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News Release

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UK economy

Fears of higher interest rates rose ahead of forward guidance review

- Proportion of households expecting the Bank of England to start raising interest rates within the next years hits new high of 46%
- 24% expect a hike in the next six months

British households again pulled forward their expectations of when they consider it most likely the Bank of England to start to raise interest rates in February. Survey data collected from 1,500 households in February by Ipsos MORI on behalf of Markit found that some 46% expect the Central Bank to start raising interest rates within the next year, up from 41% in January. That was the highest proportion seen since survey data were first collected last July.

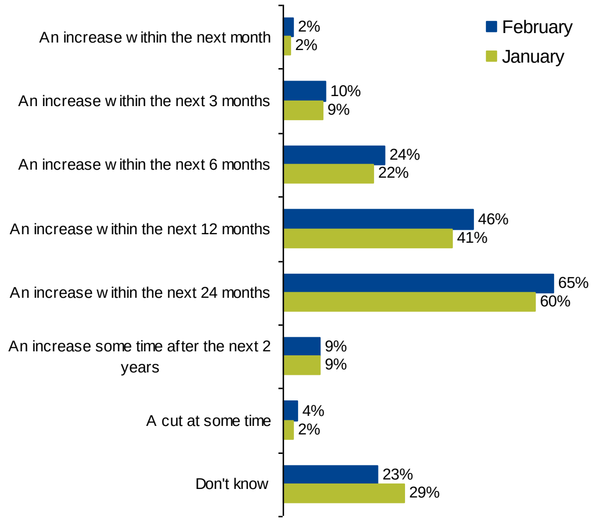
Almost one-in-four households (24%) expect a rate hike with in the next six months (up from 22% in January), and 10% expect to see a rise within the next three months, the proportions edging higher than seen in the January survey in both cases.

The proportion not expressing a view fell from 29% in January to 23% in February, hinting at a greater awareness of Central Bank policy. However, the number of households expecting the first rate hike to take place somewhere between 12 and 24 months' time, which is broadly in line with recent guidance by the Bank of England, held more or less steady at just one-in-five (19%).

Others were more dovish on the outlook for the interest rates. Almost one-in-ten (9%) of all households surveyed expect rates to not start rising until at least two years' time, while 4% expect the next move in rates to be a cut.

The data were collected between 7th and 12th February, and reflect households' views based on the economic conditions and Bank of England's forward guidance prior to the Bank of England publishing its new economic forecasts and revised forward guidance on 12th February.

Households' views on next move in Bank of England base rate*



** see overleaf for precise phrasing of question and more detailed results.*

The latest data were collected from 1,500 households between 7th – 12th February. The survey results are available for regions, household ownership and demographic categories on request.

Commenting on the survey, Chris Williamson, Chief Economist at Markit, noted that:

"The survey shows that households had once again brought forward their expectations of when the Bank of England will start to raise interest rates in early February. They Bank's insistence in its forward guidance that rates would not need to rise until at least 2015 was being taken with a pinch of salt by almost half of all respondents, with 46% expecting the first move to be made in the next 12 months.

"With one-in-four expecting a hike in the next six months, the forward-creep of rate hike expectations goes some way to vindicate the Bank's decision to revise its forward guidance and seek to reassure households and businesses that higher interest rates remain on hold for the coming year. It will of course be interesting to see how expectations have since adapted to the new guidance. On one hand, signs of stronger economic growth may have

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encouraged some further advance in the expected timing of an initial rate hike. On the other hand, the recent assurances from the Bank and tame inflation, now down below the Bank's target for the first time since late-2009, should have helped assuage fears of any imminent hike."

Background to forward guidance

At the publication of its quarterly Inflation Report on 12th February, the Bank of England announced that it would no longer focus on the unemployment rate as its guide to when to start considering an increase in interest rates. The Bank had stated that it would only consider raising interest rates when unemployment had fallen below 7%. At the time of survey data collection, the jobless rate had already fallen to 7.1%, dropping far faster than the Bank had envisaged. Although policymakers had stressed the 7% was a threshold rather than a trigger for tighter policy, the Bank instead announced on 12th February that it would now monitor a range of variables to provide guidance on the amount of spare capacity in the economy, rather than just the unemployment rate.

Spare capacity is a key determinant of the potential for the economy to grow without stoking inflation. The Bank noted that, with inflation returning to target and spare capacity still running at 1-1.5% of GDP, it would be in no rush to raise interest rates even in the face of strong economic growth, and also noted that financial market pricing of an initial hike in rates not taking place until the second quarter of next year looked appropriate.

– Ends–

For further information, please contact:

Chris Williamson, Chief Economist
Markit
Telephone +44 20 7260 2329
Email: chris.williamson@markit.com

Data:

"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: Please choose one answer."

	Jul-13		Aug-13		Oct-13		Nov-13		Dec-13		Jan-14		Feb-14	
	Including don't knows	Excluding don't knows	Including don't knows	Excluding don't knows	Including don't knows	Excluding don't knows	Including don't knows	Excluding don't knows	Including don't knows	Excluding don't knows	Including don't knows	Excluding don't knows	Including don't knows	Excluding don't knows
An increase in interest rates within the next month	2%	3%	1%	2%	2%	3%	2%	3%	2%	2%	2%	2%	2%	3%
An increase in interest rates in 2-3 months	7%	9%	4%	6%	5%	7%	6%	8%	7%	10%	8%	11%	8%	10%
An increase in interest rates in 4-6 months	11%	15%	7%	10%	9%	12%	10%	14%	13%	18%	12%	17%	14%	19%
An increase in interest rates in 7-12 months	15%	21%	12%	16%	16%	22%	15%	22%	19%	25%	19%	26%	21%	28%
An increase in interest rates in 13-24 months	18%	25%	16%	22%	18%	25%	17%	25%	18%	24%	20%	28%	19%	25%
An increase in interest rates sometime after the next 2 years	16%	21%	28%	39%	17%	24%	16%	23%	13%	17%	9%	12%	9%	11%
A cut in interest rates within the next month	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	0%	0%	0%	0%
A cut in interest rates in 2-3 months	1%	1%	0%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
A cut in interest rates in 4-6 months	1%	2%	0%	1%	1%	1%	1%	1%	1%	1%	0%	0%	1%	1%
A cut in interest rates in 7-12 months	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	0%	1%	1%	1%
A cut in interest rates in 13-24 months	0%	0%	0%	0%	1%	1%	1%	1%	0%	0%	0%	0%	0%	0%
A cut in interest rates sometime after the next 2 years	1%	2%	2%	2%	1%	1%	0%	1%	1%	1%	0%	1%	0%	1%
Don't know	27%		27%		29%		30%		24%		29%		23%	

Note to Editors:

About the survey

The survey is based on monthly responses from approximately 1,500 individuals in Great Britain, with data collected by Ipsos MORI from its panel of respondents aged 18-64. The survey sample is structured according to gender, region and age to ensure the survey results accurately reflect the true composition of the population. Results are also weighted to further improve representativeness.

Ipsos MORI technical details (February survey)
Ipsos MORI interviewed 1500 adults aged 18-64 across Great Britain from its online panel of respondents. Interviews were conducted online between 7th – 12th February 2014. A representative sample of adults was interviewed with quota controls set by gender, age and region and the resultant survey data weighted to the known GB profile of this audience by gender, age, region and household income. Ipsos MORI was responsible for the fieldwork and data collection only and not responsible for the analysis, reporting or interpretation of the survey results.

About Markit
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