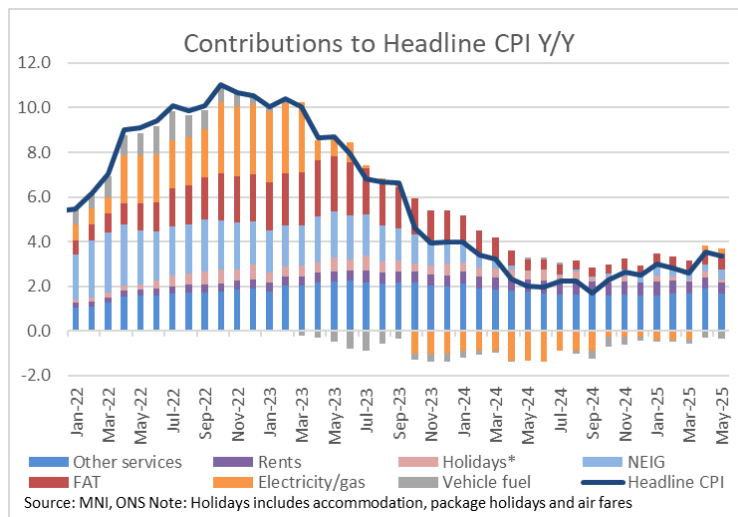
Together this left the transport category make up the vast majority of the fall in services CPI. These

factors were all expected by us going into this print too. Package holidays contributed 0.02ppt positively but there were also downside contributions from train fares, cultural services and telephone services (the latter expected). There was no real change in hospitality with accommodation prices down Y/Y (as they were in April and March too) and catering having been between 3.4-4.0%Y/Y (rounded to 1dp) for 8 consecutive months now. Neither of these categories are showing any impact from the higher employer NICs. For services CPI, we also got the downside surprise we expected, around 0.1ppt to consensus but only 0.05ppt to the BOE.

Energy was in line with market expectations, but lower than the BOE's forecast as petrol prices have fallen over the past couple of months.

There were no large one-off factors that we expect to reverse next month (although air fares is now a little on the soft side but that would only have a small impact of a couple of hundredths on headline CPI if it moved higher again).

Overall, we think the MPC will view this as broadly in line with expectations (headline 0.00ppt surprise to BOE) but be concerned about the continued rise in food prices.



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