PREVIEW: BoE rate decision, minutes and MPR due Thursday 11th May 2023

- **BoE rate decision, minutes and MPR due Thursday 11th May 2023 at 12:00BST/07:00EDT, press conference due at 12:30BST/07:30EDT**
- **The MPC is expected to deliver another 25bps hike; will likely be subject to dissent**
- **Focus will be on how committed the MPC is to further tightening**

OVERVIEW: Expectations are for the BoE to deliver a 25bps hike in the Base Rate to 4.5%, according to 55/56 analysts surveyed by Reuters, with just one looking for unchanged. Market pricing concurs with economists as 25bps is priced at around 85%. Dovish dissent from Tenreyro and Dhingra is expected once again. Focus will be on any hints over a potential pause in the current hiking cycle.

PRIOR MEETING: As expected, the BoE opted to pull the trigger on another 25bps hike, taking the Base Rate to 4.25%. The decision to move on rates was via a 7-2 vote split (vs. exp. 6-3) with Dhingra and Tenreyro the dissenters. Within the seven that opted for a hike, there was unanimity on the 25bps increment with arch-hawk Mann refraining from voting for 50bps. Heading into the event, there was some speculation over whether the BoE could signal that this would be the final hike of the cycle. However, the MPC opted to keep forward guidance on rates which notes that if there were evidence of more persistent pressures, further tightening would be required. The decision to keep this guidance may well have been as a result of the unexpectedly hot February CPI print, which was also a factor in swaying markets so firmly towards a 25bps hike ahead of the meeting vs. unchanged. On inflation, the statement noted that CPI is still expected to fall significantly in 2023 Q2, to a lower rate than anticipated in the February Report; citing news on the EPG and declines in wholesale energy prices. From a growth perspective, GDP is still likely to have been broadly flat around the turn of the year, but is now expected to increase slightly in the second quarter, compared with the 0.4% decline anticipated in the February Report.

RECENT DATA: Data since March has leaned hawkishly, with headline Y/Y CPI printing at 10.1%, which was some 0.9 pp above the MPC's forecast, and the core rate at 6.2% vs. the MPC's projection of 5.8%. The April BoE Decision Maker Panel data noted that members expected CPI to be at 5.6% one-year ahead, down from 5.8% in the prior release. In the labour market, headline earnings growth advanced to 6.6% from 6.5%, employment growth in February stood at 169k, whilst the unemployment rate rose to 3.8% from 3.7% in the three months to February. On the economic growth front, M/M GDP flatlined in February as strike action weighed on activity. More timely survey data showed the UK Composite PMI rising to 54.9 from 52.2 thanks to the strong performance of the services sector with the accompanying release noting "while the growth outlook has improved considerably for the service economy this spring, a swift rebound in customer demand appears to have reignited inflationary pressures". Retail Sales for March contracted 0.9% on a headline basis and 1.0% for the core metric, which prompted Pantheon Macroeconomics to label the recovery in January and February as a "false dawn".

RHETORIC: Governor Bailey (27th March) noted that if signs of persistent inflationary pressures become evident, further monetary tightening would be required. Bailey added that with the FPC focussing on the financial system, the MPC can focus on returning inflation to target. Chief Economist Pill (4th April) reaffirmed that there is a lot of policy-in-the-pipeline still to come through. He later commented (25th April) that recent events in financial markets had "moderated" calls for higher rates. Deputy Governor Broadbent (25th April) suggested that had the MPC seen inflation shocks coming, it would have tightened policy sooner, adding that the UK has second-round inflation effects, but is not in a wage spiral. Deputy Governor Ramsden (21st April) remarked that "there were still signs of stubbornly high inflation in the economy and the Bank must not get 'knocked off course' in its 18-month battle to control prices by raising interest rates." MPC Hawk, Mann (29th March) stated that financial conditions have loosened in the UK, adding it is going to be difficult for the BoE to do its job in H2 '23 as headline inflation slows, but the core remains persistent. At the dovish end of the spectrum, external member Tenreyro (14th April) has cautioned that we are yet to see most of the impact of previous rate hikes and (20th April) the MPC may have already tightened a bit too much.

RATES: Expectations are for the BoE to deliver a 25bps hike in the Base Rate to 4.5%, according to 55/56 analysts surveyed by Reuters, with just one looking for unchanged. Market pricing concurs with economists as 25bps is priced at around 85%. The prior meeting in March saw a 7-2 vote in favour of a 25bps hike, with dovish dissent from Tenreyro and Dhingra, consensus looks for the same outcome this time around. ING outlines a potential wildcard scenario whereby "one or both of the doves (Tenreyro and Dhingra) vote for a rate cut", which would lead to a "rare, but not unprecedented, three-way split". Elsewhere in March, the MPC opted to keep forward guidance on rates which notes that if there were evidence of more persistent pressures, further tightening would be required. Focus will be on whether the MPC retains this language or adjusts it to indicate that a pause at the June meeting could be forthcoming. Given the hawkish data that was released between the March and May meetings, it is likely that the Bank will stress data-dependence. That said, if inflation is projected to be materially below target over the medium-term this could be seen as an indication that the MPC thinks it may have done enough for now. As it stands, market pricing puts the terminal rate at around 4.82%, which would imply another 25bps hike beyond next week and a circa 28% chance of another thereafter.

FORECASTS: For the accompanying macro projections, Oxford Economics anticipates an upgrade to near-term growth and a downgrade to near-term inflation, with the latter a by-product of "lower energy prices, rising slack, as well as a higher yield curve". Over the medium-term, inflation is expected to be materially below 2% in 2024 and 2025.

Current forecasts

Inflation: 2023 4%, 2024 1.5%, 2025 0.5% Growth: 2023 -0.5%, 2024 -0.25%, 2025 0.25%