

CAUTIOUS MPC AS INFLATION PROVES STICKY

FEBRUARY 24, 2026
ROBERT WOOD, CHIEF UK ECONOMIST

Energy, education, food, rents and airfares cut inflation to 3.0% in January, and further falls are likely.

But services inflation exceeded the MPC's forecast by 30bp, and underlying inflation accelerated.

A March rate cut remains highly likely despite the inflation miss, as rate-setters focus on unemployment.

Rate-cut hopes fade as sticky inflation keeps the MPC cautious

CPI inflation fell to 3.0% in January, from 3.4% in December, driven by declines in energy, education, food, public rents and airfares. Inflation exceeded the MPC's 2.9% forecast, and services inflation was firmer than policymakers had anticipated. **But the jobless rate rising to a five-year high in December and headline inflation set to slow sharply by April mean a March rate cut still looks highly likely.**

In January, non-core components reduced inflation by 29bp, services by 8bp and core goods by 6bp. Food inflation undershot the signal from Eurozone prices, so some catch-up is likely. Motor fuel inflation fell sharply due to favourable base effects, but should add to inflation from April as those effects fade.

Core goods inflation eased to 0.8%, helped by smaller falls in used-car prices and more restrained discounting,

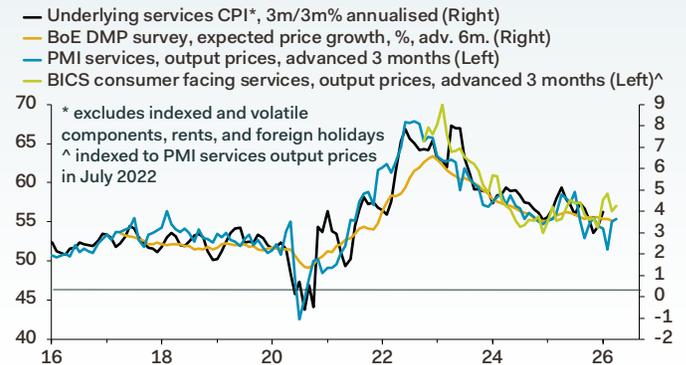
INFLATION CUT MAINLY BY NON-CORE AND ADMINISTERED PRICES

Contribution to PM forecast of change in CPI inflation between December and January



* Includes Alcohol and Tobacco

SURVEYS IMPLY NO FURTHER UNDERLYING INFLATION SLOWDOWN



but pipeline pressures suggest little further goods inflation slowdown for the next six months. **Services inflation remained firm despite lower education and rent inflation and a sharp fall in airfares.** Seasonal hotel strength and price rises in catering, communications, car insurance and medical services point to continued underlying momentum. Updated CPI weights lift inflation slightly, because they increase the share of services in the basket.

The case for further monetary easing after March is less straightforward. January's inflation slowdown was concentrated in non-core components and in areas of services the MPC typically looks through. Underlying services inflation rose to 4.3% year-over-year from 4.1%—a six-month high—while the three-month-on-three-month annualised rate increased to 4.0% from 3.3%, signalling persistent domestic pressures.

Granted, we expect headline inflation to drop to 2.3% in April as energy prices are cut and some administered prices are frozen. But sticky underlying inflation and survey evidence suggest renewed pressures later this year. PMI, DMP and BICS price balances point to strong services inflation, supporting our view that inflation will rise again in H2 2026, complicating the outlook for a dovish MPC. Rate-setters could easily cut again soon after March, but their window for action will narrow as inflation rises again.