
BANK OF ENGLAND TO HOLD RATES ALONG BUMPY ROAD TO BREXIT: REUTERS POLL

-

18.07.2017

Reuters (17 July 2017)

LONDON (Reuters) - Above-target inflation won't push the Bank of England to tighten monetary policy this year or next as it waits to see if wage increases catch up with price rises and how divorce talks with the European Union pan out, a Reuters poll found.

Britons voted just over a year ago to leave the EU and envoys on Monday began a first round of negotiations on the terms of the split before Britain departs - with or without a deal - at the end of March 2019.

There is still little lucidity on what tone the talks will take but several Reuters polls over the past few months have concluded that fractious negotiations would be the worst outcome for both Britain's economy and sterling.

"We expect the exit negotiations to be bumpy," economists at Morgan Stanley wrote in a note to clients. "We see MPC action as dependent on economic performance (and) we assume that the economy will slow and keep them on hold despite inflation overshooting the target."

The medians in the poll of economists said the Monetary Policy Committee would hold Bank Rate at its record low of 0.25 percent until 2019. Those forecasters gave, on average, a near one-in-three chance of rates rising before this year is out.

Financial markets have fully priced in a 25 basis point hike by May 2018 but the poll said rates will not rise until 2019, ending that year at 0.75 percent.

Only two of the 80 economists polled in the past few days expect the MPC to tighten policy when it meets on Aug. 3, but they are joined by four others who expect an increase by end-December. The chances of a hike in August are only one-in-five, according the poll.

"Weak GDP and wage growth will keep higher interest rates at bay," said Samuel Tombs at Pantheon Macroeconomics. "Households' real incomes are set to flatline this year."

Consumer spending played a large part in Britain's economic growth last year but workers' pay fell further behind inflation in the three months to May, even as the unemployment rate hit a new 42-year low.

The MPC is watching wage growth closely as it gauges whether the increase in inflation from the fall in the pound becomes more longer-lasting pressure. The BoE expects wages to rise 2 percent this year before picking up in 2018 and 2019.

But that will lag price rises as inflation will average 2.7 percent this year, 2.6 percent next and 2.2 percent in 2019, the Reuters poll found. The MPC targets it at 2 percent.

Inflation hit an almost four-year high of 2.9 percent in May, a bigger increase than economists had expected. Figures due later on Tuesday will probably show prices rose at the same annual rate in June.

Although the predicted recession after Britain voted to leave the bloc never happened, growth slowed sharply at the start of 2017 as consumers felt the hit from rising inflation.

GDP growth is forecast between 0.3 and 0.4 percent through to the end of 2018, barely keeping pace with the euro zone. On an annual basis, the forecasts are for 1.6 percent this year and just 1.3 percent in 2017.

Kaynak/Source: