mni

All Signal, No Noise

MARKET ANALYSIS

MNI UK CPI Preview: May 2025

16 June, Tim Davis and Moritz Arold

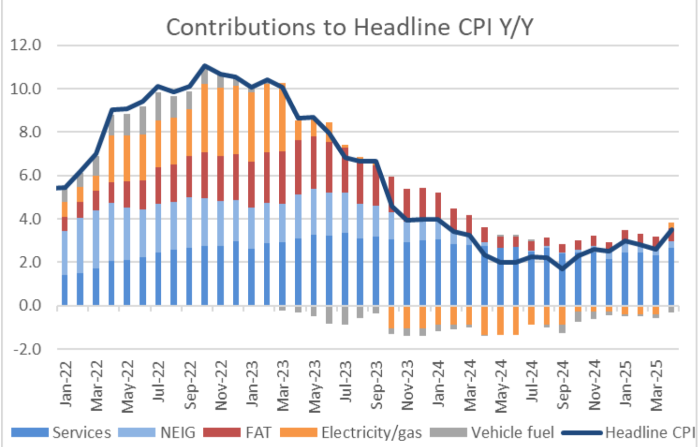
Contents

MNI View

Ahead of the publication of the MPC policy decision on Thursday, May CPI data will be published on Wednesday at 7:00BST (although the MPC will already have advance access to the data as of Monday morning).

The ONS has noted that there was an error in the VED (road tax) component in the April dataset which boosted headline CPI by around 0.13ppt (on our calculations core by 0.16ppt and services CPI by 0.25ppt). However, as CPI cannot be revised the old data will not officially be corrected.

Headline CPI was also boosted in April by Easter effects: air fares contributed 0.11ppt to the increase, package holidays 0.07ppt and sea transport 0.04ppt. These combined are therefore over 0.2ppt and along with the VED a fully reversal would see headline CPI drop by almost 0.4ppt and services CPI by almost 0.8ppt.



Source: MNI, ONS

The MNI median looks for a smaller fall to 3.3%Y/Y for headline (from 3.53%, 3.40% adjusted for VED) and for services to 4.8%Y/Y (from 5.42%, 5.17% adjusted). The BOE forecasts are 3.36% and 4.73% respectively. We see risks skewed more to the downside for services.

However, in contrast to the downside risks for services mentioned above, there may have been some delayed increases in prices stemming from the increased employer NIC contributions and increases in the national living and minimum wages. This could show up in sectors with a lot of workers that are labour intensive and with the workers such as restaurants, hotels, supermarkets (through food prices) or retail (through core goods prices).

Indeed, core goods prices will be watched because they surprised by 0.59ppt to the downside versus BOE forecasts. Some of this could also have been Easter discounting potentially (or delays to increases in the aforementioned factors). Clothing and household appliances in particular looked soft. Analyst expectations are for core goods prices to remain relatively similar in Y/Y terms with estimates ranging from 1.20-1.49% (albeit from only 6 analysts). The BOE forecast is for 1.86%Y/Y so another 0.59ppt downside miss would leave it at 1.27% - which is broadly consistent with the analyst median and mean (at 1.3% and 1.31% respectively). To us the risks seem skewed slightly to the upside for core goods.

The BOE's forecasts for energy are likely to be too high, with petrol prices coming in lower than the BOE forecast. Most previews that we read looked for energy prices to fall by between 1.6% and 1.8 in Y/Y terms (although Barclays looks for a fall of 1.39%). We estimate the Bank's forecast to be a fall of 1.2%Y/Y for the energy component in May. If the consensus forecast is achieved here there would be a smaller downside surprise to energy for the Bank than seen in April, however.

Food and non-alcoholic beverages (which added 0.04ppt to headline CPI in April and surprised the BOE by coming in 0.47ppt above the May MPR forecast) are expected to increase further with the analyst expectations across this category and FAT seeing that surprise at least maintained if not increased in the May inflation report. This may be somewhat of a concern to some MPC members who have pointed to a BOE paper that notes that consumer inflation expectations are driven more by utilities prices, petrol prices and food prices than their weights in the inflation basket would suggest. And with inflation expectations for 2/5-years ahead not really falling back in last week's BOE/Ipsos Inflation Attitudes Survey, higher food prices may have more of a concern for MPC members than their weighting would suggest, too.

Summary of Analyst May Inflation Expectations

	Headline	Core	Services	Core Goods	Energy	FAT*	Food	RPI (Y/Y)
April	3.53	3.83	5.42	1.08	-0.94	4.01	3.43	4.2
April (with VED adj)	3.40	3.67	5.17					
May (median)	3.3	3.5	4.75	1.3	-1.7	4.46	4.0	4.18
May (mean)	3.29	3.49	4.78	1.31	-1.65	4.48	4.07	4.15
May (BOE)	3.36	3.67	4.73	1.86	-1.2	4.0	3.48	
Apr BOE surprise (VED adj)	-0.03	-0.10	0.17	-0.59	-0.9	0.4	0.47	
Apr BOE surprise (published)	0.09	0.06	0.42					
Bbg consensus	3.3	3.5	4.8					4.2
Barclays	3.3	3.37	4.66	1.20	-1.39	4.59		4.04
SEB	3.2	3.4						4.2
Goldman Sachs	3.23	3.43	4.70	1.24	-1.69	4.41		
Morgan Stanley	3.23	3.43	4.63	1.31				4.07
Deutsche Bank	3.26	3.47	4.61	1.49	-1.7	4.4		4.18
UBS	3.3	3.5	4.7		-1.7		4.3	
TD Securities	3.3	3.5	4.7	1.3	-1.8	4.5		
Daiwa	3.3	3.5						
JP Morgan	3.3	3.5	4.8					4.2
NatWest	3.3	3.5	5.0				4.0	4.2
Bank of America	3.3	3.5	4.8	1.3	-1.6		3.9	
Santander	3.34	3.57	4.8					4.13
Lloyds	3.4	3.7	5.0					
RBC			4.90					

*FAT: Food, alcohol and tobacco

Source: Analyst previews, Bloomberg (consensus), MNI

Sell Side Inflation Preview Highlights (A-Z)

Bank of America

- Headline: 3.3% Y/Y
- Core CPI 3.5% Y/Y
- Services 4.8% Y/Y - “Expect the strength in airfares and packaged holidays seen in April to reverse in May. [...] We estimate correcting the VED error can lower services inflation by c. 20-bps in May.”
- Core goods 1.3% Y/Y - “driven by base effects and rise in clothing prices in May after April fall.”
- Energy -1.6% - “due to fall in weekly petrol prices.”
- Food 3.9% Y/Y - “reflecting some passthrough of NICs to food prices and in line with the rise seen in BRC food inflation”

Barclays

- Headline: 3.3% Y/Y - “Headline and core CPI inflation should decelerate as April's Easter effect and an ONS error unwind. FAT inflation should accelerate as base effects meet sequential strength. Headline and core should undershoot the BoE's forecast, but not enough to cause it to cut in June.”
- Core CPI 3.37% Y/Y
- Food, alcohol and tobacco (FAT) 4.59% Y/Y - “The BRC shop price index for food was consistent with our assumptions on unprocessed and processed food and beverages, which average to 0.4% m/m (Figure 5). However, FAT inflation was particularly weak in May last year (contracting 0.1% on the month) and the base effects mean that we still expect a significant increase in the annual rate of FAT inflation.”
- Energy –1.39% Y/Y - “With no change in the Ofgem price cap in May, the contraction is driven by softening of transport and liquid fuels, based on pump prices which look to have contracted between 1% and 2% m/m”
- Services 4.66% Y/Y - “A large part of this comes from the reversal of the vehicle excise duty error, which removes 0.25pp from overall services, and for the reversal in airfares. We expect the latter to contract by 22% m/m, reversing the majority of the 27.5% m/m increase seen in April due to Easter and in line with the signal from airfares in North Rhine-Westphalia (NRW) which saw an 80% reversal of April's growth (Figure 2) and have been well correlated with UK outturns. These leave transport services contracting 3.3% m/m.”
- Non-energy industrial goods 1.20% Y/Y - “We expect durable goods to bounce back from April's weakness and grow 0.3% m/m, despite the soft signal from the latest Autotrader data which suggests some downside risk to our expectation of flat vehicle prices on the month. The bounce in semi-durable goods prices should be even more pronounced, growing 0.4% m/m following a contraction of 0.9% m/m in April. The signal from the BRC shop price index for clothing and footwear was strong at 0.4% m/m. We expect non-durable goods prices to expand 0.1% m/m in May after the strong price level shifts in last month's data.”

Daiwa

- Headline: 3.3% Y/Y - “Expect a moderation in services inflation to provide the principal source of that reduction, as pressures in holiday-related components such as airfares and package holidays related to the timing of Easter correct”
- Core 3.5% Y/Y - “despite a possible uptick in core goods inflation”
- “Food prices will provide a relatively greater source of price pressure [vs core]. But falling petrol prices (-1.4%M/M) will continue to provide some offset.”

Deutsche Bank

- Headline: 3.26% Y/Y - “Risks, we see, are skewed to the upside.”
- Core CPI 3.47%
- Services CPI 4.61% - “On housing, we continue to expect softer price momentum. We expect private rents to push back to 0.3% m-o-m, after a surprise slowdown to 0.2% m-o-m in April. Other housing services, we expect, will rise 0.1% m-o-m (CPI)... On transport and travel services, we anticipate some meaningful pullback following the Easter jump in April. For one, we pencil in a 6.8% m-o-m fall in airfares… we see coach fares down 7% m-o-m. And last but not least, we expect sea-fares to drop 10% m-o-m – after the 16% m-o-m rise in April... Accommodation prices, we expect, will jump 2.1% m-o-m (CPI), with our dbDIG Hotel Price Tracker up 10% m-o-m in May. And we see some upside risk to this, given the weaker than expected April print. Package holiday prices, we think, will retreat in May after the super strong 2.3% m-o-m rise. Our models point to a 0.5% m-o-m fall.”
- Core goods CPI 1.49% - “We expect to see some strength in core goods inflation, particularly after an unusually weak April print. Easter sales may have pulled prices lower – especially for things like clothing, furniture, and leisure goods. Clothing prices, we expect, will jump 1.2% m-o-m (CPI). Furniture prices, we think, will edge up 1.5% m-o-m (CPI).”
- Food, alcohol and tobacco (FAT) 4.4% - “We expect food inflation to pick up steam in May... Our bottom-up models point to a 0.3% m-o-m rise in processed food (CPI), with seasonal food prices up 0.6% m-o-m and meat prices up 0.3% m-o-m (CPI).”
- Energy -1.7% Y/Y - “Energy prices likely fell in May as pump prices pushed lower. Our pump price tracker points to a 1.7% m-o-m fall in CPI”

Goldman Sachs

- Headline: 3.23% Y/Y - “May inflation numbers to show a reversal of much of the strength seen in the April services inflation print [...] VED decrease by 8.8%mom, pushing services inflation down by 26bp [...] we expect a sharp reversal of the April strength in transport services prices as Easter effects unwind
- Core CPI: 3.43% Y/Y
- Services CPI 4.70% Y/Y - “the decline in the annual rate of services inflation is in large part driven by decreases in VED and transport services prices, neither of which are included in the Bank's main exclusion measure of underlying services inflation.”
- Core goods 1.24% - “Firmer core goods prices as the April weakness in clothing and footwear – which likely reflected increased discounting – partially unwinds”
- Food, alcohol and tobacco 4.41%
- Energy -1.69%

JP Morgan

- Headline: 3.3% Y/Y - “Most of the strength in the April report won’t be repeated, as it reflected regulated price changes specific to that month, e.g. including higher water bills and mobile phone bills. We expect some payback from Easter effects, such that airfares decline and drag on services prices. We also expect food to show a soft sequential gain following a strong April print.”
- Core CPI: 3.5% Y/Y
- Services CPI 4.8% Y/Y - “One source of upside risk, is the impact of the higher NI tax. Some of this was probably passed on in April, when the tax came into effect, but firms may continue to pass more of it on in subsequent months including in May’s data.”

Lloyds

- Headline 3.4% Y/Y - “Outside of the ‘other transport services’ part of the inflation basket, where [the VED] component sits, the rest of the May CPI report is likely to be less exciting, focusing on the unwinding of some Easter-related effects that drove inflation higher in April. One such effect is the extent to which airfares dropped back in May after the 27.5% m/m rise in April. Previous years’ month-on-month moves between April and May suggest an approximate 8% fall in May airfares. Such an outcome would bring the headline rate of UK CPI inflation down to 3.4% y/y, aligning with BoE forecasts.”
- Core CPI 3.7% Y/Y
- Services 5.0% Y/Y

Morgan Stanley

- Headline: 3.23% Y/Y “Risks skewed to the downside”
- Core CPI 3.43%
- Services CPI 4.63% - “Following the April inflation beat, we noted that package holiday prices look to have risen steeply in April too, but there is a chance of a monthly reversal in May… Historically, given the ONS methodology, this series does not exhibit corrections. That said, in 2023, the ONS adjusted its package holidays methodology, so perhaps history is not the best guide. In the end, our updated forecast is for a 0%M change – although with a caveat of a downside risk.”
- Core goods 1.31% - “We note that looking into the details of the clothing print in particular, we find very little evidence of widespread sales. We assume a 0.7%M pick-up in clothing – only a partial recovery following the April 1%M drop – and see risks as skewed to the downside. On base effects, we think that headline core goods inflation could come in at 1.3%Y, where we see it hovering in the next couple of months. From year-end and into 2026, we struggle to see core goods inflation at above 1%Y.”

NatWest Markets

- Headline: 3.3% Y/Y - “There remain numerous ‘moving parts’ at this time, most notably ongoing price adjustments in response to NIC and minimum wage rises (which are expected to keep inflation levels elevated to some degree) and the possibility of some further upside effects from domestic energy prices (the rise in the Ofgem cap in April was not fully reflected in the April inflation data). Seasonal influences may also feature more prominently in May – e.g., upward pricing effects from clothing & footwear and consumer leisure services in response to better spring weather. [...] Our medium-term inflation projections show headline CPI inflation slightly above target at the end-2026 horizon (2.2% vs 2.0%) but on a gently declining trajectory and implicitly returning to target in H1 2027 [...] The risks to our inflation forecast remain to the downside and centred on employment”
- Core CPI 3.5% Y/Y - “Aside from VED, a normalisation in some of components which surprised to the upside in April (notably airfares) drives a decline in projected Core CPI inflation [...] continue to expect Core CPI inflation to return to target-consistent levels only gradually, with only a marginal easing in the remainder of 2025”
- Services CPI 5.0% Y/Y
- Food 4.0% Y/Y - “Much of this projected move reflects soft base effects but also some assumed upside effects from the impact of the minimum wage and National Insurance tax rises.”
- Energy “With sterling-denominated crude oil prices having fallen in recent months, we forecast a -1.7% m/m fall in auto fuel in May. With a base of broadly flat prices in May 2024 (% m/m), this would lower the y/y rate to -10.9% from -9.3%, subtracting ~4bp from CPI inflation in the month. Domestic electricity & gas prices are forecast to rise by ~1.0% m/m in May to narrow the gap between the 6.4% rise in the Ofgem price cap and the 4.4% rise in domestic electricity & gas prices in April. It is not clear why there was a

divergence to this extent – perhaps suppliers, anticipating a decline in the next Ofgem re-set in July, limited the increase in April; perhaps there was a delayed pass-through.

RBC

- Headline: "we think a combination of a further fall in fuel prices, the correction to the estimates of the impact of VED changes and a reversal in passenger transport services will see transport make a negative contribution of c. 0.3ppts to headline CPI with some of that offset by an upward contribution from food prices."
- Services CPI 4.9% Y/Y

Santander

- Headline 3.34% Y/Y - "Our forecast drop in inflation is spurred on by a 37bp negative contribution from the transport division, of which some 12.5bp will be the ONS correcting for the error in Vehicle Excise Duty (see here) which was there in last month's inflation data and a 16bp negative contribution from airfares."
- Core 3.57% Y/Y
- Services CPI 4.8% Y/Y
- "We have a moderate positive influence from food, where Asda's 'Rollback' discounting appears to have stalled and prices were subdued in May last year. We also see some positive impact from furniture prices and clothing and footwear, too."
- "For the BoE, we think the forecasts are close enough to its projections to not shift its mindset on the need to stay "gradual and careful" for now"

SEB

- Headline: 3.2% Y/Y - "most of the strength in the April report won't be repeated, as it reflected regulated price changes specific to that month, e.g. including higher water bills and mobile phone bills. We expect some payback from Easter effects, such that airfares decline and drag on services prices. We also expect food to show a soft sequential gain following a strong April print. [...] Inflation pressures are easing but continues to be stickier than in many other countries. Higher taxes and lower subsidies in the 2025 budget are important reasons."
- Core CPI: 3.4% Y/Y
- Serivces CPI - "High travel prices are expected to be reversed in May, but the vehicle duty will lift the inflation rate over the next 12 months. [...] Wages have been sticky but there have been some signs of easing wage pressures during the spring, although it is too soon to draw strong conclusions."

TD Securities

- Headline: 3.3% Y/Y "to show some normalization, in part because much of the April increase is attributable to annual one-offs, but also because the ONS will unwind an error made last month" Looking ahead, TD Securities sees "both core and headline inflation to remain above 3% through the rest of this year, while services inflation remains above 4.5% as well as Core CPI 3.5%"
- Core CPI 3.5% Y/Y
- Services 4.7% - "A key factor in services prices is the index date, the day CPI prices are collected. For May, there are two options that meet the ONS criteria: 13 or 20 May. Though we have a bias towards one of the dates, the other option presents risks that skew to the upside, boosting inflation by as much as a couple tenths of a percent." More generally, TD Securitues sees three key drivers of services inflation in May:
    - The VED correction.

- “Airfares -1.2% Y/Y: There was a strong Easter effect on airfares in April, with a 27% rise as the survey date covered the holiday period. Our monitoring of airfares suggests a modest unwind of those Easter effects with May airfares coming in 2.5% lower compared to April.”
- “Accommodation -0.9% Y/Y: Contrasting airfares, hotels in the UK did not experience any Easter tailwinds, meaning there's nothing to unwind in May. April's accommodation services came in at +0.3% vs March's +1.8%. Looking to May, our tracking is showing a stronger +2.3% m/m rise in accommodation services – continuing the current trend of 3 consecutive months of positive increases.”

- Core goods 1.3% Y/Y - “Clothing, footwear, and other household goods remain a key uncertainty in the core goods category, after a drop in April. We expect much of this to unwind in May, as retailers pull back on discount pricing. On the flip side, new and used car prices are slated to cool down, thus keeping core goods from a more marked increase m/m."
- Energy –1.8% Y/Y “Petrol prices fell 1.7% m/m in May, taking their year-on-year decline to nearly 12%. That said, the April rise in Ofgem utility prices acts broadly as an offset, leaving total energy prices down about 2% on the year.”
- Food, alcohol and tobacco 4.5% Y/Y “Food prices are expected to rise in May based on BRC estimates. Increasing costs in fresh produce and steaks are the major contributors, bringing our forecast for food inflation to 0.4% m/m.“

UBS

- Headline: 3.3% Y/Y - slight easing “supported by lower core and energy inflation”
- Core 3.5% Y/Y
- Services 4.7% Y/Y - downside vs prior “largely driven by the volatile travel and holiday related services affected by the later timing of Easter this year” next to VED
- Goods 1.4% Y/Y - “amid the likely bounce back in clothing prices, following some discounting in April”
- Energy -1.7% Y/Y - “due to the likely decline in fuel prices”
- Food 4.3% Y/Y
