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Snap

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.

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

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