

Economic News

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Bank of England leaves repo rate unchanged at 5.25%

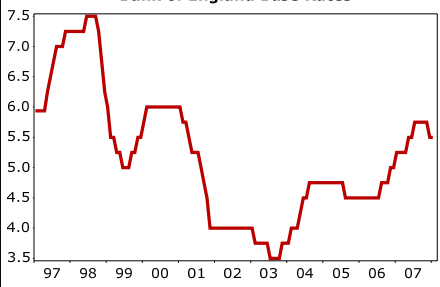
It is all as expected at the Bank of England today, **with the MPC opting to leave its repo rate on hold, at 5.25%**. After the February 25bp rate cut, a no-change policy outcome was highly anticipated today and **consistent with the Bank's recent policy language, but we expect further rate cuts throughout 2008**.

As per normal when a monetary policy outcome is not a controversial or an unexpected one, we have no accompanying statement, **but there will be a full insight on the Bank's current thinking in the minutes, due in a fortnight. The need for further monetary easing would most likely have been discussed today.** Indeed, as the market has not totally normalised yet, **tighter credit remains a problem for the UK economy**, not only at the consumer level but also at the business level and in the housing sector. These are all linked, with **tighter market rates restricting mortgage activity, with negative impact on the housing sector and eventually on the consumer sector too.** We have already seen evidence of this chain to the point of sharp declines in y/y mortgage activity early this year. This is feeding through onto the housing sector (see negative house prices over the past four months), with negative wealth effects. Coupled with higher inflation and depressed real income growth, **all this puts the UK consumer sector at risk.** Indeed, January retail sales 'survived', but this was in a context of heavy discounts, which per se captures increased problems in the High Street. **So the outlook is clearly not rosy for the UK economy at this stage and further rate cuts will have to be delivered soon.**

On the other side of the equation, **inflation is an issue too**, with high food/energy prices keeping an upward bias on the medium-term inflation outlook. **This is all externally driven though** and unlike in the Eurozone, wage inflation is not a problem in the UK, which should give extra room for manoeuvre to the MPC when it comes to cutting rates again.

A month after the February rate cut, **the MPC has opted to wait and see this month, but another 25bp rate cut is most likely before the end of Q2** and it would be no surprise if at least one of the members (Blanchflower) favoured a policy action today. So today's decision may come as a relief for the pound (especially vs a bruised dollar) **but we remain of the view that the rate outlook is not bullish for Sterling especially as the BoE risks to fall behind the curve.**

Audrey Childe-Freeman

UK Base Rates	Interest Rate Forecasts						
Bank of England Base Rates	Current Level	Next Move	Timing	Q108	Q208	Q308	Q408
	5.25%	-25bp	Q2-08	5.25%	5.00%	4.75%	4.50%
	4.00%	-25bp	Q408	4.00%	4.00%	4.00%	3.75%
	3.00%	-50bp	Mar-08	2.50%	1.75%	1.75%	1.75%

Source: CIBC World Markets