

Bank of England survey highlights easing price pressures

Firms expect to raise prices and wages less aggressively, according to the latest Bank of England business survey. While this data alone is unlikely to stop a 25bp rate hike in March, if these trends continue through the spring, it suggests that this will mark the end of the current tightening cycle



The Bank of England

New Bank of England data suggests selling price expectations are easing

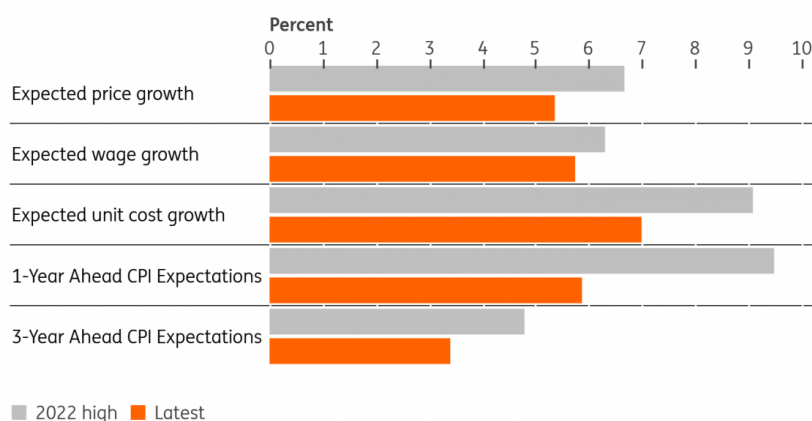
Bank of England Governor Andrew Bailey [hinted pretty strongly this week](#) that financial markets are overestimating the amount of tightening that's still to come. While he wouldn't be drawn on what policymakers will do next, the emphasis is no longer on the size of future rate hikes, and instead, the question is whether the Bank needs to hike any more full stop.

In the short term, the Bank is back to old-fashioned "data dependency", and February's meeting made it clear that future hikes will hinge on indicators of "inflation persistence". We read that to mean policymakers are now less focused on month-to-month swings in inflation data and are looking more closely at price-setting behaviour in general.

And the latest news here is encouraging. The BoE's latest [Decision Maker Panel](#) – a survey of CFOs across the UK – supplies further evidence that price pressures are easing. This survey, which we know factors heavily into the policymaking process, shows companies now expect price growth to average 5.4% over the next year, down from a peak of 6.7% last summer. It's a similar story when firms are asked about expected unit cost growth and CPI expectations.

Key metrics from the BoE's Decision Maker Panel

Bank of England Decision Maker Panel survey



Source: Bank of England

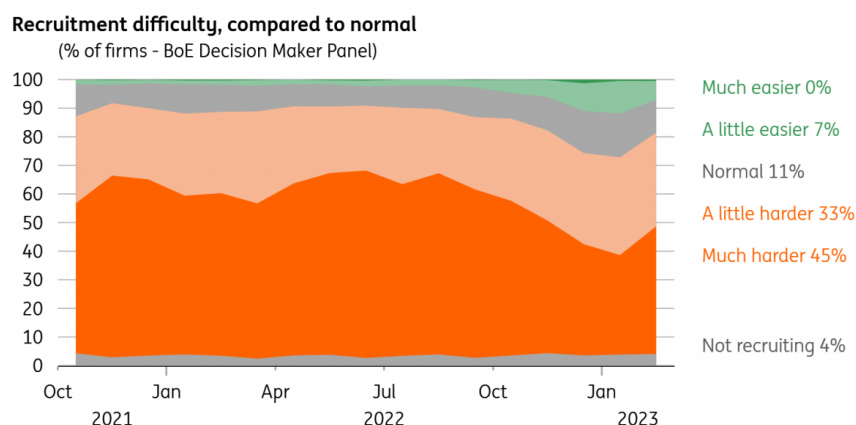
A March rate hike is likely, but that could be the last

Importantly, it also suggests wage growth is peaking. The survey shows that firms expect wage growth of 5.7% over the next year, down from 6.3% in December. Time will tell whether this feeds into the official regular pay data, which [has continued to run hot](#) – something Governor Bailey [remarked upon](#) in a speech yesterday.

Is there enough here to cast doubt over a March rate hike? We don't think so. Despite [a surprise downward move in core services inflation](#) last month, the latest wage data probably suggests the Bank has a little further to go on rate rises. But if the trends displayed in this latest survey continue over the next couple of months, then our base case is that the March rate hike will be the last.

We don't rule out a final 25bp hike in May if the inflation data proves more persistent than expected between now and then. But markets are pricing a further 70-80bp of tightening by the summer, which we think looks excessive.

Recruitment difficulties increased last month



Whatever happens, it looks like rate cuts aren't likely to come through for at least year. One caveat to the generally positive story in the latest BoE survey was that recruitment difficulties worsened last month. The proportion of firms finding it "much harder" to recruit rose to 44%. Though that's still well down on the level seen last summer, it is a reminder that structural worker shortages remain an issue. While wage growth is probably at, or close to, its peak, this suggests any decline will be pretty gradual.

Author

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and

which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.