
STRONG UK BUSINESS DATA CREATES INTEREST RATE DILEMMA FOR BANK OF ENGLAND

-

06.10.2016

05.10.2016

EuroNews

Britains dominant services sector grew more strongly than expected in September, defying the Brexit vote gloom.

Surveys of businesses show the UKs economy is proving more resilient than expected and has so far avoided a sharp slowdown.

Activity at services firms rose, though the growth rate did ease slightly from August.

Companies reported more customer enquiries and improved confidence but they are worried that the lower value of the pound is driving up import costs.

Markit, which carried out the surveys, said the overall performance of the UK economy last month looked like it was the strongest since January.

Markits surveys of British manufacturing and construction published earlier in the week also came in stronger than expected, further confounding predictions that Junes vote to leave the European Union would deliver a rapid blow to the economy.

Bank of England dilemma

The UKs central bank now has to decide if the recent stronger business data means it will not have to further cut interest rates to cushion the impact of the vote to leave the European Union.

On Wednesday a senior Bank of England policymaker acknowledged the surprising resilience of the UK economy since the June referendum, while adding it was too soon to say what it meant for the longer term.

Ben Broadbent, the Banks deputy governor for monetary policy, told investors to wait for the BoEs next policy meeting on Nov. 3 when it will give a quarterly update on the economy.

Other BoE policymakers have recently dropped hints they might not vote for a rate cut then.

The wiser course is to wait for the November Inflation Report, which gives us a good opportunity to reflect more systematically on the news since August, and what it implies – if anything – for the medium-term outlook, Broadbent said.

In the short term, he said, the economy seemed to have been cushioned by demand from still

buoyant domestic consumers, the quick boost to exporters from the fall in the value of sterling and the gentle impact so far on the housing market.

However, the Brexit effect on investment was likely to be more insidious as companies faced the prospect of a long wait for the outcome of Britains attempts to negotiate a new trading relationship with the EU.

Broadbent said the impact of the vote on Britains housing market might also take longer to come through.

Mirroring the caution about the longer-term prospects for the economy, the International Monetary Fund on Tuesday lowered its forecast for British growth next year to 1.1 percent from 1.3 percent in July.

The value of the pound dipped below \$1.27 for the first time since 1985 on Wednesday although it recovered some of its losses after the business survey results were released and finished the trading session at \$1.2755.

The fall in the value of sterling is because of investors concerns about the potential future impact of Brexit.

Kaynak/Source: