The Bank of England to keep flying the flag for rate rises into the autumn

An extra government support package means we've upped our forecast for Bank of England rate hikes this year. We now expect moves in June, August and September, though this is still less than markets are pricing

People in the UK will try to forget any money worries as they celebrate the Queen's platinum jubilee

Extra government stimulus probably means a bit more monetary tightening

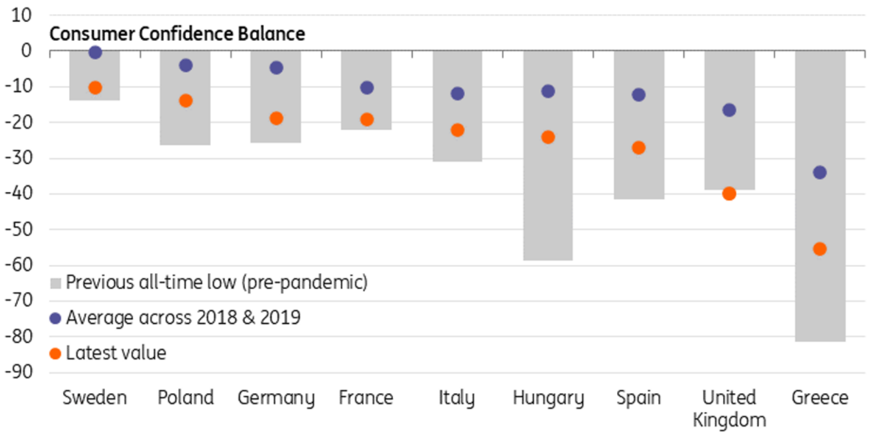
We've had a long-held view that the Bank of England will tighten less than markets expect – and those expectations still imply more than six additional rate hikes over the next year. The Bank itself has said this rate path, if realised, would result in below-target inflation by 2024.

Last month we pencilled in two more rate hikes, in June and August, before a pause. However, two recent developments lead us to add in an extra one for September.

Firstly, the British government has noticeably improved its support for consumers. The £15bn stimulus package roughly doubles what was already announced earlier this year but, more importantly, is much more targeted towards those on lower incomes and thereby most affected by higher fuel bills. The Treasury estimates that the package is equivalent to around 7% of incomes for those in the lowest decile. For those on means-tested benefits, the latest cash support should offset the additional 40% rise in energy bills expected in October.

Until now, the UK's support has lagged behind that of some continental European economies and perhaps helps explain why consumer confidence has fallen more sharply relative to elsewhere. We've upgraded our forecast for growth through the second half of the year and the latest measures will undoubtedly lower the odds of a recession.

UK consumer confidence is at an all-time low and has fallen further than elsewhere



Source: Macrobond, ING

Expect 'labour hoarding' as worker shortages persist

Secondly, worker shortages look like they are going to be more persistent than we'd first thought. The key challenge is to identify how much of the shortage issue is down to a post-Covid mismatch in the jobs market, which should diminish, and what is instead down to longer-lasting structural factors. While we think the former is still playing a role, worker participation fell through the pandemic and there are few signs of the situation improving. The fact that a large proportion of this trend is ascribed to long-term illness suggests we shouldn't expect a rapid return of workers. Lower inward EU migration is clearly also playing a role and the ratio of vacancies to unemployed workers is now one-to-one for the first time in the series' history.

Consequently, even as company margins come under ever-increasing pressure, firms have a strong incentive to keep workers on amid concerns about rehiring when conditions improve. Hopefully, that means the marked rise in unemployment being forecast by the Bank of England won't materialise.

Still, there's plenty of uncertainty and we'd expect the BoE to continue to tread carefully on rate hikes. And we expect the committee to become more divided too. The June meeting could feasibly see at least one member voting for no change, with others continuing to back a faster, 50 basis-point hiking path.

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