PREVIEW: BoE rate decision and minutes due Thursday 14th December 2023

- **BoE rate decision and minutes due Thursday 14th December 2023 at 12:00GMT/07:00EST**
- **The MPC is expected to keep rates on hold via a 6-3 vote split**
- **Markets currently price the first 25bps reduction by June 2024 with a total of 92bps of cuts priced by year-end**.

OVERVIEW: Expectations are for the MPC to stand pat, maintain its Base Rate at 5.25% for a third consecutive meeting. Recent data saw headline CPI decline to 4.6% Y/Y in October from 6.7%, core fall to 5.7% Y/Y from 6.1% and all services slip to 6.6% Y/Y from 6.9% (vs MPC forecasts for 6.9%). On the growth front, October GDP contracted by 0.3% M/M whilst more timely PMI metrics saw the composite PMI rise to 50.7 in November from 48.7. In the labour market, the unemployment rate in the 3-month period to October held steady at 4.2%, whilst wage growth continued to ease. Governor Bailey has remarked that the full effect of higher rates is yet to hit the UK, adding that the MPC is not in a place to discuss rate cuts. Ultimately, with economic developments not shifting enough to warrant a change in stance from the Bank, consensus expects the MPC to continue to vote 6-3 in favour of standing pat on rates (hawkish dissent from Greene, Haskel and Mann). In terms of the policy statement, the MPC will likely reiterate that “policy will need to be sufficiently restrictive for sufficiently long to return inflation to the 2% target.” In terms of an outlook beyond the upcoming meeting, markets currently price the first 25bps reduction by June with a total of 92bps of cuts priced by year-end.

PRIOR MEETING: As expected, the MPC opted to stand pat on rates once again. The decision was subject to dissent from Mann, Greene and Haskel, whilst newly-appointed Breeden replaced Cunliffe's hawkish dissent with an unchanged vote. The decision to stand pat on rates was based on the judgement that since the last meeting, GDP had weakened, the labour market continued to loosen and CPI is expected to decline "significantly" in the coming months. Furthermore, the accompanying MPR noted that "more than half of the impact of higher interest rates on the level of GDP is still to come through". The statement reiterated that "policy will need to be sufficiently restrictive for sufficiently long to return inflation to the 2% target", whilst keeping open the option of further tightening if needed. When it comes to policy easing, Governor Bailey judges that it is "much too early to think about rate cuts". The forecasts embedded within the MPR saw 2023 inflation lowered to 4.75% from 5.0% and 2024 upgraded to 3.25% from 2.5%, with inflation not expected to fall below the 2% target until Q4 2025 (vs. prev. view of Q2 2025). From a growth perspective, GDP is now expected to be completely flat next year. At the follow-up press conference, Bailey didn't add too much to the debate surrounding the BoE with the Governor suggesting that now is not the time for complacency when it comes to inflation. However, he did also make the point that policy should not be kept excessively tight for too long.

RECENT DATA: Headline Y/Y CPI declined to 4.6% in October from 6.7%, core fell to 5.7% from 6.1% and all services slipped to 6.6% from 6.9% (vs. MPC forecast of 6.9%). Elsewhere, the BoE's Decision Maker Panel survey for November saw the 1yr-ahead inflation expectation fall to 4.4% from 4.6%, whilst the 3yr rose to 3.2% from 3.1%. On the growth front, M/M GDP for October contracted by 0.3%, leaving the 3M/3M rate at 0%. More timely PMI metrics saw the November composite PMI rise to 50.7 from 48.7 with the services component moving back into expansionary territory. In the labour market, the unemployment rate in the 3M period to October held steady at 4.2%, whilst wage growth continued to ease as the labour market loosens. October retail sales saw the M/M rate contract by 0.3% (vs. Exp. +0.3%) with the decline predominantly due to a fall in automotive fuel sales volumes, but also from both food and non-food stores.

RECENT RHETORIC: Governor Bailey has remarked that the full effect of higher rates is yet to hit the UK, adding that the MPC is not in a place to discuss rate cuts. Chief Economist Pill stated that the middle of next year does not seem totally unreasonable for considering rates stance, before somewhat walking back this comment by reaffirming that “assume rates are to stay restrictive for an extensive period”. Deputy Governor Ramsden is of the view that "monetary policy is likely to need to be restrictive for an extended period of time". Dovish external member Dhingra has noted reassurance that inflation was heading lower but it was too early to talk about rate cuts. Hawkish external member Mann is of the view that more tightness now is important in order to cement the commitment to the 2% inflation target. Hawkish external member Greene suggests that in order to return inflation sustainably to the target, the MPC must balance the risk of doing too little with that of doing too much. External member Haskel has stated that labour market tightness will need higher rates for longer to get inflation sustainably back to target.

RATES: Expectations are for the MPC to stand pat on the Base Rate at 5.25% for a third consecutive meeting as policymakers take stock of existing actions. Ultimately, with economic developments not shifting enough to warrant a change in stance from the Bank, Oxford Economics expects the MPC to continue to vote 6-3 in favour of standing pat on rates (hawkish dissent from Greene, Haskel and Mann). In terms of the policy statement, the MPC will likely reiterate that "policy will need to be sufficiently restrictive for sufficiently long to return inflation to the 2% target." In terms of an outlook beyond the upcoming meeting, markets currently price the first 25bps reduction by June with a total of 92bps of cuts priced by year-end.

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