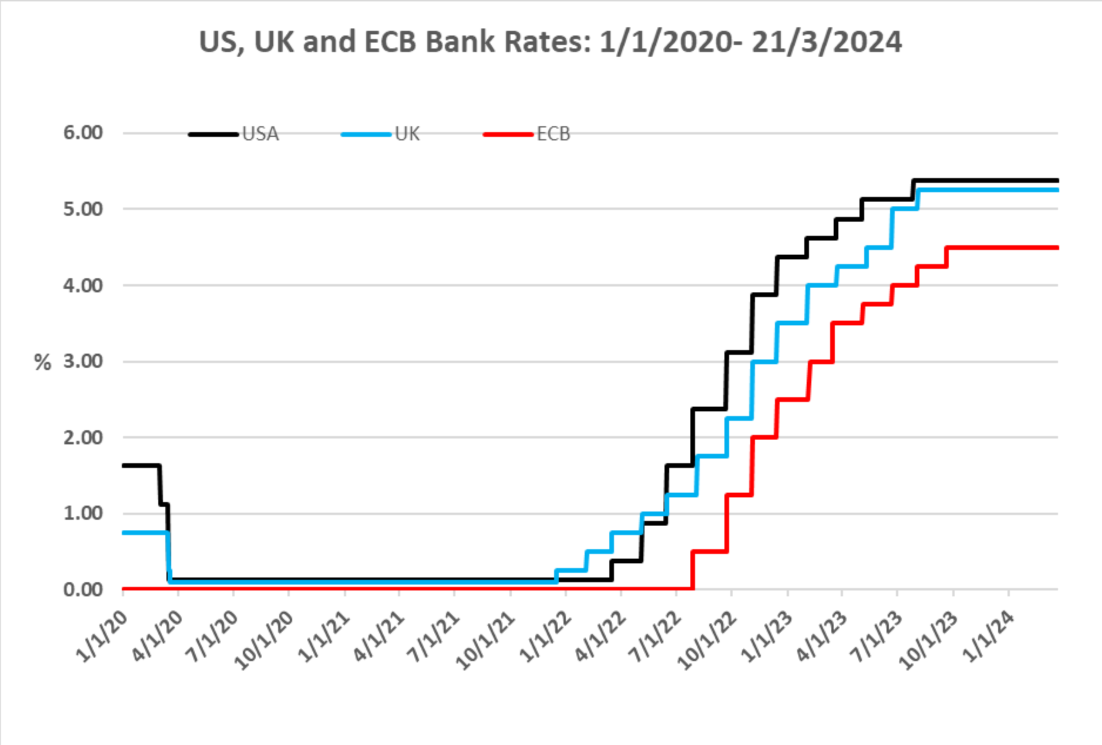
The Bank of England continues to pause

Synopsis: The Bank of England has copied last night's move by the US Federal Reserve and left interest rates unchanged.

Date published: 22.03.2024



The day after the Federal Reserve held its interest rate, the Bank of England stood fast at a 5.25% bank rate. However, unlike the Fed, the Bank does not issue a 'dot plot' giving an insight into how rate setters think the future might look.

The Bank of England's statement said 'Twelve-month CPI inflation fell to 3.4% in February from 4.0% in January and December, a little below the expectation in the February Monetary Policy Report. Services consumer price inflation has declined but remains elevated, at 6.1% in February. Most indicators of short-term inflation expectations have continued to ease.

CPI inflation is projected to fall to slightly below the 2% target in 2024 Q2, marginally weaker than previously expected owing to the freeze in fuel duty announced in the Budget. In the February Report projection, CPI inflation was expected to increase slightly again in Q3 and Q4, accounted for by the direct energy price contribution to 12-month inflation. Services price inflation is expected to fall back gradually.

The Bank acknowledged that the recent fall in inflation is due 'in part ... to base effects and external effects from energy and goods prices.' While it saw 'The restrictive stance of monetary policy...weighing on activity in the real economy', it also flagged that 'key indicators of inflation persistence remain elevated'.

Despite the Bank's caution, the swaps market interpreted the statement as meaning three rate cuts (to 4.5%) are now almost certain this year. That may owe something to a change in voting among the nine monetary policy committee (MPC) members.

In February, six voted in favour of holding the rate, two for an increase and one for an immediate cut. This time around the were no votes for an increase, although the single vote for the cut remained.

Comment

There are six more MPC meetings this year, of which two are after the end of October. Just as Jay Powell at the Federal Reserve will have an eye to election developments in coming months, so will Andrew Bailey. He can expect growing Treasury pressure to start the downhill march of rates.