

# Why we expect UK interest rates to fall earlier than markets expect

We're sticking to our call for a March and June Bank of England rate cut, amid weak hiring data, rapidly slowing wage growth and an improving inflation backdrop



We're sticking to our call for Bank of England rate cuts in March and June

## Markets don't expect another rate cut until summer

In December, Andrew Bailey, Governor of the Bank of England, hinted that it could slow the “cadence” of rate cuts – and markets have taken note. The next rate cut isn't expected before June. A March cut is priced with just a 16% probability.

We still tend to disagree. We're sticking with our call for a March and June rate cut for three reasons.

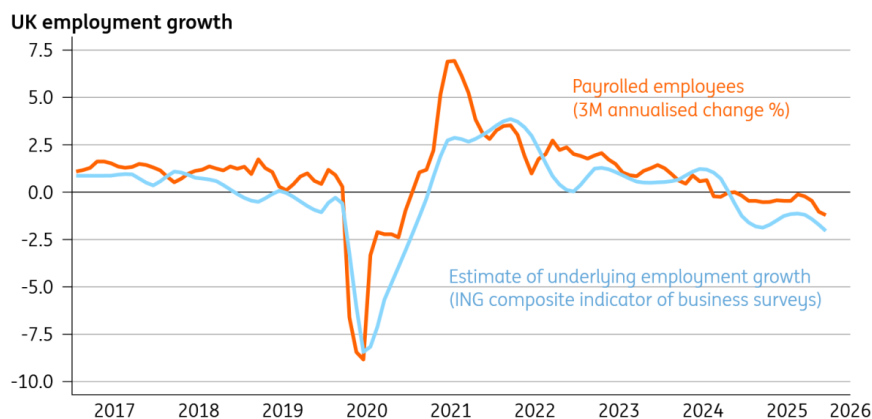
First, the jobs market is undeniably weak – and getting weaker still. Private payrolls fell by more than 1% in 2025, and 0.25% alone in December. Hiring surveys are getting steadily worse. Vacancy rates are well below pre-Covid levels.

True, much of the weakness is concentrated in lower-paid consumer services, which were particularly hard hit by last year's tax/minimum wage changes. But the overall hiring weakness is bringing down private sector wage growth rapidly – from 6% at the start of last year and likely

reaching 3% over the next few months.

We'll get two more jobs reports before the March meeting, and if these trends continue – and we expect they will – then it should make the committee more relaxed about the inflation outlook. Remember, a big concern for officials was that last year's spike in inflation – driven by food costs – would manifest into a more persistent bout of price pressure. But that theory only works if workers (and firms) have the power to recoup lost disposable incomes. And that power has hugely diminished since the 2022 energy shock.

## Hiring surveys are still getting worse



Source: Macrobond, ING

## Inflation is set to fall dramatically

That leads to the second argument in favour of earlier rate cuts: inflation is set to drop dramatically between now and April. Much of this is down to regulated price rises or government tax changes in 2025 that won't be replicated in 2026. Think VAT on private schools last January, or the rise in road tax and 25% surge in water/sewerage bills last April. The latter looks set to rise between 5-10% this year.

Admittedly, much of the pullback in headline CPI won't happen until April's data is released in May. But we should still get better news in data published ahead of the March meeting. Food inflation is likely to ease off further, just as it has done in the rest of Europe. And by extension, restaurant/café prices should rise less aggressively this winter too. This is often seen as a key bellwether of domestically-generated signals and would be reassuring for the Bank.

Finally, remember that the Bank of England is highly divided. That means it only takes one or two members to shift their view to dramatically change the path of rate cuts. On 1 October last year, investors were pricing just a 24% chance of a December cut – a move that was ultimately delivered. If we're right about the data over the next two months, then the Bank should become steadily more relaxed about inflation and markets could quickly reassess the potential for a March cut.

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