Market Insights Economics

21 October 2026

UK CPI (Sep-26): Higher fuel prices drive inflation to an 11-month high

- UK CPI inflation rises to 3.5% in September from 3.1% in August, matching our above-consensus forecast, with another sharp rise in motor fuel prices providing the largest upward contribution
- Headline inflation is now 0.5ppt above the Bank of England's July MPR forecast, but core and services are each only 0.1ppt higher, suggesting that the upside surprise remains predominantly energy-related
- Broader inflation pressures therefore remain relatively contained for now, although with headline CPI expected to rise further, the risk of higher energy costs generating second-round effects is becoming increasingly important for the MPC

Inflation rises to its highest rate in almost a year

UK inflation data for September showed headline CPI inflation rising sharply to 3.5% y/y from 3.1% in August, matching our above-consensus forecast and marking a third consecutive increase from the 2.6% low reached in June. The latest outturn takes inflation to its highest rate since October 2025 and, perhaps more significantly for the policy outlook, leaves it 0.5ppt above the Bank of England's July Monetary Policy Report forecast.

However, as we have highlighted before, the composition of that overshoot remains important. Core inflation increased from 2.6% to 2.8%, in line with market expectations, while services inflation rose from 3.4% to 3.7%, a touch above consensus but matching our forecast. Both were just 0.1ppt above the Bank's July projections. To us, the much larger overshoot in headline inflation therefore continues to look predominantly like an energy story rather than evidence, at this stage, of a similarly large broadening in underlying inflation pressures.

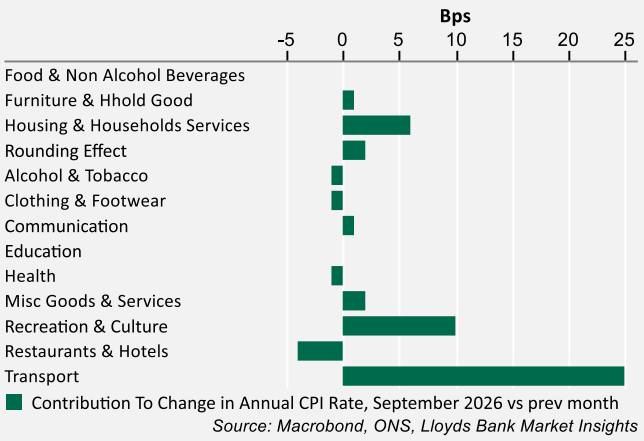
Motor fuels again drive the move higher

Transport provided by far the largest upward contribution to the rise in inflation, accounting for around two-thirds of the 0.4ppt increase in the

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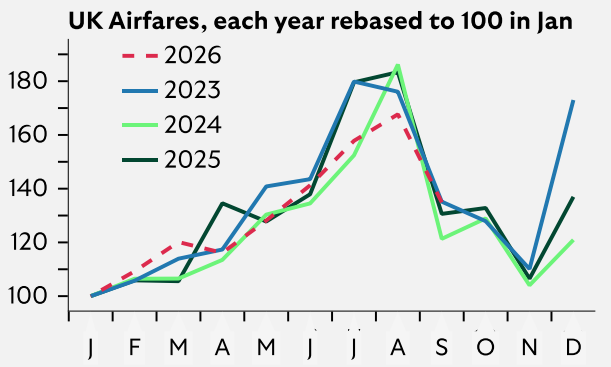
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Chart 1: Transport drives much of September's increase in inflation



Source: Macrobond, ONS, Lloyds Bank Market Insights

Chart 2: Smaller seasonal fall in air fares adds to September inflation



Source: ONS, Macrobond, Lloyds Bank Market Insights

headline annual rate between August and September (see Chart 1). Transport inflation rose from 4.6% to 6.6%, driven principally by motor fuels, where prices increased by a further 5.4% m/m following the 6.9% rise recorded in August. This pushed motor fuel inflation to 29.8% y/y, its highest since August 2022. Alongside this, domestic heating oil prices rose by 22.7% m/m, providing a clear illustration of the direct impact that higher oil prices associated with the US-Iran conflict continue to exert on UK inflation.

There were also further signs of higher oil prices affecting travel costs. Air fares fell by 19.5% m/m in September as the summer holiday period ended, but notably less than the 28.8% decline recorded a year earlier (see Chart 2). The resulting upward contribution came principally from European routes, while the ONS notes that all flight prices used in September's index were collected after the outbreak of the conflict in the Middle East. Together with the continued strength in motor fuels, this provides further evidence that oil-related components remain an important source of upward pressure.

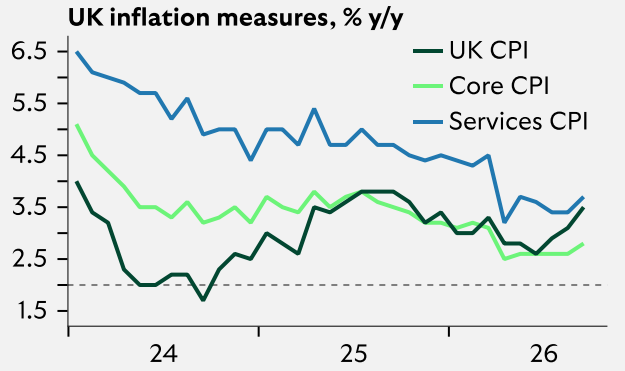
Underlying pressures remain relatively contained

The increase in core and services inflation warrants some attention, with core CPI rising to 2.8% and services inflation to 3.7% (see Chart 3). However, both remain just 0.1ppt above the Bank of England's July projections, while part of the rise in services reflects the smaller seasonal fall in air fares rather than an obvious strengthening in domestically generated inflation.

There were pockets of firmness elsewhere, with recreation and culture inflation rising from 1.6% to 2.3%, although this was partly offset by restaurants and hotels, where inflation eased from 4.1% to 3.8%. Meanwhile, food inflation remained at just 1.3% for a third consecutive month, with prices falling by 0.2% in September. The ONS also notes that industry bodies expect upward pressure on food inflation to emerge later and persist for longer, broadly consistent with the signal from our UK Sector Tracker that some firming remains likely further ahead.

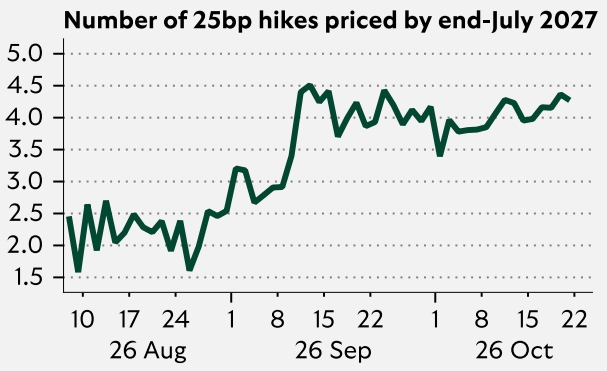
Taken together, broader second-round effects from the conflict still look relatively limited at this stage. However, with headline inflation now at 3.5%, that conclusion faces an increasingly demanding test. The further inflation rises, and the longer it remains elevated, the greater the risk that higher energy costs eventually influence firms' pricing decisions, inflation expectations and wage-setting behaviour.

Chart 3: Headline inflation rises sharply, but underlying pressures remain more contained



Source: ONS, Macrobond, Lloyds Bank Market Insights

Chart 4: Financial markets price in over 100bp of rate hikes over the next 12 months



Source: Bloomberg, Macrobond, Lloyds Bank Market Insights

Updated forecasts and policy implications

September's data reinforce our view that the near-term inflation overshoot is proving larger than the Bank of England envisaged in July, but remains predominantly energy-driven. Headline inflation is now 0.5ppt above the Bank's July projection, whereas core and services are each only 0.1ppt higher, suggesting that the underlying inflation shock remains considerably less pronounced than the headline rate alone would imply.

Nevertheless, the outlook remains challenging. Higher global energy prices are increasingly visible across motor fuels and other oil-sensitive components, while wholesale gas prices continue to point towards another sizeable increase in the Ofgem energy price cap in January. If realised, this would push CPI inflation comfortably above 4% early next year.

Complicating matters for the MPC, this deterioration in the inflation outlook has come alongside an economy that has held up better than expected since the onset of the conflict. The combination of higher-than-expected inflation and more resilient activity provides policymakers with less reassurance that weak demand will bear down sufficiently on price pressures, while giving the MPC greater scope to maintain restrictive policy if concerns around persistence intensify.

For now, broader second-round effects remain limited. However, further increases in headline inflation will provide an increasingly demanding test of the MPC's willingness to look through the direct effects of the shock. The longer inflation remains elevated, the greater the risk that higher energy costs feed into inflation expectations, wages and firms' pricing decisions.

The September inflation outturn has only added to market expectations that the MPC will tighten policy in November, with a 25bp increase in Bank Rate now seen as almost certain and a 96.6% probability attached to such a move. Market pricing also points to around four 25bp increases in total by the July 2027 meeting. Against that backdrop, the latest data continue to argue for the MPC to remain patient rather than respond mechanically to higher headline CPI, although the combination of rising inflation and resilient activity means that patience is likely to be tested increasingly over coming months.

Table 1: UK Inflation forecasts

		CPI			Core CPI			RPI			CPIH		
		Index	%Mth	%Yr	Index	%Mth	%Yr	Index	%Mth	%Yr	Index	%Mth	%Yr
Monthly	Jan-25	135.4	-0.1	3.0	131.9	-0.4	3.7	391.7	-0.1	3.6	135.1	0.0	3.9
	Feb-25	136.0	0.4	2.8	132.4	0.4	3.5	394.0	0.6	3.4	135.6	0.4	3.7
	Mar-25	136.5	0.3	2.6	133.1	0.5	3.4	395.3	0.3	3.2	136.1	0.3	3.4
	Apr-25	138.2	1.2	3.5	134.9	1.4	3.8	402.2	1.7	4.5	137.7	1.2	4.1
	May-25	138.4	0.2	3.4	135.1	0.2	3.5	402.9	0.2	4.3	138.0	0.2	4.0
	Jun-25	138.9	0.3	3.6	135.6	0.4	3.7	404.5	0.4	4.4	138.4	0.3	4.1
	Jul-25	139.0	0.1	3.8	135.8	0.2	3.8	406.2	0.4	4.8	138.5	0.0	4.2
	Aug-25	139.3	0.3	3.8	136.2	0.3	3.6	407.7	0.4	4.6	138.9	0.3	4.1
	Sep-25	139.3	0.0	3.8	136.2	0.0	3.5	406.1	-0.4	4.5	138.9	0.0	4.1
	Oct-25	139.8	0.4	3.6	136.6	0.3	3.4	407.4	0.3	4.3	139.5	0.4	3.8
	Nov-25	139.5	-0.2	3.2	136.3	-0.2	3.2	405.6	-0.4	3.8	139.4	-0.1	3.5
	Dec-25	140.1	0.4	3.4	136.7	0.3	3.2	408.5	0.7	4.2	139.9	0.4	3.6
	Jan-26	139.5	-0.5	3.0	135.9	-0.6	3.1	406.4	-0.5	3.8	139.4	-0.3	3.2
	Feb-26	140.1	0.4	3.0	136.7	0.6	3.2	408.2	0.4	3.6	140.0	0.4	3.2
	Mar-26	141.0	0.7	3.3	137.2	0.4	3.1	411.4	0.8	4.1	140.8	0.6	3.4
	Apr-26	142.1	0.7	2.8	138.2	0.7	2.5	414.4	0.7	3.0	141.8	0.8	3.0
	May-26	142.4	0.2	2.8	138.6	0.3	2.6	415.3	0.2	3.1	142.1	0.2	3.0
	Jun-26	142.5	0.1	2.6	139.1	0.3	2.6	416.5	0.3	3.0	142.3	0.2	2.8
	Jul-26	142.9	0.3	2.9	139.3	0.2	2.6	419.1	0.6	3.2	142.7	0.3	3.1
	Aug-26	143.6	0.5	3.1	139.7	0.3	2.6	421.6	0.6	3.4	143.4	0.5	3.3
	Sep-26	144.1	0.4	3.5	140.0	0.2	2.8	422.1	0.1	3.9	144.0	0.4	3.6
	Oct-26	144.8	0.5	3.6	140.4	0.3	2.8	424.0	0.4	4.1	144.7	0.5	3.7
	Nov-26	144.9	0.1	3.9	140.4	0.0	3.0	423.5	-0.1	4.4	145.0	0.2	4.0
	Dec-26	145.3	0.3	3.7	140.8	0.3	3.0	425.5	0.5	4.2	145.3	0.2	3.9
	Jan-27	145.9	0.4	4.6	139.9	-0.6	3.0	429.6	1.0	5.7	146.1	0.6	4.8
	Feb-27	146.4	0.3	4.5	140.5	0.4	2.8	431.5	0.4	5.7	146.6	0.3	4.7
	Mar-27	146.9	0.3	4.2	141.0	0.4	2.8	432.8	0.3	5.2	146.9	0.2	4.4
	Apr-27	147.8	0.7	4.1	141.9	0.6	2.7	438.2	1.3	5.8	147.9	0.7	4.3
	May-27	148.3	0.3	4.2	142.5	0.4	2.8	439.7	0.3	5.9	148.4	0.3	4.4
	Jun-27	148.6	0.2	4.3	142.9	0.3	2.7	441.1	0.3	5.9	148.8	0.2	4.5
	Jul-27	148.0	-0.4	3.6	143.0	0.1	2.6	438.7	-0.5	4.7	148.2	-0.4	3.8
	Aug-27	148.2	0.1	3.2	143.2	0.1	2.5	440.7	0.4	4.5	148.3	0.1	3.4
	Sep-27	148.4	0.1	3.0	143.5	0.2	2.5	439.2	-0.3	4.1	148.4	0.1	3.1
	Oct-27	148.6	0.1	2.6	143.9	0.3	2.5	439.2	0.0	3.6	148.6	0.1	2.7
	Nov-27	148.6	0.0	2.5	143.8	-0.1	2.4	438.4	-0.2	3.5	148.7	0.1	2.6
	Dec-27	149.0	0.2	2.5	144.2	0.3	2.4	440.3	0.4	3.5	149.0	0.2	2.6
Quarterly	Q1-2024	132.3		3.5	127.9		4.6	380.7		4.6	130.8		3.9
	Q2-2024	133.8		2.1	130.4		3.6	386.2		3.0	132.7		2.9
	Q3-2024	134.1		2.0	131.3		3.3	388.7		3.3	133.3		2.9
	Q4-2024	135.2		2.5	132.2		3.3	391.2		3.5	134.7		3.4
	Q1-2025	136.0		2.8	132.5		3.6	393.7		3.4	135.6		3.6
	Q2-2025	138.5		3.5	135.2		3.7	403.2		4.4	138.0		4.1
	Q3-2025	139.2		3.8	136.1		3.6	406.7		4.6	138.8		4.1
	Q4-2025	139.8		3.4	136.5		3.3	407.2		4.1	139.6		3.6
	Q1-2026	140.2		3.1	136.6		3.2	408.7		3.8	140.0		3.3
	Q2-2026	142.3		2.8	138.6		2.5	415.4		3.0	142.1		2.9
	Q3-2026	143.6		3.1	139.7		2.6	420.9		3.5	143.4		3.3
	Q4-2026	145.0		3.7	140.5		2.9	424.3		4.2	145.0		3.9
	Q1-2027	146.4		4.4	140.5		2.8	431.3		5.5	146.5		4.6
	Q2-2027	148.2		4.2	142.4		2.7	439.7		5.8	148.4		4.4
	Q3-2027	148.2		3.2	143.2		2.5	439.5		4.4	148.3		3.4
	Q4-2027	148.7		2.5	144.0		2.4	439.3		3.5	148.8		2.6
Annual	2022	121.7		9.0	118.5		5.9	340.3		11.5	120.5		7.9
	2023	130.6		7.4	125.8		6.2	373.3		9.8	128.6		6.8
	2024	133.9		2.5	130.5		3.7	386.7		3.6	132.9		3.3
	2025	138.4		3.4	135.1		3.5	402.7		4.1	138.0		3.9
	2026	142.8		3.2	138.9		2.8	417.3		3.6	142.6		3.4
	2027	147.9		3.6	142.5		2.6	437.5		4.8	148.0		3.8

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