



UK

BoE's MPC doubles down, but a rate hike in May is not nailed on

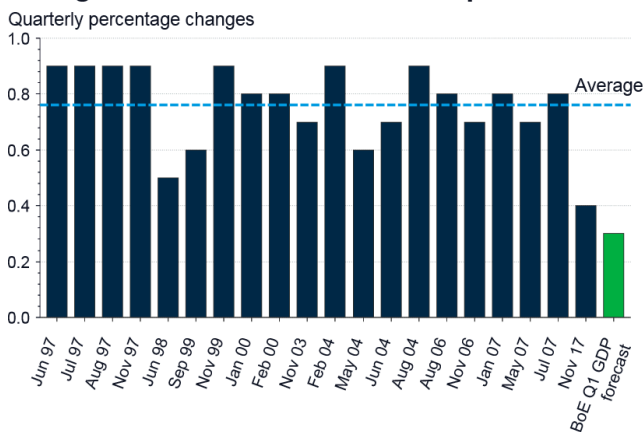
22 March 2018

Joanna Davies

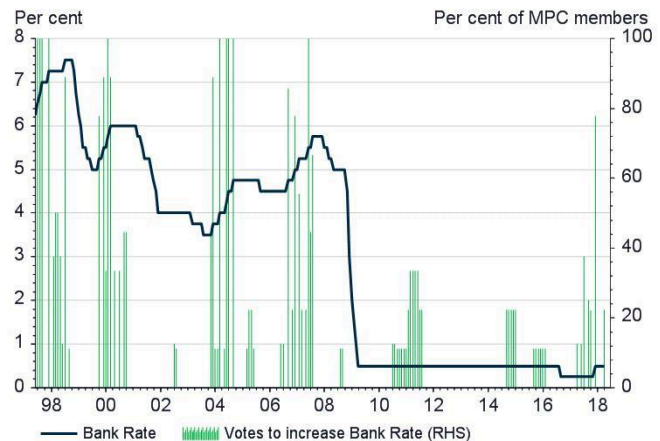


- We welcome today's signal from the UK's MPC that it intends to tighten in the coming months, an impression enhanced by both Ian McCafferty and Michael Saunders voting for an immediate 25 basis point increase, as we believe that low interest rates have contributed to the UK's dire productivity performance
- But, as the Minutes suggest, the latest economic indicators have been mixed and weather poor, causing Bank staff to revise down the estimate of 2018 Q1 GDP growth to 0.3%, far lower than the average rate reported at the time of past rate rises
- And although Ian McCafferty and Michael Saunders were some of the first to break rank last year with a majority forming behind them several meetings later in November 2017, that is far from always the case
- If we are right, and economic activity slows to below the pace that the MPC regards as the "speed limit", the next monetary policy decision in May is likely to be a close call
- Contrary to the consensus, our central view is that the MPC will not hike; but if it does, it is unlikely to mark the second of many

GDP growth estimate at the time of past rate rises UK Bank Rate and MPC votes



Source: Thomson Reuters Datastream / Fathom Consulting



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Do dissenters get their own way?			
1997-2017	Frequency	Majority forms behind dissenter(s)	Dissenter(s) give in or leave
UK MPC			
Dissenter(s) votes for rise	21*	9 (43%)	12 (57%)
Dissenter(s) votes for cut	20	15 (75%)	5 (25%)

* Does not include the current period of dissent beginning March 2018

Source: Fathom Consulting



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