

# The Bank of England's game of two halves

We mostly got it right on inflation. For the rest of the year, we're expecting the first Bank of England rate cut in August. In fact, we think further progress on services inflation should unlock three cuts in total this year



Nervous England fans waiting for a goal and also for a Bank of England rate cut

## The half-time review

We made [three calls in our 2024 outlook](#) – that inflation would return to the 2% target by May, the UK's recession wouldn't deepen, and the Bank of England would start cutting rates in August. So far, those predictions have aged relatively well.

A sharp slowdown in food inflation and falling energy prices ensured inflation did indeed fall to 2% in May. Services inflation has stayed hotter than we'd thought, though, not least because nominal wage growth has been sticky.

That big disparity between wage growth (6%) and inflation (2%) has driven a much bigger resurgence in UK growth than we'd expected so far this year. The economy expanded by 0.7% in the first quarter, and we're looking at 0.4-0.5% in the second. We estimate that roughly 80% of the mortgage squeeze is now behind us, and that seems to be helping too.

## 1 Second-half prediction: Inflation to hover in the 2-2.5% area

While we may see headline CPI tick a tenth of a percent or so lower in June, we think 2% more or less marks the trough. The drop in food inflation is at an end, and the drag from lower energy prices is currently at its peak and will ebb away as the year goes on.

That should be counterbalanced by further progress on services inflation. Surveys suggest firms are raising prices/wages less aggressively, while rental growth looks like it has peaked. We expect services inflation to end the year at 4.5%, down from 5.7% in May.

## 2 Second-half prediction: Bank of England to cut rates three times this year

We'll have to wait another month to see if our long-held prediction of an August rate cut holds true. Markets are putting a 65% probability on that happening. A big upward surprise in services inflation could yet cause a further delay, though policymakers have linked the recent stickiness to one-off factors.

Back in May, Governor Andrew Bailey said that the Bank could end up cutting faster than markets expected at the time. And June's meeting confirmed that some officials saw the decision as "finely balanced". We expect an August rate cut and three moves in total this year.

Crucially, we don't expect the Labour Party's victory in the recent general election to change this story. New Chancellor Rachel Reeves has promised a full review of the public finances, which sounds like a precursor to more significant changes in the Autumn Budget than the party had promised during the campaign. But we doubt any changes to tax/spending will be seismic enough to feed into the BoE's decision-making on rate cuts this year.

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