

UK Interest Rates

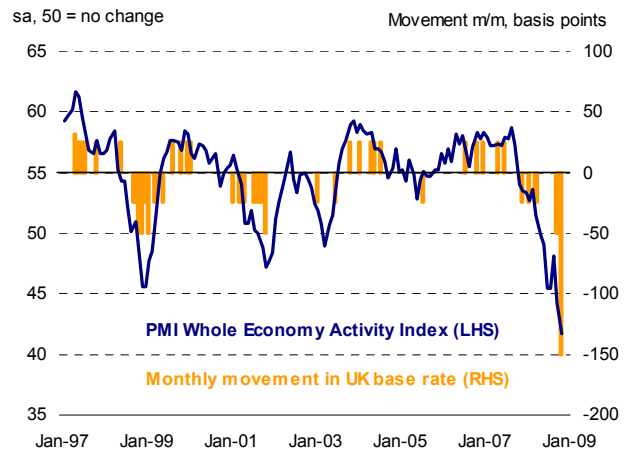
Recent rate cuts consistent with PMI data

Today saw the Bank of England's Monetary Policy Committee (MPC) cut central borrowing rates by 150 basis points to 3%, the lowest level since 1955. The cut followed a 50 basis point cut on 8th October.

The cuts have been driven by particularly weak survey data in recent months. The CIPS/Markit PMIs – which cover services, manufacturing and construction – indicated that UK economic activity contracted at the fastest rate in the survey history in October. The PMI has a track record of reliably signalling changes in the base rate by the MPC (see chart) and, since the summer, has pointed to an aggressive monetary easing.

The MPC's hands were tied by rising inflation (CPI rose to 5.2% in September), but price pressures are now easing: PMI price indices data have shown steep falls in recent months.

The PMIs suggest that the MPC fell behind the curve in easing rates, but the size of the recent cuts have been fully justified by the survey data.



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