

EcoBrief

United Kingdom: the hawks keep the lead

The Bank of England (BoE) delivered another 25bp rate hike on its May meeting on Thursday, raising its interest rate to 4.5%. The forward guidance has not been revised and is still hawkish and it appears from the Monetary Policy Committee (MPC) minutes and report that the end of the tightening cycle might still be coming.

A key indication for a potential future hike is the skew of the MPC inflation projections (the difference between the mean and the mode of inflation projections), which has been kept constant at high level, indicating fears of inflation persistence by MPC members. Inflation projections have been revised upward. In particular, CPI inflation is now expected to fall back to its 2% target level in Q2 2025, compared with Q2 2024 at its February meeting. These fears that price pressures become more persistent, and that the actions of the committee may need to be reinforced to bring it back towards the target, are based on stronger than expected economic activity. GDP growth for 2023 and 2024 have been revised significantly upwards, thus excluding the recession scenario previously expected for these years erasing previous recession forecasts for these years.

Inflation was 10.1% y/y in March, still close to the 11,1% October peak. Resilient activity data, still high services inflation (+6,6%y/y in March) and higher than expected food inflation (+19.1% y/y in March) are likely to convince the BoE to pursue its tightening.

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