PREVIEW: BoE rate decision and minutes due Thursday 19th December 2024 at 12:00GMT/07:00EST

- **BoE rate decision and minutes due Thursday 19th December 2024 at 12:00GMT/07:00EST**
- **MPC is expected to hold the Base Rate at 4.75% via an 8-1 vote split**
- **Focus will be on what/if any hints are made over the Bank's future easing plans**

OVERVIEW: The BoE is expected to hold the Base Rate at 4.75% via an 8-1 vote split on account of stubborn services inflation, elevated wage growth and a potential boost to growth from recent fiscal measures. Note, there is no MPR or press conference for this release. Looking beyond the upcoming meeting, markets look for 57bps of easing in 2025.

PRIOR MEETING: As expected, the MPC opted to lower the Bank Rate by 25bps to 4.75%. The decision to do so was made via an 8-1 vote split with arch-hawk Mann the lone dissenter in voting for an unchanged rate. Within the policy statement, the MPC reiterated that it “will ensure Bank Rate is restrictive for sufficiently long until the risks to inflation returning sustainably to 2% target have dissipated further”. Furthermore, it was noted that a gradual approach to removing policy restraint remains appropriate and Governor Bailey remarked that the MPC cannot cut rates too quickly or by too much. The accompanying MPR saw an upgrade to 2025 and 2026 inflation forecasts with the BoE noting that the UK budget is “provisionally expected to boost inflation by just under 0.5ppts at peak between mid 2026 and early 2027”. At the follow-up press conference, when questioned on the impact of the UK budget on monetary policy, Governor Bailey remarked that the MPC needed to see how it will impact inflation, however, he did not think that the path of rates will be different to what it would have been otherwise. On the rate path, Bailey refused to provide specifics regarding what “gradual” means when it comes to lowering rates. However, he did note that if progress on inflation continues, the MPC will respond to it.

RECENT DATA: The latest UK inflation data showed headline Y/Y CPI in November rising to 2.6% from 2.3% (MPC forecast 2.4%), core Y/Y CPI increased to 3.5% from 3.3% and services inflation holding steady at 5.0% (MPC forecast 4.9%). Elsewhere, the BoE's Decision Maker Panel report (on which the MPC places a lot of attention) noted that respondents year-ahead own-price inflation was expected to be 3.7% in the three months to November vs. 3.5% in October, whilst expectations for CPI inflation a year ahead rose from 2.6% to 2.7% in the three months to November. On the growth front, M/M GDP in October showed a contraction of 0.1% vs. expectations of a 0.1% expansion. More timely data from S&P saw the all-important services metric in December rise to 51.4 from 50.8, manufacturing slip to 47.3 from 48.0, leaving the composite at 50.5 (unchanged from the prior). The accompanying release noted, "while the December PMI is indicative of the economy more or less stalled in the fourth quarter, the loss of confidence and increased culling of jobs hints at worse to come as we head into the new year." In the labour market, the unemployment rate in the 3-months to October held steady at 4.3% (note, this data is subject to various data quality issues), employment change in the same time period slipped to 173k from 219k, whilst the more timely HMRC payrolls metric for October printed at -35k vs. prev. 24k. Of concern to the MPC is the earnings data with headline 3M/YY earnings for October jumping to 5.2% from 4.4% and the ex-bonus metric advancing to 5.2% from 4.9%.

RECENT RHETORIC: In terms of recent rhetoric, focus has been on an interview with Governor Bailey in the FT with the policy Chief noting that he sees four 25bps rate cuts in 2025. However, this merely reflected market pricing at the time of the last MPR and wasn't necessarily his personal view for the year ahead. Prior to this he noted that services inflation is still above the level that is compatible with on-target inflation. Chief Economist Pill has remarked that there is still some work to be done on underlying domestic inflation pressure in the UK. Deputy Governor Ramsden is of the view that "Given the uncertainties we’re dealing with, the gradual approach we’re taking is appropriate at the moment.” Deputy Governor Lombardelli remarked that "persistent components of inflation and uncertainties around how the labour market will evolve are a cause for concern". External member Greene noted that UK services inflation has remained stubbornly high, underpinned by wage growth. External member Taylor stated that "'Gradual' rate cuts are closely aligned to the market curve currently, around 100bps over the next year". At the most hawkish end of the spectrum, external member Mann is of the view that the BoE should hold rates longer to evaluate persistence and can make larger changes when justified by evidence. For the doves, external member Dhingra notes that there is a disinflationary risk within the UK and the MPC should be easing more.

RATES: Expectations are for the MPC to hold the Base Rate at 4.75% with markets assigning a 90% chance of such an outcome on account of stubborn services inflation, elevated wage growth and a potential upcoming boost to growth from recent fiscal measures. Pantheon Macroeconomics is of the view that recent “data give some support to the most hawkish of the MPC’s three scenarios”. Furthermore, commentary from officials has continued to show that the consensus on the MPC is for a “gradual” lowering of interest rates. As such, the policy statement will likely reiterate that “a gradual approach to removing policy restraint remains appropriate”. The decision to keep rates unchanged will likely come via an 8-1 vote split with Dhingra the lone dissenter. Looking beyond the upcoming meeting, focus has been on a recent interview with Governor Bailey in the FT with the policy Chief noting that he sees four 25bps rate cuts in 2025. However, this merely reflected market pricing at the time of the last MPR. As it stands, markets look for 57bps of easing in 2025.

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