DWP State Pension payments set for huge 2024 rise in new inflation 'blip'

The Consumer Price Index has fallen but Chancellor Jeremy Hunt has hinted it may spike again briefly this month

State Pension payments could be set for a substantial rise in April 2024, based on a huge growth in wages or a 'blip' pushing inflation back up (Image: PA)

A spike in UK inflation could trigger a bumper increase in the State Pension next April. The Chancellor's prediction of an 'inflation blip' may now add a new element to the Triple Lock calculations used to work out the pension rise.

Chancellor Jeremy Hunt has said he expects to see the 'blip' this month, hinting that inflation may not continue steadily on its downward trend but could experience a sudden, short-term jump. The most recent figures for the Consumer Price Index (CPI), a measure of inflation, show it at 6.8 per cent in July.

The August CPI figure will be published on September 20 and then the September CPI figure - the one used in State Pension uprating - on October 18. We can then expect the Chancellor to announce the next rise in the State Pension in his Autumn Statement, which will be sometime in November.

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The Triple Lock system used by the Government to decide the annual uprating of the State Pension means it goes up each year by the highest of three factors - inflation, earnings growth, or a default 2.5 per cent. The current economic position indicates that either inflation or earnings will be the overriding factor, with analysts recently suggesting that a huge leap in wages could dominate.

Figures released by the Office for National Statistics show that in April-June 2023, annual growth in regular pay (excluding bonuses) was 7.8 per cent, the highest regular annual growth rate since comparable records began in 2001. Meanwhile, the annual growth in employees' average total pay including bonuses was 8.2 per cent in April-June 2023 - this total growth rate is affected by the NHS one-off bonus payments made in June 2023. The figure for earnings growth in May to July - which would used for the Triple Lock - will be published on September 12.

Following recent expectations that soaring wage growth will end up determining the Triple Lock, the Chancellor now says he hasn't ruled out a brief jump in inflation. This could then become the key factor in pension increases.

Chancellor Jeremy Hunt told BBC's Sunday With Laura Kuenssberg: "The plan is working, inflation is coming down." But put to him that inflation could have risen in August, Mr Hunt said: "I do think we may see a blip in inflation in September. But after that, the Bank of England is saying it will fall down to around 5 per cent."

"If we are going to put money in people's pockets quickly, the fastest thing I can do is to deliver the Prime Minister's pledge to halve inflation, because that puts not 1p in the pound, which might be a tax cut, but 5p in the pound in people's pockets that they wouldn't have had if inflation stays high."

Adrian Lowery, a financial analyst at wealth manager Evelyn Partners, said: "This above-expectations wage growth will be watched nervously at the Treasury as it threatens to add fuel to the Triple Lock fire. The wages element of the triple lock - annual earnings growth for May to July - could be significant. Strong wage growth is likely to impair the retreat of inflation in the coming months, and the Bank of England recently warned that the pace of wage growth is a threat to its longer-term inflation target of 2 per cent.

"While the Consumer Price Index for July is widely expected to show a fall in the headline annual inflation rate, there are reported fears in Whitehall that subsequent months could reveal a plateau or even a tick back up in the rate. The inflation reading for September, or a possibly even-more-racy wage growth figure, will determine what could be a very substantial rise in the State Pension and reignite the debate over whether the Triple Lock is sustainable."

State Pension payment forecasts from April 2024

Inflation is currently at 6.8 per cent but the Chancellor has hinted at a 'blip' that could take it higher than that before it drops back down to around 5 per cent by the end of the year.

A rise of 7 to 8 per cent in the State Pension is expected by analysts so the estimated calculations show the current annual rates for the full New and Basic State Pensions and potential increases based on inflation of around 7 per cent, or wage growth of around 8 per cent if pay levels remain high.

Current Annual Full New State Pension - £10,600

Weekly: £203.85

Monthly: £815.40

8% uprating April 2024 based on wage growth - £11,448 (up £848)

Weekly: £220

Monthly: £880

7% uprating April 2024 based on inflation - £11,342 (up £742)

Weekly: £218

Monthly: £872

Current Annual Full Basic State Pension - £8,122

Weekly: £156,20

Monthly: £624.80

8% uprating April 2024 based on wage growth - £8,772 (up £650)

Weekly: £168

Monthly: £675

7% uprating April 2024 based on inflation - £8,691 (up £569)

Weekly: £167

Monthly: £658

Meanwhile, economists have forecast that inflation will fall to 5 per cent in the final quarter of 2023. The Bank of England now expects inflation to drop just a fraction below that to 4.9 per cent.