



## PREVIEW: BoE rate decision, minutes and MPR due Thursday 9th May 2024

- **BoE rate decision, minutes and MPR due Thursday 9th May 2024 at 12:00BST/07:00EDT, press conference due at 12:30BST/07:30EDT**
- **The MPC is expected to keep the Base Rate at 5.25% via an 8-1 vote split**
- **Focus will also fall on the accompanying MPR and how inflation projections align with the MPC's mandate**

**OVERVIEW:** Analysts are unanimous in their view that the MPC will keep the Bank Rate unchanged at 5.25%, with markets assigning a circa 93% chance of such an outcome. The vote split is once again expected to be 8-1 with Dhingra the lone dovish dissenter. Since the March announcement, Governor Bailey noted that the UK is "on track" to quell inflation. However, Chief Economist Pill, said that in his baseline scenario, "the time for cutting Bank Rate remains some way off." Attention will also fall on the policy statement, and whether the MPC opts to provide a dovish tweak to, or scraps, its existing guidance that "policy will need to remain restrictive for sufficiently long." Beyond the upcoming meeting, the first 25bps cut is not fully priced until August's meeting, and a total of 53bps of loosening is being priced by year-end. For the accompanying MPR, focus will be on medium-term inflation expectations, which could be revised as low as 1.5%, according to NatWest Markets.

**PRIOR MEETING:** As expected, the MPC once again opted to stand pat on rates at 5.25%. The slight surprise came via the vote split which saw Haskel and Mann move into the unchanged camp, leading to an 8-1 split with Dhingra the lone dissenter in opting for a cut. That being said, divisions remained within the unchanged camp with the account of the meeting noting that, at one end, some believe that developments suggest the restrictive stance of policy is having a material impact on reducing inflationary pressures. At the other end of the spectrum (likely Haskel and/or Mann) some believed wage growth is too high and there are only limited signs of services price inflation returning to a target-consistent pace quickly enough. In terms of guidance, the MPC maintained the statement that "policy will need to remain restrictive for sufficiently long". However, Governor Bailey did acknowledge that "things are moving in the right direction".

**RECENT DATA:** Since the prior meeting, headline Y/Y CPI has pulled back to 3.2% from 3.4%, core slipped to 4.2% from 4.5% whilst services remained sticky at 6.0%. From a growth perspective, M/M GDP for February came in at 0.1% vs. the 0.3% print seen in Jan. More timely PMI data for April revealed continued resilience in the services sector which saw the composite metric rise to 54.0 from 52.8. The accompanying report noted that data is indicative of "GDP rising at a quarterly rate of 0.4% after a 0.3% gain in the first quarter". Additionally, "although selling price inflation cooled slightly, the upturn in costs alongside solid demand suggests firms may seek to raise prices in the coming months." In the labour market, the unemployment rate rose from 3.9% to 4.2% in the 3M period to February (albeit subject to data quality concerns), whilst headline wage growth held steady at 5.6%. Retail sales in March were flat on a M/M basis and up 0.8% Y/Y. ONS: "looking at the quarter, sales volumes increased by 1.9% in the three months to March 2024 when compared with the previous three months. This was following low sales volumes over the Christmas period for retailers".

**RECENT RHETORIC:** Since the March announcement, Governor Bailey noted that the UK is "on track" to quell inflation. However, divisions on the MPC were laid bare after comments by Deputy Governor Ramsden, who is increasingly confident that "persistence in domestic inflation pressures are receding," were followed up by remarks by Chief Economist Pill, who said that in his baseline scenario, "the time for cutting Bank Rate remains some way off." At the hawkish end of the spectrum, external member Mann has remarked that she believes that markets are perhaps a bit too complacent when it comes to how long the BoE can hold rates, adding that markets are pricing in too many cuts. External member Haskel warned against rushing to cut rates and said that rate cuts should be "a long way off". External member Greene remarked that growth and services price inflation are not consistent with a sustainable return to 2% inflation. Note, there have not been any pertinent comments since the last meeting from the likes of Dhingra, Broadbent and Breden.

**RATES:** Analysts are unanimous in their view that the MPC will keep the Bank Rate unchanged at 5.25%, with markets assigning a circa 93% chance of such an outcome. Given the split of views at the BoE, the vote split will likely take the immediate focus. Expectations are for another 8-1 vote with Dhingra the lone dissenter. However, this is subject to some degree of uncertainty. Thereafter, attention will likely fall on the policy statement, and whether the MPC opts to provide a dovish tweak, or scraps, its existing guidance that "policy will need to remain restrictive for sufficiently long." Beyond the upcoming meeting, the first 25bps cut is not fully priced until August's meeting, and a total of 53bps of loosening is being priced by year-end; a substantial repricing from the six cuts that were expected at the start of the year.



**FORECASTS:** For the accompanying MPR, analysts at ING note that inflation forecasts are likely to be lowered on account of the market pricing out around 50bps of cuts since the prior meeting. Focus will be on the medium-term inflation forecasts, which could be revised as low as 1.5%, according to NatWest. Anything at or below 2% would be viewed by the market as an endorsement by the MPC of current rate cuts bets for 2024. From a growth perspective, Oxford Economics notes that stronger-than-expected activity at the start of this year and the modest loosening of fiscal policy announced in the Budget will raise the near-term GDP forecasts.

#### PREVIOUS FORECASTS

*Inflation.*

2023 4.25% 2024 2.75% 2025 2.50%

*Growth.*

2023 0.25% 2024 0.25% 2025 0.75%

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