

United Kingdom

Bank of England keeps policy on hold amid signs of economic upturn

- **No change at October Bank of England MPC meeting**
- **Bank set to raise growth projections**

The Bank of England left monetary policy unchanged at its October meeting, meaning the Bank's base rate remains at a record low of 0.5% and its asset purchases were unchanged at £375bn.

Mixed views as economy picks up

The lack of action at the Monetary Policy Committee was widely expected, but the meeting is likely to have been a lively one. Policymakers are likely to have been divided over the speed with which the economy is recovering, and specifically the expected pace of job creation, and therefore the appropriateness of keeping policy at current ultra-loose levels for the period currently set out in the Bank's forward guidance.

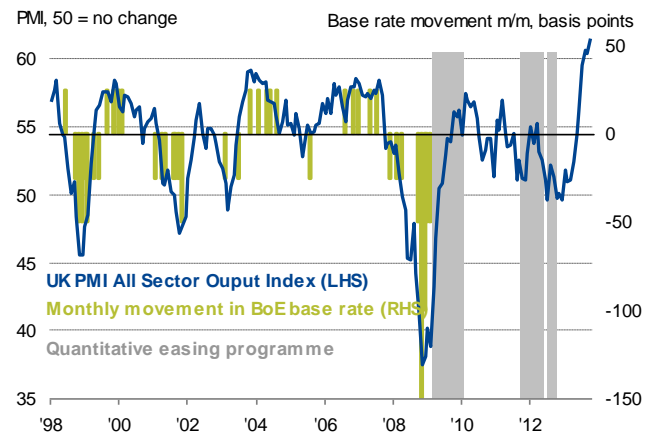
Recent data have shown the economy growing much faster than the Bank had been expecting. Crucially, growth is also translating into much stronger job creation than thought possible at this stage of the recovery. The PMI business surveys, for example, have shown business activity and hiring growing at the fastest rates since the late-1990s at the start of the fourth quarter. Jobless benefit claimants are meanwhile also falling at the fastest rate since 1997. It therefore seems inevitable that the Bank will revise its economic growth, employment and inflation projections in its updated quarterly Inflation Report next week.

Policy dilemma

The Bank faces a difficult task of ensuring the recovery is not snuffed-out too early by tightening policy too soon, but also needs to be wary of having to raise rates sharply at a later date. Leaving policy loose for too long could mean that bubbles develop and inflation jumps higher, and a steep hike in interest rates to cool the economy down again could do even more harm than an earlier, more moderate, rate rise.

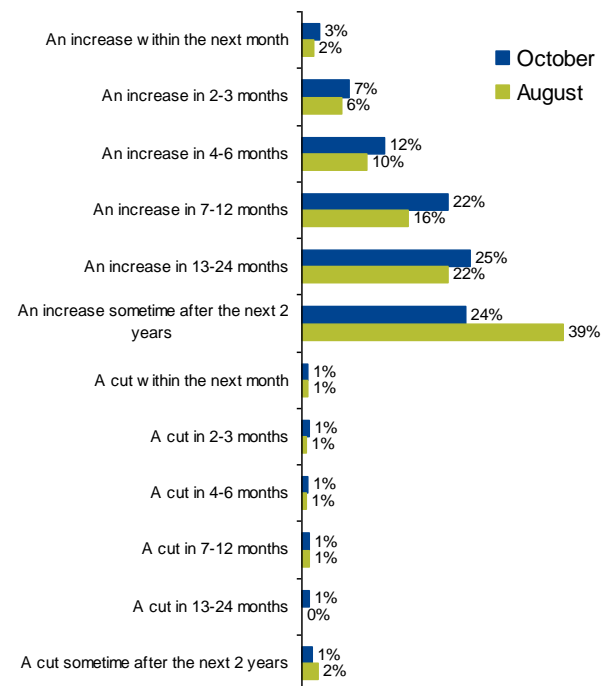
On the evidence we have to date on the far-stronger than anticipated economic data seen in recent months,

Bank of England policy decisions and the PMI



Households' interest rate expectations

The interest rate set by the Bank of England is currently 0.5%. Please let us know when and how you think the Bank will next change interest rates by choosing one of the options below*



* excludes those households not expressing a view.

the forward guidance of rates not needing to rise until late-2016 is looking too relaxed a view.

Households expect rates to rise sooner

The economy is arguably also looking resilient enough to weather a tightening of policy sooner, and in fact many people appear to be already accepting that rates will rise sooner than the Bank has envisaged. A [recent survey](#) showed that, of those that had an opinion, some 69% of households expect rates to start rising within the next years, of which 44% expect to see rates rising within the next 12 months.

Attention therefore turns to next week's eagerly-awaited Inflation Report, so see how the Bank's outlook has changed since it set out its forward guidance back in August.

Chris Williamson

Chief Economist

Markit

Tel: +44 207 260 2329

Email: chris.williamson@markit.com

[Click here](#) for more PMI and economic commentary.

For further information, please visit www.markit.com