Markit Economic Research

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United Kingdom

Bank of England leaves policy unchanged in January

- **The Bank of England's MPC kept policy unchanged in January**
- **Interest rates remain at 0.5%, stock of asset purchases at £375bn**
- **Weakening data flow points to rates not rising until second half of 2015, or even later**

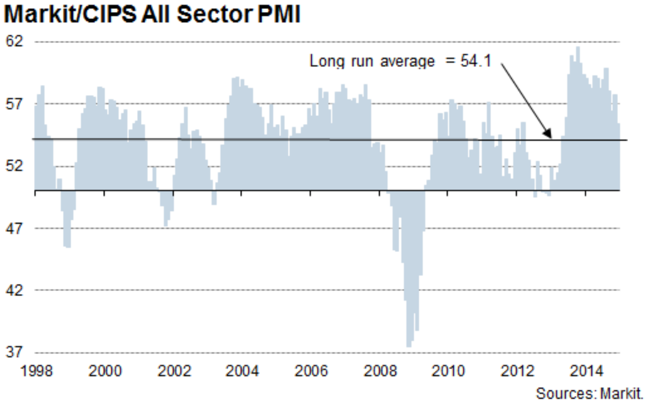
The Bank of England's Monetary Policy Committee (MPC) left interest rates on hold at the opening meeting of 2015, as expected. It's likely that the nine members remained split on whether interest rates should start rising, but it seems probable that the chances of rates rising any time soon have continued to fall.

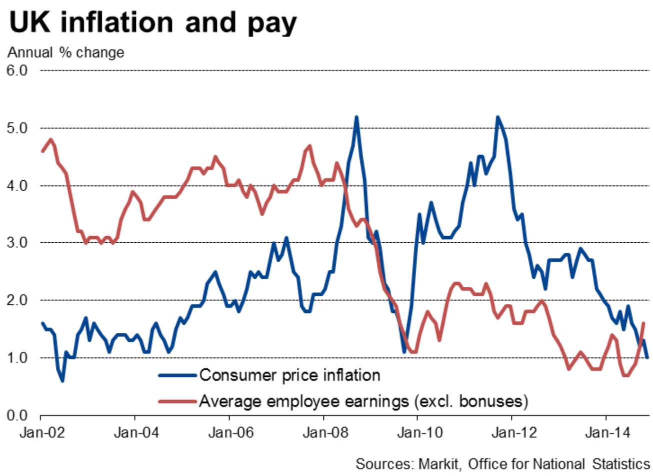
Past meetings have shown two MPC members, Martin Weale and Ian McCafferty, voting to hike interest rates by 0.25% from their current record low of 0.5%. However, the dataflow in terms of economic growth has disappointed in recent months, with the PMI survey signalling a slowdown in the rate of GDP growth from 0.7% to 0.5% in the fourth quarter.

At the same time the inflation outlook has become more benign. With oil prices having slumped by more than half over the past six months, the Bank will be more worried about undershooting its 2% target than overshooting.

The hawks are therefore likely to have remained very much in the minority. That's not to say there is not a case for raising interest rates: even with the recent fall in the PMI surveys, growth remained above its long-run average in December. There is also a case for policymakers to 'look though' the recent drop in inflation if it is caused by lower oil prices, just as higher inflation due to oil price rises has been looked through in the past. With wage growth showing signs of reviving, there is some evidence of underlying inflationary forces picking up.

However, at the moment, wage growth remains muted by historical standards. The slowdown in the economy towards the end of last year, coupled with worrying signs of economic stagnation and political instability in the eurozone, plus falling headline inflation, therefore supports the case for no immediate need to tighten policy. Rates look unlikely to start rising until the second half of the year, and could even be delayed until 2016 if the economic data deteriorate further in coming months.





Chris Williamson

Chief Economist

Markit

Tel: +44 207 260 2329

Email: chris.williamson@markit.com

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