Further Bank of England rate cuts hang in the balance

We still narrowly favour another rate cut in November, though it wouldn't take much to push the next move back into 2026

Bank of England Governor Andrew Bailey

A November cut hangs in the balance

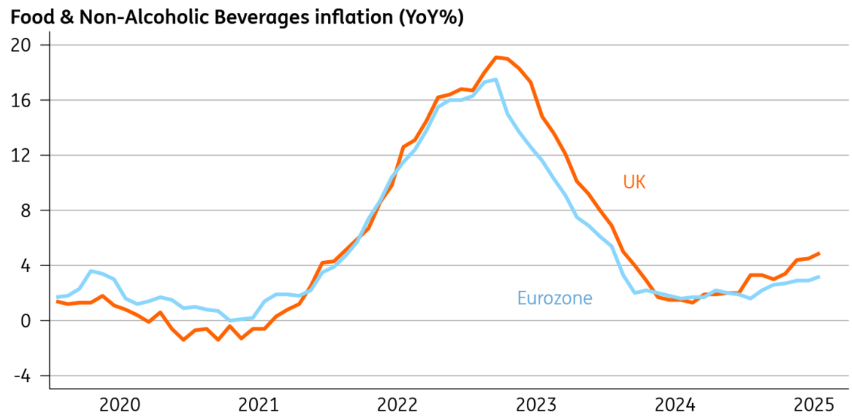
A hawkish Bank of England decision in August has cast serious doubt on our call for another rate cut in November. Officials did lower rates over the summer, but the committee is heavily divided on the way forward. And the statement raised the possibility that the Bank is nearing the endgame on rate cuts.

Financial markets are pricing a November cut at just 20% probability, though there's a lot of key data to come before then. We think at least some of the following need to happen to keep a cut in play:

First, inflation needs to show further progress, and on headline CPI at least, that is unlikely before November. Food inflation is set to rise above 5% and this is a key preoccupation of rate setters, owing to its formative role in setting household inflation expectations. But the news isn't all bad. The Bank ultimately cares most about service sector inflation, and we think there is scope for this to modestly undershoot the BoE's forecasts before November. Rapidly slowing rental growth is a key driver.

Second, signs of further stress in the jobs market would clearly be a game-changer for the BoE's thinking. Employment has fallen in eight of the last nine months, but the Bank is surprisingly relaxed about this. Perhaps that's because the majority of the weakness is concentrated in hospitality, a sector acutely exposed to April's payroll tax and minimum wage hike. Or because the surveys are looking a little brighter. Our base case is that we'll see a further gradual cooling in the jobs market, which on its own is unlikely to move the dial too much on a November cut.

Food inflation is becoming a problem



Source: Macrobond, ING

Wage growth is set to fall later this year

But coupled with lower private sector wage growth, which is likely to be closer to 3.5% than its current 5% level by year-end, the case for further easing would become more compelling. Officials have long been irked by the fact that wage growth has consistently come in above its forecasts.

Finally, the Autumn Budget is likely to be net-dovish for the Bank of England. Significant tax hikes are likely to dominate, in sharp contrast to last year's budget, where the increase in employer National Insurance was dwarfed by significant spending increases. However, given the budget won't happen before November's meeting, this is unlikely to factor into the Bank's thinking until much later this year or early next.

In short, there's just about enough here to keep the promise of another 2025 cut alive. Remember, too, that the Bank's own forecasts, which foresee inflation returning to target over two years, are premised on two more cuts. But it also wouldn't take much to push us towards a different BoE call. If the next set of inflation data is particularly hot, we'd be tempted to push back our call for the next cut into 2026.

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