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News Release

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UK economy

Households push back expectations of first rise in interest rates

- Proportion of households expecting the Bank of England to start raising interest rates within the next year falls from 46% to 41%
- Proportion expecting a hike in the next six months falls to lowest since last November

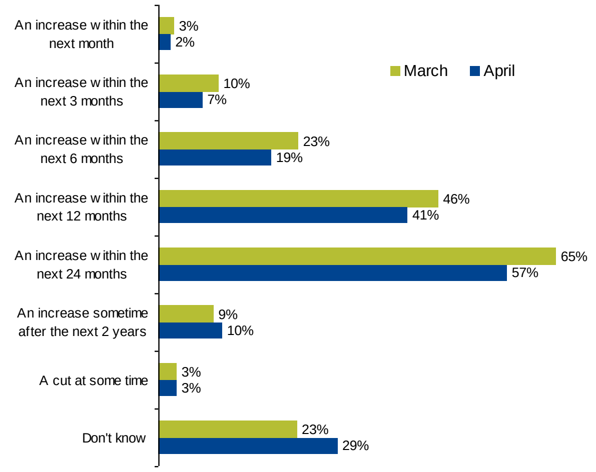
British households have pushed back their expectations of when they consider it most likely the Bank of England to start to raise interest rates. The findings, based on survey data collected from 1,500 households in April by Ipsos MORI on behalf of Markit follow the Bank of England's revised forward guidance and reassurances that recent strong economic growth will not lead to an imminent raising of interest rates, as well as signs of lower inflation.

Just 7% of households expect rates to rise within the next three months, the lowest proportion since October and down from 10% in March. The proportion expecting a rise sometime in the next six months likewise fell, down from 23% in March to 19%; the lowest reading seen since November.

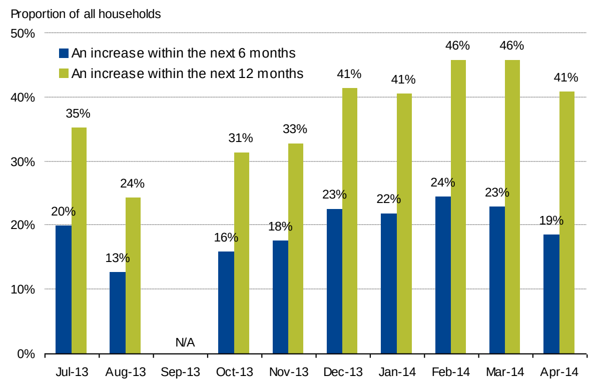
Looking further ahead, only 41% expect the central bank to start raising interest rates within the next year, down from 46% in March and the lowest proportion since January. The proportion expecting a rise at some point in the next 24 months also fell, down from 65% to a five-month low of 57%.

The declining percentages expecting to see rates rising over the course of the next two years in part reflect a rise in the number of households that were unable to estimate when rates would start rising (an increase from 23% in both February and March to 29% in April). However, even an analysis of just those households that expressed a view on the next move in interest rates shows that rate hike expectations were pulled back in April: just 26% expect a hike to occur in the next six months, down from 30% in March and the lowest since November.

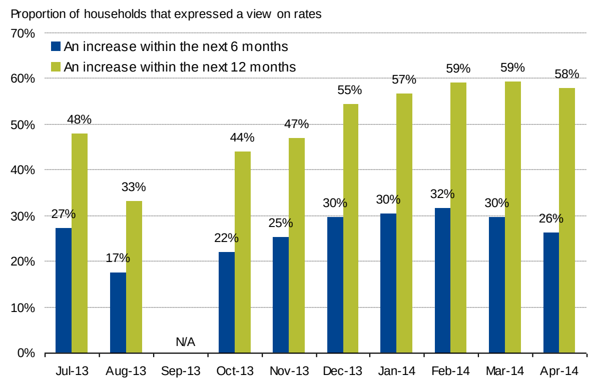
Households' views on next move in Bank of England base rate



Rate hike expectations among all households



Rate expectations among households expressing a view*



** i.e. excluding those that replied "don't know"*

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

"Despite signs of strong economic growth and plummeting unemployment, households have pushed back their expectations of when the Bank of England will start to raise interest rates. Our April survey of 1,500 households shows that the proportion expecting rates to start rising within the next six months has fallen to its lowest since last November, while the number expecting a hike in the next year eased to its lowest since January.

"The lower rate hike expectations follow the Bank's decision to revise its forward guidance at the publication of its last Inflation Report, and its concerted efforts to reassure households and businesses rates are not likely to rise until at least 2015, and that even then rate rises will be gradual.

"Given the speed with which unemployment has fallen, now down to 6.9% compared to 7.8% last June, and recent upward revisions to the UK economic outlook (including the IMF's upgrading, which sees the UK growing faster than all other G7 countries this year), the lower interest rate expectations can be seen as a sign that forward guidance is working successfully. However, the fact that inflation also continues to fall, down now to 1.6% and well below the Bank's 2.0% target, will have no doubt also contributed to the lowering of rate hike views."

The data were collected between 11th and 14th April. The survey results are available for regions, household ownership and demographic categories on request.

– Ends–

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 that even when rates did start to rise, any increases would be only gradual.

For further information, please contact:

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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."

	Jan-14		Feb-14		Mar-14		Apr-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
An increase within the next month	2%	2%	2%	3%	3%	3%	2%	3%
An increase in 2-3 months	8%	11%	8%	10%	7%	9%	5%	7%
An increase in 4-6 months	12%	17%	14%	19%	13%	17%	11%	16%
An increase in 7-12 months	19%	26%	21%	28%	23%	30%	22%	32%
An increase in 13-24 months	20%	28%	19%	25%	19%	25%	16%	23%
An increase sometime after the next 2 years	9%	12%	9%	11%	9%	12%	10%	15%
A cut within the next month	0%	0%	0%	0%	0%	1%	0%	1%
A cut in 2-3 months	1%	1%	1%	1%	0%	0%	1%	1%
A cut in 4-6 months	0%	0%	1%	1%	1%	1%	0%	0%
A cut in 7-12 months	0%	1%	1%	1%	1%	1%	1%	1%
A cut in 13-24 months	0%	0%	0%	0%	0%	0%	0%	0%
A cut sometime after the next 2 years	0%	1%	0%	1%	1%	1%	1%	1%
Don't know	29%		23%		23%		29%	

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
Ipsos MORI interviewed 1500 adults aged 18-64 across Great Britain from its online panel of respondents. Interviews were conducted online between 11th – 14th April 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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