New York • London • Boston • Chicago
DECISION ECONOMICS, INC.
Information for Decisions™

Western European Indicators and Insights

April 18, 2012

Andrew Wroblewski
Chief Economist, Eurozone and UK

London
+44 20 7959 3244
awroblewski@decisioneconomicsinc.com

UK: More hawkish BoE.

Surprising some, the minutes to the 4-5 April BoE MPC meeting showed the committee to be still split over the decision to enlarge the asset purchase program a further £ 50 bln that was made in February. However, MPC member Miles remained in favor of larger asset purchases (ie by £ 25 bln) over and beyond that seen in February but with his colleague, Adam Posen, no longer advocating such action. More notably, Posen, along with the rest of the committee, seemed to be more concerned that inflation pressures may prove more persistent than previously thought.

Inflation resilience more worrying?

Indeed, the minutes noted that with underlying activity recovering (ie excluding the likely distortions that may affect growth in the first half of the year), there was a greater chance than before that above-target inflation would persist into the medium term, whether because of elevated external price pressures, a rebuilding of margins or a rise in costs.

However, at this juncture, the minutes concluded that there was little solid evidence yet that the balance of risks to inflation in the medium-term had changed, especially as there was a large degree of slack in the labor market while there was a risk that business and household sentiment could be further dented either by reports of the economy re-entering recession or by deterioration in the situation in the Eurozone. Moreover, persistently weak growth might impair the future supply capacity of the economy through hysteretic effects: that risk could be attenuated by a more aggressive loosening of policy in the near term. Even so, the minutes emphasized that should the possibility of inflation being above target in the medium-term increase, the Committee could subsequently withdraw some of the monetary stimulus.

A hint to markets!

A clearer evaluation of inflation risks will come at the May MPC meeting as this will draft the next Inflation Report. Regardless, these minutes are clearly aimed at underscoring to markets that once the current asset purchase program is completed in May, no immediate further stimulus is being envisaged. The question is the extent to which the inflation concerns these minutes are airing is merely a means by which the MPC want markets fully prepared for such inaction or, instead, is a genuine reflection of the changing views of the MPC.