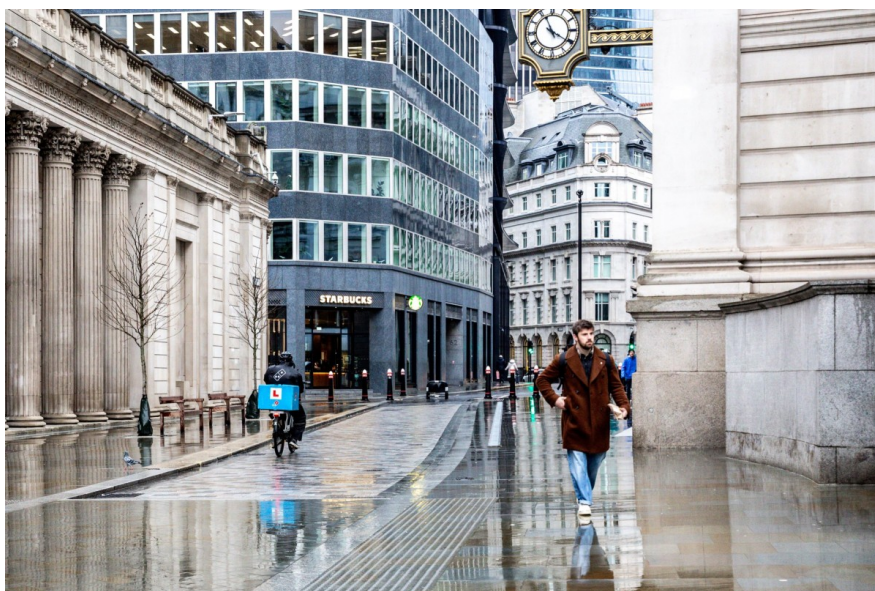


## Cautious Bank of England poised to keep rates on hold despite hiring weakness

UK hiring conditions are weak and pay growth is slowing rapidly. But with headline inflation above 3% and the memories of the 2022 price spike still fresh, we expect the Bank to keep rates on hold this Thursday and keep its options open. We still expect a rate cut in March



We still expect a cut next month – or at the very least, the probability is higher than the 20% markets currently assign

### The Bank was cautious in December despite cutting rates

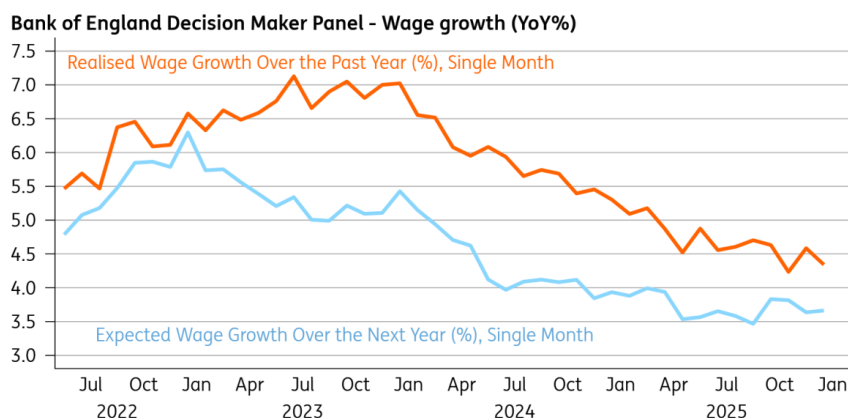
The Bank of England is highly likely to keep rates on hold at this week's meeting (5 February), but will it open the door to earlier rate cuts?

Judging by the Bank's surprisingly hawkish December decision, we suspect not. While it cut rates, it hinted that the "cadence of rate cuts" could slow. And let's face it, that wasn't exactly fast in the first place.

But interest rates are getting closer to neutral and as lots of central banks are telling us, that makes the decision to cut them further more balanced. And so long as inflation is above 3% (it was 3.4% in December), there's a lingering worry among the hawks that this could spur a more prolonged bout of price pressure. The memories of the 2022 inflation spike are still fresh.

Nothing has fundamentally changed since the last meeting. We've only had one round of data, where weak jobs numbers were counterbalanced by some better purchasing managers' indices (PMIs). December's inflation was a tad higher than expected, too. The Bank's 'Decision Maker Panel' survey of corporates showed wage growth expectations at 3.7%, roughly unchanged from previous months. This survey came up multiple times in the last set of post-meeting minutes as a reason for caution.

## Wage growth expectations have levelled out recently



Source: Macrobond

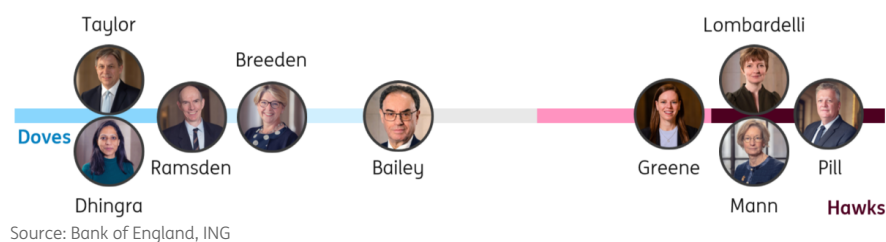
## There are good reasons to think the Bank's work isn't done yet

That all leads us to expect a fairly comfortable 7-2 vote in favour of keeping rates on hold. Doves Alan Taylor and Swati Dhingra are vocally in favour of lower rates and will almost certainly vote for a cut. Dave Ramsden, also a known dove, might do the same, though his comments after the December meeting hinted at a pause.

Yet there are good reasons to think the Bank's work isn't done yet. Hiring surveys are still getting worse, suggesting last year's 1% drop in private sector employment will extend into 2026. The Bank's criticism for so long was that this wasn't being reflected in the official wage data, but that is no longer the case. Private sector pay growth has fallen from 6% at the start of 2025 to 3.6% – and everything points to this falling to 3% within months. That would be in line with pre-Covid averages – when the jobs market was heating up, but interest rates were considerably lower.

We also expect headline inflation to come dramatically lower – from 3.4% in December to 1.8% in April. That's partly thanks to lower water and food inflation – the latter is already almost a full percentage-point below the Bank's November forecasts. We should also see core services inflation move lower too. True, much of this won't come through until April's data, due in May. But there should be some evidence of cooler service sector inflation – notably in restaurant/café prices, a key bellwether – in the data due for release before the March meeting.

## The dove-hawk spectrum



## We expect a cut in March

The Bank said in December that the upside risks to inflation are abating. And by March, there should be two more rounds of data evidencing that. We still expect a cut next month – or at the very least, the probability is higher than the 20% markets currently assign.

But will the Bank open the door to that in this week's meeting? We're not so sure. We highly doubt the Bank will change its forward guidance, noting that decisions are becoming harder as rates approach neutral. And in the press conference, Governor Andrew Bailey, despite a recent tendency to side with the doves, is unlikely to explicitly talk up a March cut. The BoE isn't keen on commenting on market pricing unless it's decisively out of line with its thinking. And that isn't true right now.

The mantra this week is likely to be keeping options open and letting the data do the talking instead.

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