

## Cautiously optimistic BoE unlikely to hike in 2019

The Bank of England's latest forecasts keep the door firmly ajar to further tightening. But the fact that policymakers have opted not to send a stronger hawkish signal to markets emphasises that this is unlikely to happen in 2019



Source: Chris Ratcliffe, Bloomberg

The Bank of England has unanimously voted to keep rates on hold. But the real question ahead of the May meeting was whether the recent Article 50 extension would see the committee take a decidedly more optimistic stance.

Delving into the new inflation report, it seems like the answer to that question is only a partial 'yes'. Policymakers have made a few positive tweaks to growth throughout their forecast period, though this is mainly due to more dramatic inventory-building during the first quarter, as well as the flatter yield curve.

Importantly though, the Bank continues to look for sluggish growth over the next few quarters. That's partly down to a reversal of the Brexit stockbuilding effect, but like us, policymakers expect investment to continue to fall.

While we suspect a 'no deal' Brexit is relatively unlikely, firms will have to continue planning for the worst case. Goods producers/suppliers will need to either [maintain elevated stock levels or rebuild them again ahead of the October deadline](#) – both are likely to be costly. That's likely to keep a lid on growth in the near-term despite some potential for better consumer spending.

## Positive wage growth forecast suggests policymakers want to raise rates earlier (if they can...)

As ever though, wage growth remains a key focus for the Bank of England and this has been a stand out positive in the UK economy over the past year or so. Admittedly, some measures of hiring activity have dipped recently, perhaps indicating weakness ahead. For the time being though, the Bank continues to expect wage growth to edge closer to the 3.5-4% year-on-year level over the forecast period.

Put another way, policymakers think that most of the remaining slack in the economy has eroded, and continue to expect the opposite – excess demand – to emerge. Given that the Bank's forecasts are based on the market's interest rate outlook, this is a subtle way of saying that more tightening will be required than investors currently expect, to keep the economy from modestly overheating.

### A 2019 rate hike looks unlikely amid ongoing Brexit uncertainty

In reality however, we think the chances of that happening this year have receded. The fact that the Bank isn't explicitly warning markets about the risk of more rapid rate hikes is fairly telling. Still, we may begin to see one or two members vote for rate hikes at the next few meetings, acutely aware perhaps that Article 50 may be extended beyond October and wary of the cost of keeping rates lower for longer.

For the committee as a whole though, we suspect Brexit uncertainty will remain front-and-centre. Barring a deal being ratified by the UK much earlier than expected, we think it's unlikely the BoE will hike rates this year.

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