

Carney blasts back against the hawks

Comments from the Bank of England Governor today support our view that there will be no rate hike before 2019.



Source: Bank of England

To most people's surprise, all three external monetary policy committee (MPC) members voted for an immediate rate hike at last week's Bank of England meeting. Over recent months, the hawks have outlined a more upbeat outlook for growth, and as a result, have consistently said they have "limited tolerance" to above-target inflation. The latest above-consensus inflation spike to 2.9% appears to have tested their patience too much.

We think Carney's view will prevail and a rate hike is unlikely before 2019

But Governor Carney, speaking at an event at London's Mansion House, left markets with little doubt that he holds completely the opposite view. Citing "anaemic" wage growth and "subdued domestic inflationary pressures", he said that "now is not the time" for a hike.

Carney's comments confirm what we noted last week, which was that it will take a lot to get the

“core” MPC voters wanting to raise rates any time soon. Whilst we have seen inflation rise to 2.9%, this now means real incomes are falling noticeably.

This has led to a dramatic slowdown in consumer spending. Retail sales are now barely growing, having been rising close to 8% YoY at the end of 2016. With plenty of uncertainty surrounding Brexit, and more recently the UK political climate generally, the outlook for wages and hiring is likely to stay fairly subdued.

2.9% Latest headline inflation reading
(YoY%)

Investment is likely to stay lower too; a survey recently conducted by the Institute of Directors suggested that 57% of members were either “quite” or “very” pessimistic about the UK economy of the coming year.

For those reasons, we think that Carney's view will prevail and we are unlikely to get a rate hike before 2019. We'd expect BoE Chief Economist Haldane, who is typically fairly dovish, to take a similar line to Carney when he speaks in Yorkshire tomorrow

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