PREVIEW: BoE rate decision and minutes due Thursday 19th June 2025 at 12:00BST/07:00EDT

- BoE rate decision and minutes due Thursday 19th June 2025 at 12:00BST/07:00EDT
- MPC is expected to keep the Base Rate at 4.25%, via a 7-2 vote split
- Focus will be on what/if any hints are made over the Bank's future easing plans

OVERVIEW: Despite last week's soft outturn for labour market and growth metrics, the MPC is set to stand pat on rates as it sticks to its current quarterly pace of rate cuts (after cutting in May). Reason for caution stems from the stubbornness of inflation with many desks expecting headline Y/Y CPI to remain above 3% well into next year. As such, despite some suggestions of the BoE "falling behind the curve", the accompanying statement is set to maintain its guidance towards a “gradual and careful approach" to rate cuts. Note, the decision will likely be subject to dovish dissent from Dhingra and Mann. As a reminder, this is not an MPR meeting and there will be no press conference from Governor Bailey.

PRIOR MEETING: As expected, the MPC cut the Base Rate by 25bps to 4.25%. However, the decision was subject to more division than anticipated. The decision to cut the Base Rate was 7-2, with Mann and Pill voting to keep rates unchanged; in their view, holding the rate would ensure policy remained sufficiently restrictive to “weigh against stubborn inflationary pressures”. Of the seven who voted to cut, two voted for a 50bps reduction; Dhingra and Taylor. The majority of the five who voted for a 25bps cut were of the view that recent developments on trade were enough to push them to a cut. The statement reiterated that a “gradual and careful approach to the further withdrawal of monetary policy restraint remains appropriate”; some desks had speculated that this language could be removed. Furthermore, policy "will need to continue to remain restrictive for sufficiently long". In the accompanying MPR, near-term inflation forecasts were lowered, the 2025 growth view was upgraded, while 2026 was downgraded. However, these forecasts pre-dated the UK-US trade deal announcement. The follow-up press conference provided little in the way of additional insight.

RECENT DATA: The latest UK inflation data saw Y/Y CPI for May match the Refinitiv consensus and MPC projection @ 3.4%, whilst core Y/Y printed at 3.5% as expected and services Y/Y come in a touch below forecast at 4.7% vs. Exp. 4.8% (MPC forecast 4.7%). The BoE's Decision Maker Panel data for May saw expectations for year-ahead and three-year ahead CPI hold steady at 3.2% and 2.85% respectively. On the growth front, Q1 GDP saw a sizeable Q/Q increase to 0.7% from 0.1% with some of the impact stemming from a front-running of tariffs. However, April's M/M GDP saw an unwinding of this effect, posting a 0.3% contraction. More timely PMI metrics from S&P Global saw the May services metric rise to 50.9 from 49.0, manufacturing tick higher to 46.4 from 45.4, leaving the composite at 50.3 (prev. 48.5). The accompanying release noted "despite weaker order books and cutbacks to staff hiring, latest data indicated a rebound in business optimism to its highest for six months". On the jobs front, the most recent labour market report saw the unemployment rate rise to 4.6% (highest level since August 2021), HMRC payrolls contract at its largest rate since May 2020 and wage growth cool. Retail sales data for May came in strong at +1.2% M/M (prev. 0.1%).

RECENT RHETORIC: Since the prior meeting, Governor Bailey stated that he would not make any prediction about the June rate decision. However, he is of the view that the path for rates remains downwards. Albeit, how far and how quickly rates will fall is shrouded in a lot more uncertainty. Chief Economist Pill explained that his dissenting vote at the May meeting was based on a concern that the pace of withdrawal of monetary policy restriction since last summer – quarterly cuts of 25bp – is too rapid given the balance of risks to price stability". He added that his dissent was in line with his preference for “cautious and gradual” and should not be seen as favouring a halt to the withdrawal of restriction. Deputy Governor Lombardelli noted that underlying inflation pressure for the UK has continued to fall and it is sensible to continue a gradual pace of cutting rates. Deputy Governor Breeden sees merit in maintaining a gradual and careful approach to adjusting the policy stance. She also noted that she thought there was a case to cut Bank Rate in May even without the tariff hit. External member Greene judges that the risks of trade policy to inflation are two-sided, but on balance likely to be disinflationary. External member Mann noted that her switch in the vote from a 50bps cut to a hold reflected the spillover from financial market volatility. She also is of the view that it is better to make bolder moves on rates than hold for longer. Dovish external member Dhingra stated that her vote for a 50bps rate cut was partly to make a statement on the direction of the economy; might see some cost pass-through from US tariffs, but argued that number would be quite small. External member Taylor sees more risk piling up on the downside scenario because of global developments, adding he thought the MPC needed to be on a lower monetary path.

RATES: Analysts surveyed by Reuters are unanimous in expecting the BoE to keep the Base Rate unchanged at 4.25% with markets assigning just a 10% chance of a 25bps rate cut. Markets have been primed for a hold in June since the May meeting, which saw the MPC deliver a 25bps rate cut and stick to its preferred quarterly cadence of loosening policy whilst emphasising its gradual and careful approach. As a reminder, there were also two hawkish dissents at the prior meeting from Chief Economist Pill and external member Mann who preferred to leave policy unchanged. Recent inflation data will likely be used by the MPC as a basis to keep policy steady. However, concerns over the BoE potentially falling behind the curve are mounting, given soft jobs and GDP data last week. The recent soft data is unlikely to shift the consensus on the MPC in favour of a 25bps reduction. However, the vote may end up being a fragmented one; recall, Dhingra and Taylor voted for a 50bps reduction last month. Consensus looks for a 7-2 vote split. An alternative way for the MPC to express a potentially faster pace of rate cuts going forward would be to tweak existing guidance of a “gradual and careful” approach to policymaking; Pantheon Macro is doubtful that one month’s worth of data would be sufficient for such a tweak. Looking beyond the upcoming meeting, markets price a 64% chance of a cut in August with the next 25bps reduction not fully priced until September, whilst 50bps of loosening is seen by year-end.