EUROPE ECONOMY

UK inflation hits 41-year high of 11.1% as food and energy prices continue to soar

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Elliot Smith
@ELLIOTSMITHCNBC

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KEY POINTS

Economists polled by Reuters had projected an annual increase in the consumer price index of 10.7%, and October's print marks an increase from the 40-year high of 10.1% seen in September.

"Indicative modelled consumer price inflation estimates suggest that the CPI rate would have last been higher in October 1981, where the estimate for the annual inflation rate was 11.2%," the ONS said.

U.K. inflation hit a 41-year high of 11.1% annually in October, as household energy bills and food prices continued to soar.

Dan Kitwood | Getty Images News | Getty Images

LONDON — U.K. inflation jumped to a 41-year high of 11.1% in October, exceeding expectations as food, transport and energy prices continued to squeeze households and businesses.

Economists polled by Reuters had projected an annual increase in the consumer price index of 10.7%, and October's print marks an increase from the 40-year high of 10.1% seen in September.

Despite the introduction of the government's Energy Price Guarantee program, the Office for National Statistics said the largest upward contributions came from electricity, gas and other fuels.

"Indicative modelled consumer price inflation estimates suggest that the CPI rate would have last been higher in October 1981, where the estimate for the annual inflation rate was 11.2%," the ONS said.

On a monthly basis, the CPI rose 2% in October, matching the annual CPI inflation rate between July 2020 and 2021.

Overall, the cost of housing and household services, which includes energy bills, rose by an all-time high of 11.7% in the 12 months to October 2022, up from 9.3% in September 2022.

"In October 2022, households are paying, on average, 88.9% more for their electricity, gas, and other fuels than they were paying a year ago," the ONS said.

"Domestic gas prices have seen the largest increase, with prices in October 2022 being more than double the price a year earlier."

VIDEO 03:20

UK Finance Minister Hunt faces difficult call between economics and politics: JPMorgan's Gimber

Food and non-alcoholic beverages also contributed heavily, rising by 16.4% in the 12 months to October to notch its highest annual rate since September 1977.

The country faces its longest recession on record, according to the Bank of England, while the government and central bank are attempting to coordinate the tightening of fiscal and monetary policy in order to rein in inflation.

The Bank raised interest rates by 75 basis points earlier this month, its largest hike in 33 years, to take the Bank Rate to 3%, but challenged the market's pricing of future rate increases.

Mike Bell, global market strategist at JPMorgan Asset Management, said Wednesday's numbers sit "uncomfortably" alongside the Bank of England's message that only modestly higher interest rates will be necessary to bring inflation back toward its 2% target.

"We are not so convinced. What has been underestimated consistently has been the inflationary pressures stemming from the tight labour market," Bell said.

"Although vacancies and employment eased marginally in yesterday's labour market report, wage growth continued to push higher. With headline inflation expected to stay elevated for some months yet, workers may still ask for more pay to protect disposable income."

VIDEO 05:08

The new UK government needs to think long term and fund the NHS and research, AstraZeneca CEO says

Bell suggested that until evidence emerges that weaker activity is starting to weigh on wage demands, the Bank of England will have to keep hiking, and JPMorgan sees U.K. rates peaking at 4.5%.

All eyes on fiscal statement

Finance Minister Jeremy Hunt will deliver a new fiscal statement on Thursday and is expected to announce substantial "stealth" tax hikes and spending cuts in a bid to plug a £50 billion-plus hole in the country's public finances.

The government's plan is expected to involve a freezing of various tax thresholds and allowances as Hunt looks to capitalize on rising inflation to boost the Treasury's coffers.

"While anything is possible tomorrow, if the government opts to rely on continuing high levels of inflation as expected, it would likely be a safe bet," said Rachael Griffin, tax and financial planning expert at Quilter .

"The dip in inflation seen back in August looks to have been a fluke, and it is unlikely that a fall in inflation will materialise any time soon."