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Snap

Bank of England keeps the door to an August hike firmly open

Despite a fairly mixed run of data, the Bank remains relaxed about the first quarter slowdown and is confident about wage growth. An August rate rise still looks more likely than not

The run of economic data since the May meeting has been pretty mixed, but the key message from the Bank of England (BoE) today is that they're comfortable things remain on track.

Importantly, the Bank remains just as confident that the economy is rebounding after the weak first quarter as it did back in May, pointing to the rebounding household activity as a key example.

An August rate hike is still more likely than not

Policymakers also remain upbeat about wage growth – a central part of the Bank's thinking on rate hikes – suggesting that the recent moderation we've seen in average earnings hasn't fazed the committee. The 3M/3M annualised rate of change in wage growth has slipped from around 3% at the turn of the year, to just under 2.5% now. But with Bank agents still pointing to faster pay hikes in response to skill shortages within the jobs market, the BoE noted "domestic costs pressures will continue to firm gradually".

To us, this all suggests that an August rate hike is still more likely than not. While the Bank hasn't offered any firm signals or commitments this time, the overall outlook and tone suggest they'd still like to raise rates if the data allows. It's also worth noting that one extra member – Chief Economist Andy Haldane – has joined two others in voting for an immediate rate hike.

But nothing is guaranteed - there's still plenty of data to come between now and August. Our main concern remains the retail sector, where ongoing consumer caution, higher wage costs and rising business rates still appear to be causing real difficulties. If further cracks begin to appear, then the Bank may be forced to puts its tightening plans on ice for a little while longer.

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