

BoE preview: A cut for Christmas

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- The path looks clear for the BoE to cut rates to 3.75% at next week's policy meeting. It's not quite a done deal with CPI and labour market figures released prior to the meeting, but the bar seems high for the expected cut to be derailed after supportive data and disinflationary Budget measures.
- We expect another finely balanced decision with Governor Bailey tipping the balance in a 5-4 vote. A 6-3 split is possible if data were to surprise to the downside next week. In our base case we see minimal communication changes with the decision likely to be framed as a data-driven move, in line with the guidance for gradual easing if conditions allow.
- Looking ahead, divergent views on where 'neutral' lies means that Bailey's interpretation could remain key on a divided MPC. We see two further cuts next year to a terminal rate of 3.25% as the UK disinflation process picks up steam next year.

The BoE is poised to cut rates, barring any major last-minute data surprises

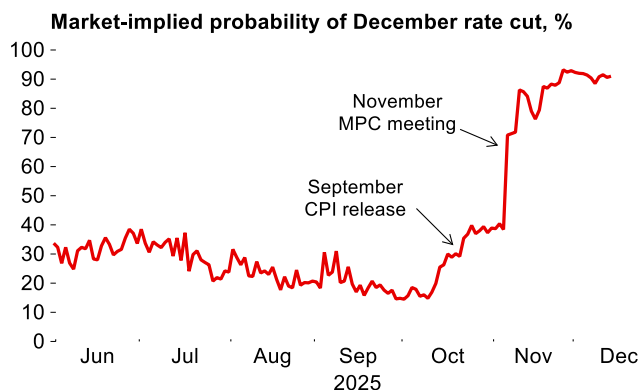
We expect the BoE will cut rates at next week's policy meeting, in line with consensus and market expectations, to 3.75%, in what would be the fourth cut of the year. The path we set out in September for a year-end cut (see [here](#)) has essentially held true with the various hurdles (inflation and labour market data, fiscal policy uncertainty) all cleared so far. We expect the guidance and messaging will be broadly unchanged, with the BoE framing it as a data-driven move.

While the dovish hold at the last meeting (see [here](#)) set the stage for a cut in December, the MPC remains plainly divided into two camps. In that context it has been apparent for some time that Governor Bailey holds the decisive vote. In the minutes of the last meeting, he stated that he would "prefer to wait and see if the durability in disinflation is confirmed in upcoming economic developments this year." We think there has been sufficient confirmation. Headline inflation came in higher than consensus in October but eased from 3.8% to 3.6%, in line with the BoE's projections. Both the food and services components were below the BoE's expectations, at 4.9% and 4.5% respectively. The disinflationary policies introduced at the Budget, meanwhile, are [estimated](#) by the BoE to shave 0.43pp off headline inflation for a year.

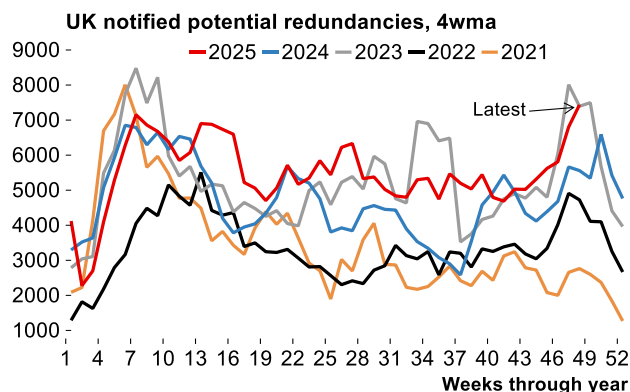
The latest labour market numbers were generally soft with payroll employment down 32k in the first estimate for October. The unemployment rate rose to 5.0% in the three months to September, higher than both consensus and the BoE's projections. Redundancy notifications have also increased.

On activity, this morning's monthly GDP data for October was disappointing with broad-based weakness across sectors. That points to muted growth momentum into next year. Absent any revisions, the economy will do well to eke out a positive quarterly figure in Q4 with Budget speculation likely to have weighed on activity in November. The BoE's latest projection is for 0.2% Q/Q growth.

The path has cleared for a December rate cut



Redundancy notifications have ticked up in recent weeks



Despite the range of soft data, a rate cut is not quite a done deal. There are a few more hurdles to come with the latest labour market figures and November CPI report released next week before the BoE meeting, as well as the flash PMIs for December. Our base case is for lacklustre labour market numbers and slightly lower headline inflation. The PMIs could pick up slightly following the lack of any nasty Budget surprises (see [here](#)) but we expect only a small bounce.

All told, we think the bar is quite high for next week's releases to derail a December cut. It would likely take a chunky upside surprise on CPI inflation and/or pay growth to offset the supportive numbers seen elsewhere since the last meeting. Market participants have duly moved to price in a high chance of a rate cut. Bailey has not commented directly on monetary policy recently or made any effort to push back on those expectations and will be aware of the credibility risks of not following through.

Bailey to remain key on a divided MPC

In terms of the vote split, the default assumption must be for a 5-4 split with Bailey moving over to join those backing a cut in November. A 6-3 vote is possible, we think, if supported by data next week.

The BoE's chief economist Huw Pill is probably the most likely to join Bailey if the inflation and labour market numbers were to come in especially soft. While Pill hasn't voted for a cut since February, we thought his comments in the minutes of the last meeting were slightly less hawkish than others (see chart [here](#)), possibly reflecting reduced concerns around the significance of food prices on inflation expectations. Pill has since said he wouldn't characterise himself as the "most hawkish member of the MPC" and that he prefers a "slower pace for the withdrawal of monetary policy restriction than delivered over the past 18 months". A cut next week would not be inconsistent with this after the BoE brought an end to its established quarterly cutting path in November.

It's harder to see much support for easing elsewhere at this juncture. Greene downplayed the significance of the disinflationary policies introduced at the Budget and has since suggested she would need to see evidence of greater labour market deterioration to back further easing. It's not inconceivable that she could back a cut if next week's jobs numbers are dire, but the bar seems high. Meanwhile, Lombardelli sounded notably hawkish in this week's Treasury Select Committee [appearance](#).

noting that she thinks policy is closer to neutral than others on the MPC and that she is worried about upside risks to inflation. Mann has recently [said](#) that it's too soon for monetary policy to become less restrictive.

Looking ahead, the MPC is likely to remain divided given varying views on where the 'neutral' policy setting lies. If data evolves broadly in line with BoE expectations then Bailey could remain the key swing voter and so his interpretation of the data and outlook will be critical. Last time out he seemed to endorse market pricing and a Taylor-rule implied path for rates to fall to 3.3-3.4% later next year. That is consistent with the current guidance for Bank Rate being likely to "continue on a gradual downward path" if inflation continues to fall, as is likely. The disinflation process looks set to pick up steam next year and we continue to expect two further cuts in 2026 to a terminal rate of 3.25%, with the next move most likely to come in April.

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