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UK CPI Rise Ahead of Key UK PMI Data

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UK consumer price inflation is projected to rise slightly this week, according to market expectations, reflecting continued price pressures and affecting the Bank of England's (BoE) monetary policy decisions.

The flash PMI price indices for July showed signs of renewed inflationary pressures, a factor influencing investor expectations ahead of midweek CPI data, which is anticipated to confirm a modest increase in headline inflation for July. This follows July's PMI output-price data indicating continued upward movement in prices.

In the broader economic context, second-quarter GDP growth was reported at 0.3%, above forecasts of 0.1%, primarily due to performance in the services and construction sectors. June alone recorded 0.4% growth.

Sterling rose modestly to a three-week high against the US dollar and euro following the GDP data, reflecting market reaction to stronger-than-expected growth figures.

From a monetary policy standpoint, the BoE's Monetary Policy Committee voted narrowly to cut the base rate to 4% on 7 August. In its August Monetary Policy Report, the BoE stated that inflation could reach 4% in September before moving toward its 2% target, while noting potential risks from wage and price trends.

Looking ahead, markets expect limited potential for further rate cuts in the short term, with economist consensus suggesting any additional reductions will likely occur in 2026.

This week's economic calendar includes the release of inflation data, flash PMI readings on 21 August, and July retail sales on 22 August. Retail data may indicate changes in consumer spending levels.

The BoE continues to assess a combination of elevated inflation, some loosening in the labour market, and modest growth. Authorities remain focused on the possibility of inflation expectations becoming entrenched, especially if wage and price-setting trends persist.

The week's economic releases will be closely monitored for information on whether the BoE will end its current rate adjustment cycle or maintain rates through autumn.