

UK rates to stay firmly on hold, despite 3 votes for hike

Three MPC members voted for a hike, but we doubt there will be a consensus backing higher rates until there is much greater clarity on Brexit.



Source: Bank of England

The Bank of England has left interest rates unchanged, but it was closer than predicted with three MPC members voting for a rate hike. Kristin Forbes had already been voting for such action, but she was joined by Michael Saunders and Ian McCafferty who also wanted an immediate increase in Bank Rate to 0.5%. This is the biggest vote in favour of a hike since 2007.

Three Number of MPC members voting for a rate hike

They felt such action was justified because inflation was accelerating faster than they had

expected and that slack in the labour market appears to have diminished. However, the other five members of the MPC thought that despite inflation likely remaining “above the target for an extended period” there was no justification for action.

We think the committee as a whole will look through this inflation spike

They pointed to the fact “pay growth has moderated further from already subdued rates” and were worried because “GDP growth declined markedly in the first quarter”. They also warned of the uncertainty over “how large and persistent this slowdown in consumption will prove”.

Moreover, they stated that reacting to inflation with higher interest rates “would be achievable only at the cost of higher unemployment and, in all likelihood, even weaker income growth”.

We don't expect a rate hike before 2019

It is clear that there is a split between the internal Bank of England MPC members and the external appointments. Given the BoE “looked through” inflation at 5%+ rates in 2008 and 2011, we think the committee as a whole will look through this spike too. The economic and political uncertainty, we believe, is too great to get a consensus behind higher rates and with Kristin Forbes leaving the BoE this month, the hurdle to getting that consensus will soon be harder to achieve

Author

James Knightley

Chief International Economist, US

james.knightley@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom

this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.