PREVIEW: BoE rate decision, MPR and minutes due Thursday 2nd November 2023

- **BoE rate decision, MPR and minutes due Thursday 2nd November 2023 at 12:00GMT/08:00EDT, press conference due at 12:30GMT/08:30EDT**
- **The MPC is expected to keep rates on hold via a 6-3 vote split as Cunliffe is replaced by Breeden**
- **Accompanying MPR forecasts will be analysed to judge the extent to which policy will need to remain restrictive**.

OVERVIEW: 61/73 economists surveyed by Reuters expect the MPC to stand pat on rates, with markets assigning a circa 96% chance to such an outcome. Expectations for no change follow suit from the MPC's decision in September to pause its rate hiking campaign via a 5-4 vote (dissent came from Cunliffe, Greene, Haskel and Mann). Since the last meeting, economic developments have not swung hawkishly enough to warrant consensus on the MPC moving back in favour of a rate hike. Accompanying MPR projections will be used to see how long policy will likely need to remain restrictive.

PRIOR MEETING: Initially, 64/65 economists surveyed by Reuters expected the BoE to hike the Bank Rate by 25bps to 5.5%. However, this overwhelming consensus was derailed by the soft August CPI report. As such, markets shifted expectations in a more dovish direction to a near coin-flip at one stage heading into the announcement. In the end, the MPC opted to stand pat with the Bank rate held at 5.25% via a 5-4 vote and the majority consisting of Bailey, Broadbent, Dhingra, Ramsden and Pill. The unchanged camp justified their vote on the basis that "there were signs that the labour market was loosening", whilst those in the hike camp consisted of Cunliffe, Greene, Haskel and Mann amid the judgement "..overall there was evidence of more persistent inflationary pressures". The MPC opted to keep some optionality over further moves by reaffirming that "further tightening would be needed if evidence of more persistent inflation pressures is seen". Furthermore, the statement reiterated that "policy will need to be sufficiently restrictive for sufficiently long to return inflation to the 2% target". In terms of the economic outlook, "CPI inflation is expected to fall significantly further in the near term, reflecting lower annual energy inflation". However, services inflation is projected to remain elevated in the near term, with some potential month-to-month volatility. Alongside the rate decision, the MPC opted to reduce the stock of gilts by GBP 100bln (exp. ~80bln) in the 12-months starting October.

RECENT DATA: Since the last meeting, September's CPI data saw the headline Y/Y rate hold steady at 6.7%, core fall to 6.2% from 6.8%, whilst the services print ticked higher to 6.9% from 6.8%. Nonetheless, expectations are for a step lower in price pressures for the October release as "last year's steep increase in household energy bills drops out of the annual comparison", according to ING; a view which has also been put forward by Governor Bailey. The BoE's Decision Maker Panel survey for September showed that the 1yr ahead inflation expectation rose to 4.9% from 4.8%, whilst the 3yr held steady at 3.2%. In the labour market, headline earnings growth in the 3M/YY period to August slowed to 8.1% from 8.5% and the unemployment rate dipped to 4.2% in August vs. the MPC forecast of 4.1%. That being said, due to data collection issues at the ONS, the numbers are being treated with great levels of caution by the market. On the growth front, M/M GDP for August expanded by 0.2% vs. the 0.5% contraction seen in July. More timely survey data saw the October services PMI fall to 49.2 from 49.3, manufacturing rise to 45.2 from 44.3, leaving the composite at 48.6 vs. prev. 48.5. The accompanying release noted that "The UK economy continued to skirt with recession in October, as the increased cost of living, higher interest rates and falling exports were widely blamed on a third month of falling output". September retail sales posted a 0.9% M/M contraction and a Y/Y decline of 1.0%. The BRC report for October showed that food inflation fell to 8.8% Y/Y from 9.9%, declining to its lowest level in over a year.

RECENT RHETORIC: Governor Bailey (13th Oct) stated that he is seeing progress that inflation is being tackled, but there is work left to do. He later added (20th Oct) that he expects a marked fall in inflation next month. Deputy Governor Broadbent (5th Oct) said there are clear signs that rate hikes are having an impact and it is an open question on whether rates will increase further. Chief Economist Pill (16th Oct) said the BoE must not be premature in declaring victory on inflation and thinks BoE rate rises have been transmitted more than 20-25% but not dramatically so; the latter comment was in response to comments from external Dhingra who estimated that only about 20%-25% of the impact of interest rate hikes have been fed through to the economy. MPC hawk Mann (2nd Oct) said that the BoE's forecasts are telling a fundamentally different story to the one she considers likely, adding that monetary policy only recently became restrictive. New MPC member Breeden (12th Sept) previously remarked that there was an "awful lot of tightening" to come through, adding there was a real risk of second round impacts on inflation.

RATES: 61/73 economists surveyed by Reuters expect the MPC to stand pat on rates, with markets assigning a circa 96% chance to such an outcome. Expectations for no change follow suit from the MPC's decision in September to pause its rate hiking campaign via a 5-4 vote (dissent came from Cunliffe, Greene, Haskel and Mann). The lack of notable hawkish developments since the prior meeting will likely see policymakers continue to sit on their hands. In terms of the arithmetic on the MPC, it is a guessing game in trying to gauge the vote split for the decision, particularly given that dissenter Cunliffe is set to be replaced by Sarah Breeden. That being said, consensus currently looks for 6-3 in favour of rates being left unchanged which would imply Breeden replacing Cunliffe's dissent with a vote to leave rates unchanged. Even in the event that all policymakers are in agreement that rates should be held at current levels, the policy statement will likely continue to reiterate that "further tightening would be needed if evidence of more persistent inflation pressures is seen". Looking beyond the upcoming meeting, polling from Reuters suggests that economists expect the first rate cut from the MPC won't come until at least July, whilst markets don't price a 25bps reduction in the Bank Rate until September 2024.

FORECASTS: For the accompanying MPR, those polled by Reuters believe that inflation will average 2% in 2025, 2.2% in 2025, and with a return to target not coming until Q2 2025. On the growth front, polling suggests that Britain will avoid a recession, but the outlook remains weak with 2024 annual growth seen at just 0.4%. It is worth noting that the upcoming projections will be based on a lower implied path for interest rates, with Oxford Economics noting that "since the end of July, market rate expectations for the next two years have fallen from 4.75-6.00% to 4.50-5.25%". Furthermore, upside pressure on inflation could also stem from the recent increase in oil prices. That being said, Oxford Economics notes that some of the upside impacts on CPI and GDP will be offset by the increases in UK borrowing costs which will have acted to tighten financial conditions. Overall, ING concludes that "a medium-term inflation forecast at target, premised on a yield curve which bakes in very little easing over the next couple of years, will be cited as another reason to keep rates higher for longer".

Current forecasts

Inflation: 2023 5.0%, 2024 2.5%, 2025 1.5% Growth: 2023 0.5%, 2024 0.5%, 2025 0.5%