



PREVIEW: BoE rate decision, minutes and MPR due Thursday 6th February 2025

- BoE rate decision, minutes and MPR due Thursday 6th February 2025 at 12:00GMT/07:00EST, press conference due at 12:30GMT/07:30EST
- MPC is expected to cut the Base Rate by 25bps to 4.5%, 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 MPC is expected to deliver a 25bps cut in the Base Rate by 25bps to 4.5% via an 8-1 vote split. Justification for a loosening of policy has been attributed to the growth outlook and the view that policy is still restrictive. The decision is expected to be made via an 8-1 vote split with hawkish dissent likely from Mann. It is expected that the policy statement will maintain phrasing that suggests the Bank will adopt a "gradual approach" to lowering rates and policy will remain "restrictive for sufficiently long." Accompanying projections in the MPR are set to see an increase in near-term inflation forecasts and the growth outlook lowered.

PRIOR MEETING: As expected, the MPC opted to hold the Base Rate at 4.75%. The main surprise for the announcement came via the vote split, with three dovish dissenters (Dhingra, Ramsden and Taylor) vs. only one expected by the analyst consensus. The dissenters based their decision on "the most recent data developments pointed to sluggish demand and a weakening labour market, now and in the year ahead, both of which would see further downward pressure on demand, wages, and prices." However, this view lost out to the majority of six who wished to keep policy unchanged on the basis that "...CPI inflation, wage growth and some indicators of inflation expectations had risen, adding to the risk of inflation persistence." Pantheon Macroeconomics noted that "most of the dovish news is caveated to death in the minutes" and "the MPC is at pains to say they want more data to 'clarify the potential trade-off between more persistent inflationary pressures and greater weakness in output and employment'." Alongside the decision, Governor Bailey noted that the MPC "cannot commit to when or by how much they will cut rates in 2025." As such, the statement reiterated guidance that a "gradual approach to removing monetary policy restraint remains appropriate" and "policy will need to continue to remain restrictive for sufficiently long."

RECENT DATA: On the inflation front, headline CPI slipped to 2.5% Y/Y from 2.6%, core CPI declined to 3.2% Y/Y from 3.5% with the services print slipping to 4.4% Y/Y from 5.0% (MPC forecast: 4.7%), albeit this was largely attributed to volatile air fare metrics. The December BoE Decision Maker Panel data showed that expectations for CPI inflation a year ahead rose from 2.7% Y/Y to 2.8% in the three months to December, with the three-year ahead print rising to 2.7% Y/Y from 2.6%. On the growth front, GDP for November rose by 0.1% M/M from -0.1%, but fell short of the 0.2% consensus. More timely data from S&P Global showed the flash services January PMI ticked higher to 51.2 from 51.1, manufacturing increased to 48.2 from 47.0, leaving the composite at 50.9 vs prev. 50.4. The accompanying report noted that "the first indicators of business conditions in 2025 add to the gloom about the UK economy." In the labour market, the unemployment rate in the three-month period to November rose to 4.4% from 4.3%, whilst employment growth slowed and headline wage growth picked up. Retail sales data for December was a disappointment, with the monthly reading printing -0.3% M/M vs an expected +0.4%; downside was driven by poor food sales, lowest level since 2013 with supermarkets particularly impacted.

RECENT RHETORIC: In the aftermath of the prior meeting, Governor Bailey remarked that market pricing for a February cut was "in a reasonable place." BoE Deputy Governor Breeden stated that recent evidence further supports the case to withdraw policy restrictiveness, expects to continue to remove restrictiveness gradually over time. At the dovish end of the spectrum, external member Taylor has noted that his base case is for around 100bps of cuts this year. Elsewhere, commentary from the MPC has been particularly light since the December announcement.

RATES: All analysts surveyed by Reuters expect the BoE to cut the Bank Rate by 25bps to 4.5%, with markets assigning a circa 94% chance of such an outcome. Justification for a loosening of policy has been attributed to the growth outlook and the view that policy is still restrictive. The decision is expected to be made via an 8-1 vote split, with hawkish dissent from Mann. In terms of guidance, it is expected that the policy statement will maintain phrasing that suggests the Bank will adopt a "gradual approach" to lowering rates and policy will remain "restrictive for sufficiently long." Beyond the upcoming meeting, markets don't fully price another cut until June, with a total of 80bps of easing seen by year-end (including the 25bps expected on Thursday).

FORECASTS: In the accompanying MPR, Pantheon Macro expects the MPC "to raise its near-term inflation forecasts but to cut its growth forecasts and two-year-ahead inflation projection, to 1.9% from 2.1%". The 50bps increase in market rates since the prior MPR will act as an additional drag on the growth outlook whilst weighing on medium-term inflation projections, according to ING.

Current forecasts

Inflation:

1 year-ahead: 2.7% (prev. 2.2%) 2 year-ahead: 2.2% (prev. 1.6%) 3 year-ahead: 1.8%

Growth:

1 year-ahead: 1.7% (prev. 0.9%) 2 year-ahead: 1.1% (prev. 1.5%) 3 year-ahead: 1.4%

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