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Markit Economic Research

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UK economy

Bank of England holds policy amid signs of strengthening economy

- **Bank of England maintains Bank Rate at 0.5% and the size of the Asset Purchase Programme at £375 billion**
- **Improved data flow reduces likelihood of further stimulus**

The Bank of England's Monetary Policy Committee voted once again to keep policy unchanged at its June meeting, the last presided over by present Bank governor Sir Mervyn King. Interest rates were held at 0.5% and its asset purchase programme maintained at £375bn. The recent economic data suggest no more stimulus is needed at present and, unless the economy is hit by further set-backs, no more stimulus seems likely for the foreseeable future.

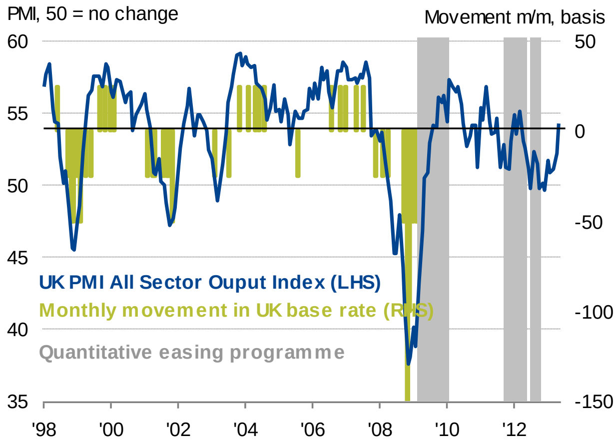
The decision not to add more stimulus to the economy is no surprise, given recent economic data, which are now showing clear signs of improvement. The PMI surveys in particular have indicated that the pace of economic growth is likely to have continued to gather momentum in the second quarter, building on the 0.3% rise seen in the first three months of the year. Policymakers will have been particularly encouraged to see the upturn becoming more broad-based, being less reliant on the services sector, as growth reappears in both manufacturing and construction.

The consumer is also awakening. Visa card data released today showed consumer spending rising at the fastest annual rate since October 2010, despite May being the coldest for 50 years, which hit sales of summer items. Households' views on their finances are also the brightest for three years, according to Markit's Household Finance Index, buoyed by being busier at work, fewer job security worries and rising house prices.

There are undoubtedly clouds still hovering over the economy, including weak pay growth, still-high unemployment, high inflation, the persistent downturn in the Eurozone and worries that weak global economic growth in general will subdue exports. However, at the moment these clouds look less threatening than they have for quite some time.

New governor Mark Carney therefore inherits an economy that is showing signs of gathering momentum. It is likely that growth forecasts will generally start to be revised up for the year, having fallen to an average of 0.6%. Barring any upsets, growth should continue to revive, meaning additional stimulus will be off the table for some time, and quantitative easing may have even come to an end.

Bank policy and the PMI



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