

MNI UK CPI Preview: July 2025

19 August, Tim Davis and Jonathan Nazar

This week's CPI data has taken on added importance following the close 5-4 vote split at the last MPC meeting. As we have noted previously ([see our BOE Review](#)) we think that the bar is incredibly high to any of the hawkish dissenters supporting a November cut and the onus is therefore on the data not encouraging any of the members supportive of an August cut to vote for a different outcome in November. Governor Bailey seems to be the median member while Deputy Governor Breeden is also not a certainty to vote for another quarterly cut. Deputy Governor Ramsden seems to be more driven by labour market developments than spot inflation (and we have indeed seen a labour market report last week which was a bit stronger than expected).

Together this has meant that at the time of writing markets are pricing around a 30% probability of another quarterly cut in November. We have argued that December should be kept in play as we will have more information from the Agents on 2026 wage settlements, will have had the Budget (which is likely to be contractionary) and will have likely seen early indications of how consumer inflation expectations are responding to the peak in inflation (which is expected in the September data). At present this is priced at just under a 50% cumulative probability of a 25bp cut.

Rather than services inflation, the MPC is focused on headline CPI which is expected to come in higher than in June (which saw some base effects weigh on aspects such as accommodation). From the previews that we have read the median expectation is for a 3.7%Y/Y (with a mean of 3.71%). This would be marginally below the BOE's forecast of 3.76%Y/Y.

Energy Prices Might Be Higher than Analysts Expect

Analyst expectations for energy prices seem to be lower than that of the BOE. Broadly, we think petrol prices are in line but it appears to be electricity and gas prices that analysts are expecting to fall more than the BOE. We think that this could be because analysts are not accounting for the methodology change introduced by the ONS this year to take fixed price energy tariffs into account. The BOE forecast electricity and gas bills to fall 5.1%M/M in July whereas the Ofgem price cap fell 7.0%M/M. Some analysts did of course take the methodology change into effect but the difference between these two values on headline CPI will be just under 6bp which fully explains the gap between the BOE's forecast and consensus.

Are analysts expecting core in line or services a tenth lower than the BOE?

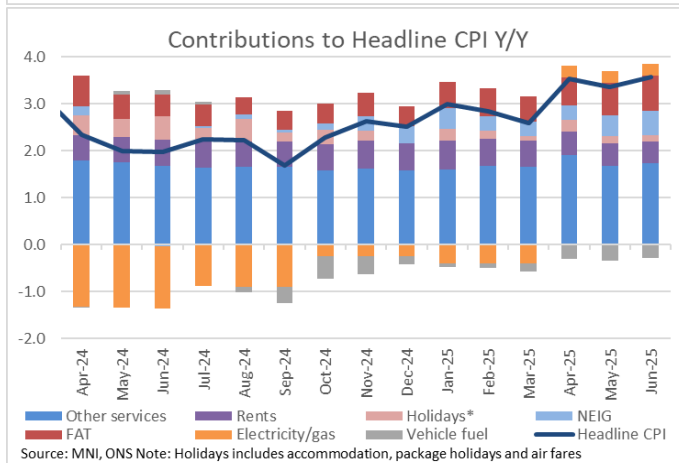
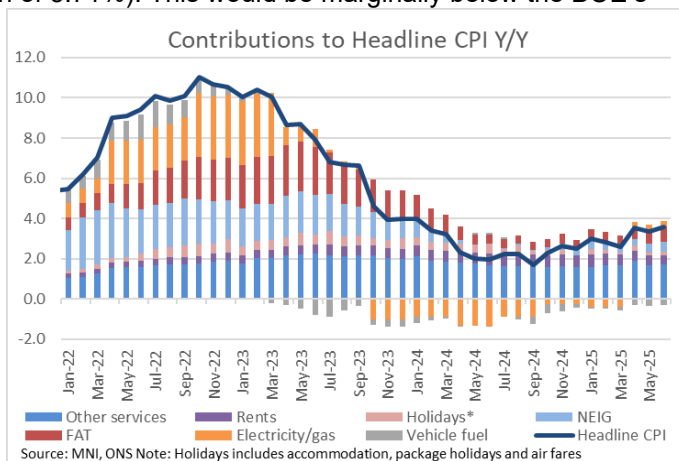
Looking across the special aggregates expectations from the previews that we have read are lower for services (4.8% median, 4.81% mean, 4.8% Bloomberg consensus, 4.88% BOE). Interestingly, the overall expectation from the previews that we have read is that core will come in at 3.7% median / 3.69% mean (which

Contents

Page 1: MNI View

Page 3: Summary Forecast Tables

Page 4-8: Analysts' Inflation Preview Highlights (A-Z)



is broadly in line with the 3.71% from the BOE). However, for the smaller number that also forecast core goods, their core CPI forecast mean is 3.74%Y/Y (5bp higher than the rest of consensus). The median / mean for core goods is 1.66%Y/Y (only 2 hundredths below the BOE's 1.68% forecast). This either suggests that the analysts who are publishing services and core forecasts but not core goods forecasts are forecasting core goods to be quite a bit higher or the numbers are not quite consistent.

Food inflation expected to increase further

Food inflation is of course the other big factor – so much so that the Bank of England had an entire box dedicated to it in its latest MPR. We discuss more on this in the section below but for the near-term, analyst forecasts are broadly in line with or marginally higher than the BOE's.

Special factors to watch

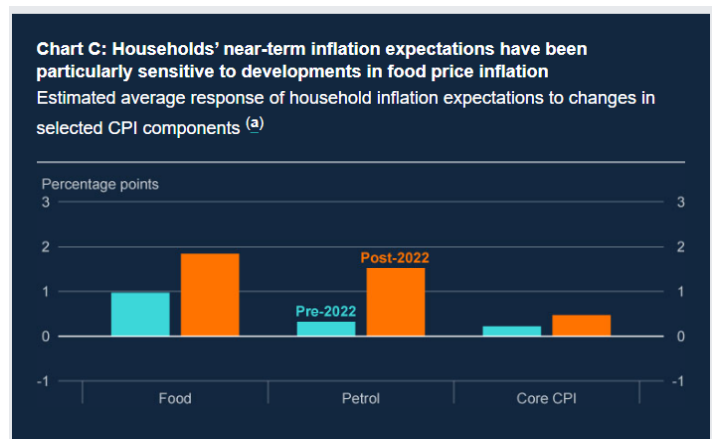
There aren't many special factors expected in the data this month: air fares are likely to be higher than last year due to the index date being closer to school holidays (15 July is widely expected) and this may also impact rail and sea transportation. The Oasis concerts may have some upside risk for accommodation but the closest concert was in Manchester on 16 July. There may be more of a clash in August with the Edinburgh Fringe and Oasis concert coinciding. There have also been some analysts question whether there will be an upside surprise from clothing prices this month due to less summer sales and a change in seasonals.

Inflation feed through to consumer expectations

Note this section is taken from the MNI BOE Review (full report)

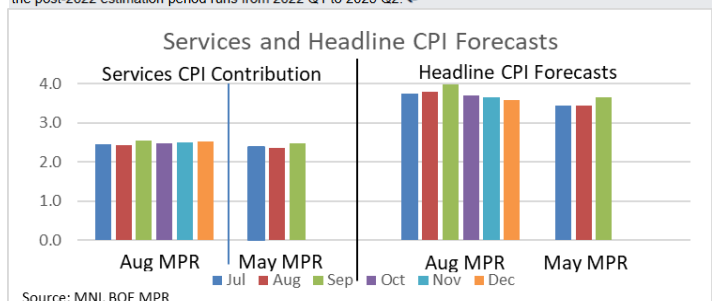
We have long argued that MPC members are more focused on headline inflation and that recent communications have continued to highlight that research has shown that the weekly supermarket shop, petrol prices and energy prices have an outsized impact on inflation expectations. Indeed, there is a whole box on food prices in the MPR and it includes the estimates that a 1.0ppt change in food prices have increased inflation expectations by 1.8ppt since 2022 while a 1.0ppt change in petrol prices has increased inflation expectations by 1.5ppt. Core CPI in contrast has seen a 1.0ppt increase only increase inflation expectations by 0.5ppt.

The BOE's near-term inflation projections now see CPI peak at 3.99%Y/Y in September, 34bp higher than the May MPR peak. Of this 34bp, 17bp is due to food while 9bp is due to fuel prices and a more negligible 6bp due to services. This upward increase in CPI is a bit more than had been expected – the previews that we had read saw an increase to closer to 3.9%, but isn't a huge surprise in itself. However, in a rather

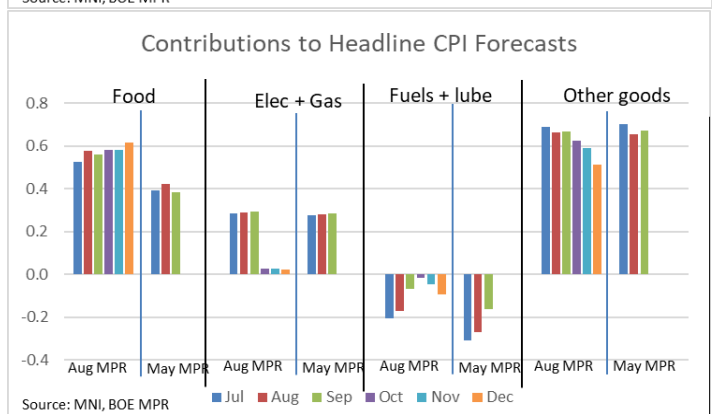


Sources: Citigroup, ONS, YouGov and Bank calculations.

(a) The chart shows the estimated coefficients from regressions of changes in Citi/YouGov one year ahead household inflation expectations on changes in the contributions of food price inflation, energy price inflation and core CPI inflation to headline CPI inflation. The pre-2022 estimation period runs from 2005 Q1 to 2021 Q4, while the post-2022 estimation period runs from 2022 Q1 to 2025 Q2.



Source: MNI, BOE MPR



Source: MNI, BOE MPR

crude way if we plug those inputs into the coefficients estimated above, that would suggest that inflation expectations could be boosted by around 0.5ppt relative to levels that would be suggested from the May MPR forecasts.

These concerns on inflation expectations were given a bigger weighting in their reaction function than the softening labour market than most market participants expected. While quantities data can perhaps be partly explained away, the downside surprise that we have seen to average earnings since the May MPR we thought would have been given a greater weight by more MPC members.

Summary Forecast Tables

Summary of Analyst July Inflation Expectations							mni	
	Headline	Core	Services	Core Goods	Energy	FAT*	Food	RPI (Y/Y)
June	3.58	3.66	4.73	1.81	-0.66	5.01	4.55	4.4
July (median)	3.7	3.70	4.8	1.66	0.70	5.1	4.8	4.5
July (mean)	3.71	3.69	4.81	1.66	0.77	5.10	4.74	4.50
July (BOE)	3.76	3.71	4.88	1.68	1.4	5.0	4.74	
Bbg consensus	3.7	3.7	4.8					
Santander	3.81	3.73	4.85					4.54
Deutsche Bank	3.80	3.74	4.90	1.73	1.2	5.1	4.87	4.55
TD Securities	3.8	3.7	4.9	1.6	1.3	5.4		
RBC	3.8		4.9					
SEB	3.8	3.8						4.5
Morgan Stanley	3.74	3.68	4.83	1.65			4.88	4.56
Bank of America	3.7	3.7	4.8	1.7	0.7		4.6	4.57
ING	3.7	3.6	4.8					
JP Morgan	3.7							
NatWest Markets	3.7	3.63	4.7		0.5		4.8	4.4
Lloyds	3.7	3.7	4.8					
Daiwa	3.7	3.7	4.8					
Jefferies	3.7		4.8					
Goldman Sachs	3.68	3.62	4.76	1.61	1.06	5.07	4.70	
Barclays	3.68	3.68	4.84	1.66	0.22	5.05		4.59
UBS	3.6	3.7	4.8	1.7	0.4	4.9		
Nomura	3.6	3.6	4.7					4.5
Societe Generale	3.6	3.7	4.8				4.6	4.3

*FAT: Food, alcohol and tobacco

Source: Analyst previews, Bloomberg (consensus), MNI

Sell Side Inflation Preview Highlights (A-Z)

Bank of America

- Headline: 3.7% Y/Y
- Core: 3.7% Y/Y
- Services: 4.8% Y/Y
- Core goods: 1.7% Y/Y – “The fall from 1.8% [in June] reflecting some of the erratic strength in clothing.”
- Energy: 0.7% Y/Y
- Food: 4.6% Y/Y – “Remaining at high levels and reflecting the impact of higher employment/packaging costs and hot weather.”

Barclays

- Headline: 3.68% Y/Y
- Core: 3.68% Y/Y
- Services: 4.84% Y/Y – “This is c.0.2pp ahead of our published forecast. The additional strength comes from a reassessment of hotel prices, which RevPAR data suggest grew by just over 1% between the index day in June and the assumed 15 July index day.”
- Core goods: 1.66% Y/Y – “BRC shop price index points to softness on clothing and footwear and commensurately we expect a contraction of 1.1% M/M (+0.5% Y/Y) in semi-durables. We expect both durable goods prices and non-durables to contract on the month.”
- Energy: 0.22% Y/Y – “Pump prices for July look to have increased c.1.5% M/M, more than the flat profile implied by our initial modelling based on direct oil price moves.”
- FAT: 5.05% Y/Y – “Within this, the upside news since our published forecast related to food, with the BRC pointing to an acceleration in Y/Y growth of 0.3pp”, more than the previously-embedded flat profile.

Daiwa

- Headline: 3.7% Y/Y
- Core: 3.7% Y/Y
- Services: 4.8% Y/Y

Deutsche Bank

- Headline: 3.80% Y/Y – Risks “are skewed to marginally lower readings.” “Summer seasonals will support prices – particularly in the services basket.”
- Core: 3.74% Y/Y
- Services: 4.90% Y/Y – “We expect some stronger than usual pressure coming from airfares, rail fares and sea fares “ For air fares “we pencil in a 15% m-o-m rise (CPI) for July” (last year -2.4%M/M). “Outside of travel services, transport-related items will, we think, move the opposite way.”
- “Catering prices will be up 0.3% M/M. Package holiday prices will edge up 0.5% M/M, but given the timing of the index collection day, we think there’s sizeable upside risk.”
- Core goods: 1.73% Y/Y – “Expect core goods inflation to remain broadly contained at current levels – at least until year end.”
- Energy: 1.2% Y/Y – “Considering fixed tariffs, however, we expect the price drop to be a little more muted” than the Ofgem cap change. “Our pump price model points to a 1.7% m-o-m rise.”
- FAT: 5.1% Y/Y – “Anticipate a drop-off in both alcohol and tobacco prices.”

- Food and non-alcoholic beverages: 4.87% Y/Y – “We expect food inflation to continue its ascent – but we do think we may be nearing the peak”, despite higher commodity, payroll and regulatory costs in recent months.
- Index day: “We assume an index collection day of 15 July... If we’re right, there’s likely to be more upside in services momentum, particularly around airfares and accommodation prices, with the former supported by school holidays and the latter potentially flattered by an ‘Oasis’ bump higher.”

Goldman Sachs

- Headline: 3.68% Y/Y
- Core: 3.62% Y/Y
- Services: 4.76% Y/Y – “While the annual rate of rent inflation should decline given smaller increases in non-private rents compared to a year ago, base effects resulting from a sharp decrease in accommodation services price in July 2024 should push up the annual rate of services inflation.”
- “There is also some risk that the Oasis tour could affect hotel prices. Our baseline assumes that this does not materially affect the figures, given that the tour dates do not exactly align with the likely CPI measurement date of July 15th.”
- Core goods: 1.61% Y/Y – “Largely driven by base effects.”
- Energy: 1.06% Y/Y – “We expect energy prices to decrease 2.33% M/M, with the 7% decrease in the Ofgem price cap more than offsetting a 1.70% rise in fuels and lubricants prices.”
- FAT: 5.07% Y/Y
- Food and non-alcoholic beverages: 4.70% Y/Y

ING

- Headline: 3.7% Y/Y – “Despite a fall in household energy bills, July’s headline CPI is likely to pick up a touch, helped by a further rise in food inflation.”
- Core: 3.6% Y/Y
- Services: 4.8% Y/Y – “Services inflation is likely to notch slightly higher too, likely on account of a temporary bump in hotel prices around Oasis concerts.”
- “This makes the figure harder to predict, but also means the Bank of England will take it with a larger pinch of salt. A material upside surprise, though, would make us more tempted to change our call for a November rate cut.”

Jefferies

- Headline: 3.7% Y/Y – “Risks to the forecast are tilted to the upside.”
- Services: 4.8% Y/Y – “reflecting persistent price pressures in labour-intensive sectors.”
- “Historically, July saw strong discounting during summer sales, particularly in clothing and furniture, but post-pandemic patterns suggest these discounts have become less pronounced. If price declines are even softer than expected, this could add further upward pressure on inflation.”

JP Morgan

- Headline: 3.7% Y/Y
- “Usually, we would focus mostly on supercore services. That remains important, especially in light of June’s strong 0.5% M/M, sa gain. But the BoE’s concern about second-round effects relates to household perceptions about the salient items such as food prices.”
- “A surprise that leaves headline set to peak above 4%, for example, would suggest the MPC would lean towards holding rates this year.”

Lloyds

- Headline: 3.7% Y/Y
- Core: 3.7% Y/Y
- Services: 4.8% Y/Y – “Expected acceleration in services CPI, with notable contributions from airfares and hotel accommodation prices ... German regional inflation data suggest that global airfares rose by more this July relative to last, while we expect July hotel prices to show a seasonal rise, having fallen last July (albeit this was after strong rises in May and June due to the Taylor Swift tour).”
- “Further modest upward effects are likely to come from food and fuel prices. Granular sector-level data from our UK Sector Tracker report suggests that food price inflation is likely to continue trend higher in the coming months, while pump prices for auto fuel rose 1.7% last month, contrasting with a 0.9% fall in July 2024.”

Morgan Stanley

- Headline: 3.74% Y/Y. “there are so many idiosyncratic factors which could push the numbers higher (Oasis, beef prices, index day close to school holidays, BRC numbers suggesting summer sales did not happen this year), it would be foolish not to accept that risks to our forecasts are skewed to the upside.”
- Core: 3.68% Y/Y
- Services: 4.83% Y/Y – two notable components: underlying services and travel prices.” On effect of Oasis concerts: “Per STR hotel data, overnight rates on July 15 in Manchester were lower relative to June 10 ... To be on the safe side, we pencil in a 1.5% M/M hike, and brace for a more ‘supersonic’ increase in August [when Edinburgh fringe clashed with Oasis concerts].”
- “We expect a reasonably strong airfares print (18% M/M) and a decent package holidays reading (0.4% M/M), with balanced risks around both figures. The Y/Y figures in travel categories should surge as last July was dampened by the pre-school holidays index date.”
- Core goods: 1.65% Y/Y – “We maintain that core goods inflation in the UK looks too high versus the traditional fundamental drivers... But the BRC data for the month were incredibly strong.”
- Energy: Ofgem “cap was cut by 7%, but around a third of UK households are now on fixed-term contracts and, thus, will not have seen any changes to their bills. The ONS now takes them into account. Hence, we see electricity and gas prices falling by 4.9%. We also think that fuel prices rose by 1.7% in the month”
- Food: 4.88% Y/Y – “We think the MPC’s focus on food prices comes at least in part due to catering inflation – the key component of the BoE’s underlying services inflation measures.” “We then see a softer trajectory versus the August MPR from [post-July].”
- Index day: “We work with an index day of July 15 – and we have a fairly high degree of certainty around this assumption.”

NatWest Markets

- Headline: 3.7% Y/Y – reflecting “a combination of fractionally lower core CPI rate alongside upside energy (auto fuel) and food inflation.”
- Core: 3.63% Y/Y
- Services: 4.7% Y/Y
- Energy: 0.5%Y/Y – “Auto fuel prices are forecast to rise 1.4% M/M in August”
- Food and non-alcoholic beverages: 4.8% Y/Y – “Upside risks persist for food inflation, as supermarkets seemingly retain some ability to pass rising taxes and labour costs on to consumers.”
- “We expect the relatively slow adjustment in services inflation to persist for much of this year – unchanged at 4.7% in July, inching lower to 4.4% at end-2025. We continue to forecast a more marked cooling in 2026.”

Nomura

- Headline: 3.6% Y/Y
- Core: 3.6% Y/Y
- Services: 4.7% Y/Y

RBC

- Headline: 3.8% Y/Y
- Services: 4.9% Y/Y
- Food: "We see the contribution of food to annual CPI inflation increasing by c.0.5ppts between June and July."

Santander

- Headline: 3.81% Y/Y – "The key upward forces driving the rise in inflation will likely be food, transport (petrol and diesel) and restaurant and hotel prices."
- Core: 3.73% Y/Y
- Services: 4.85% Y/Y "Expect a 2.0% MoM rise in prices for Hotels, motels, etc in July 2025, which is slightly above average for the time of year, whereas last year saw an exceptionally weak -2.8% MoM move. There is a chance that seasonal patterns have permanently changed in the post-pandemic world and this relative boost does not materialize, so we see hotel risks as firmly to the downside."
- Energy: "positive contribution is driven by Fuel and lubricants, which we expect will boost CPI by some 7bp, amidst a 2.1% rise in diesel and a 1.5% MoM rise in petrol prices."
- Food: 0.4% M/M
- "If our July forecast proves correct, the BoE is not set to receive an upside shock to its forecasts. But our view is that such outturns will affirm the ugly inflation optics that should dominate the UK narrative in the run to year-end."
- See food price inflation "pushing to a peak of almost 6%... revisions [to forecast] take our peak CPI forecast (September 2025) to 4.1% Y/Y and see CPI only moderating to 3.8% by year-end ... As such, we argue that inflation optics will be too ugly for the BoE to ease again in 2025, even with a softening jobs market."

SEB

- Headline: 3.8% Y/Y
- Core: 3.8% Y/Y – "We predict that the core inflation is close to a peak, but base effects from lower-than-normal prices in July 2024 will exert upward pressure this month."
- RPI: 4.5% Y/Y

Societe Generale

- Headline: 3.6% Y/Y – "Risks tilted to the upside"
- Core: 3.7% Y/Y
- Services: 4.8% Y/Y – "We likely won't see a repeat of last year's weaker-than-usual increase in accommodation, package holidays, and airfares ... Partially offsetting this increase, the July rise in social rent should be weaker compared to last year."
- Food: 4.6% Y/Y – "Given the BoE's forecast on good inflation, risks are tilted to the upside."
- "We forecast goods inflation at 1.7% Y/Y."

TD Securities

- Headline: 3.8% Y/Y – “Transport services and food prices to contribute to a summer hump before easing in autumn ... The ongoing story will be food inflation, which – only partially balanced downward by Ofgem adjustments – would pull up the headline measure.”
- Core: 3.7% Y/Y – “Services and core goods should have offsetting effects.”
- Services: 4.9% Y/Y – “We see [June’s] upward push continuing”, noting strong airfares, accommodation, catering and rent.
- Core goods: 1.6% Y/Y – “We expect core goods to provide a glimmer of disinflation in July as summer discount pricing comes into effect. Clothing and household goods will lead the charge.”
- Energy: 1.3% Y/Y – “Petrol prices have reversed the deflationary path seen since early this year, which we expect to translate into a 1.7% m/m increase.”
- FAT: 5.4% Y/Y – “We see July continuing to experience price pressures with a 0.5% M/M increase. BRC confirmed that staples such as meat and tea were driving the increases, suggesting that effects of tight supply in these categories have not yet abated.”
- Index date: “The specific day that the ONS chooses is especially important for airfares, where our monitoring shows a substantial difference in July airfares inflation depending on the index date. Historical patterns suggest that the latter date is more likely.”
- “If we’re wrong and the ONS collects prices earlier in the month, this would create a downward risk to our forecasts, bringing services inflation to 4.8% y/y and headline inflation to 3.7% y/y in July instead.”

UBS

- Headline: 3.6% Y/Y – “We expect unchanged core inflation, a rise in energy inflation and a marginal decline in food inflation to balance each other out.”
- Core: 3.7% Y/Y
- Services: 4.8% Y/Y
- Core goods: 1.7% Y/Y
- Energy: 0.4% Y/Y
- FAT: 4.9% Y/Y
- “Looking ahead, our baseline foresees inflation peaking at 3.8% Y/Y in September before declining to 3.1% Y/Y by the end of the year. Overall, we expect inflation to average 3.3% in 2025 and 2.1% in 2026.”

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