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News Release

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UK economy

Households less in tune with forward guidance than businesses

- One-in-four households expect the Bank of England to start raising interest rates within the next six months; almost half expect a rise in the next year.
- Just 19% expect a hike to take place in 12-24 months' time.
- Households on average expect an earlier rate rise than businesses.

British households' views on when they consider it most likely that the Bank of England will start to raise interest rates were largely unchanged in March, remaining generally far more bullish than business survey respondents. Survey data collected from 1,500 households by Ipsos MORI on behalf of Markit found that the proportion expecting the first rate hike to take place somewhere between 13 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%).

Some 46% expect the central bank to start raising interest rates within the next year, identical to February. That was nonetheless the highest proportion seen since survey data were first collected last July.

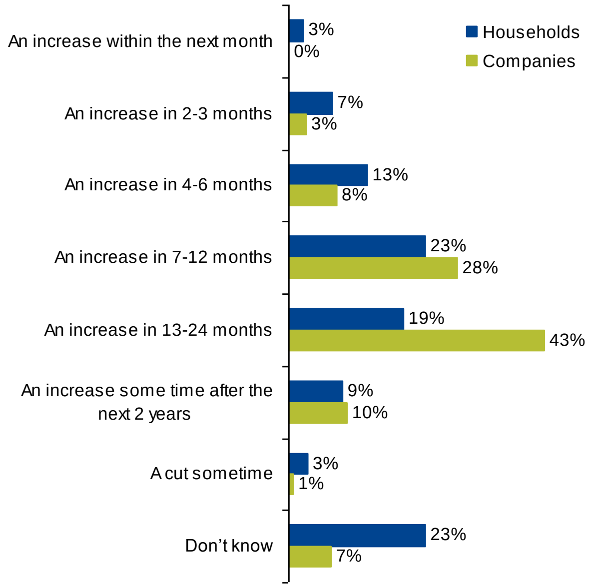
Some 23% expect a rate hike within the next six months (down slightly from 24% in February), and 10% expect to see a rise within the next three months (unchanged on February). The proportion expecting a rate rise within the next month edged up to 3%.

The proportion not expressing a view was also unchanged at 23%, hinting at a greater awareness of central bank policy guidance than at the start of the year, when the proportion rose to 29%.

Almost one-in-ten (9%) of all households surveyed expect rates to not start rising until at least two years' time, while 3% expect the next move in rates to be a cut.

The data were collected between 12th and 17th March.

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 12th – 17th March. The survey results are available for regions, household ownership and demographic categories on request.

The business survey data were collected by Markit from 723 UK manufacturing, service sector and construction companies between 12th – 26th February.

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

"The Bank of England's recent communications, which indicate that interest rates are unlikely to rise soon, continue to fall on a large number of deaf ears. However, policymakers will be comforted by the fact that, despite the ongoing flow of good news on the economy, expectations of when interest rates will need to start rising were largely unchanged in March compared to February, suggesting that the review of forward guidance that accompanied the latest Inflation Report at least helped to anchor interest rate expectations.

"However, one-in-four households expect a hike in the next six months, which is far more bullish than the message from companies, where a similar

[survey](#) showed just 11% expect a rate hike within six months. Whereas just 19% of households expect the first rate hike to not occur until 12-24 months' time, which is more or less in line with current Bank of England guidance, this rises to 43% when companies are asked about the first rate hike.

"Furthermore, whereas 23% of households were unable to estimate when they thought rates would start rising, just 7% of businesses were unable to answer.

"The two surveys therefore suggest that the Bank of England's forward guidance has filtered through to the business community much more effectively than it has to households.

"The business survey also showed that companies had reacted positively to the message that interest rates were not going to rise any time soon, boosting investment and hiring in response. The concern is that undue worries about imminent rate hikes among households could subdue consumer spending and restrain the recovery."

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 instead announced 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. Even after an initial interest rate rise, the Bank was also keen to stress that any further increase would be 'gradual'.

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– Ends–

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."

	Aug-13		Oct-13		Nov-13		Dec-13		Jan-14		Feb-14		Mar-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 within the next month	1%	2%	2%	3%	2%	3%	2%	2%	2%	2%	2%	3%	3%	3%
An increase in 2-3 months	4%	6%	5%	7%	6%	8%	7%	10%	8%	11%	8%	10%	7%	9%
An increase in 4-6 months	7%	10%	9%	12%	10%	14%	13%	18%	12%	17%	14%	19%	13%	17%
An increase in 7-12 months	12%	16%	16%	22%	15%	22%	19%	25%	19%	26%	21%	28%	23%	30%
An increase in 13-24 months	16%	22%	18%	25%	17%	25%	18%	24%	20%	28%	19%	25%	19%	25%
An increase sometime after the next 2 years	28%	39%	17%	24%	16%	23%	13%	17%	9%	12%	9%	11%	9%	12%
A cut within the next month	1%	1%	1%	1%	1%	1%	1%	1%	0%	0%	0%	0%	0%	1%
A cut in 2-3 months	0%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	0%	0%
A cut in 4-6 months	0%	1%	1%	1%	1%	1%	1%	1%	0%	0%	1%	1%	1%	1%
A cut in 7-12 months	1%	1%	1%	1%	1%	1%	1%	1%	0%	1%	1%	1%	1%	1%
A cut in 13-24 months	0%	0%	1%	1%	1%	1%	0%	0%	0%	0%	0%	0%	0%	0%
A cut sometime after the next 2 years	2%	2%	1%	1%	0%	1%	1%	1%	0%	1%	0%	1%	1%	1%
Don't know	27%		29%		30%		24%		29%		23%		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 (March survey)
Ipsos MORI interviewed 1500 adults aged 18-64 across Great Britain from its online panel of respondents. Interviews were conducted online between 12^{th} – 17^{th} March whereas the previous month's data were collected between 7^{th} – 12^{th} February 2014 (just prior to the Bank of England's Inflation Report and review of forward guidance.

Each month 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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