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Bank of England hikes rates for first time in a decade

By Jessica Tasman-Jones 2nd November 2017 12:00 pm

The Bank of England has voted to hike rates for the first time in a decade with the monetary policy committee voting to nudge the rate up to 0.5 per cent.

The decision reverses the drop to 0.25 per cent last August in response to Brexit.

Markets were pricing in a 90 per cent chance of a rate rise, despite the fact economic conditions have changed little from last month, when the MPC voted 7-2 to keep rates on hold.

At today's meeting the central bank voted 7-2 to hike rates. It voted unanimously to keep current stock of Government bond purchases at £435bn and corporate bonds at £10bn.

The Bank of England notes sterling depreciation has pushed inflation past the 2 per cent target, while 1m more people are in employment since 2015 and that the rate hike decision was made to support jobs and growth while meeting the inflation target.

Ian McCafferty and Michael Saunders have voted for a rate rise since June, but seven out of the nine-strong committee had never voted for rate rises. David Ramsden and Jon Cunliffe were the two doves that voted against a rise and had already indicated their intention to do so.

Hargreaves Lansdown senior analyst Laith Khalaf says a jump in the oil price is the main variable since the last meeting, but that it is such a volatile figure the Bank of England would have likely looked through it.

The first estimate for GDP growth came in slightly above consensus last week at 0.4 per cent, while inflation hit 3 per cent, which had been widely predicted.

However, retail sales last week showed volumes dropping at the fastest rate since the height of the global financial crisis highlighting pressure on UK households as inflation bites and hits real real wages.

Today's announcement on the bank rate said the MPC expects consumption growth to remain sluggish in the near term in line with household incomes. It still expects inflation to peak past its current 3 per cent.

Carney has said he expects feed through from sterling depreciation immediately after the Brexit referendum to be a three-year process. The Bank of England governor has also argued against raising rates just to create a "war chest" to deal with the next business investment is being affected by uncertainties around Brexit, but it continues to grow at a moderate pace.

However, it remained cautious on Brexit in today's announcement saying it had had a "noticeable" impact on the economic outlook.

"Uncertainties associated with Brexit are weighing on domestic activity, which has slowed even as global growth has risen significantly," the announcement said.

Economic indicators: September vs November MPC meeting

Indicator	**September decision**	**Now**
Inflation (CPI)	2.9%	3.0%
Oil price (brent crude)	$54	$59
Wage growth	2.1%	2.1%
Unemployment rate	4.3%	4.3%
GDP growth	0.3%	0.4%
Consumer credit	£201.4bn	£202.7bn
Retail sales	0.3%	-0.8%

Source: Hargreaves Lansdown

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