02.12.15

MPC MEMBERS

From

PRE-MPC FOLLOW-UP: INTEREST RATE EXPECTATIONS IN 2015 H2 NMG SURVEY

Issue **The Governor asked what households' expectations for interest rate rises were in the NMG survey.**

Main message **61% of households expected Bank Rate to rise in the next year when asked in the NMG survey in September with the median expectation for Bank Rate in September 2016 at 0.6%. Markit HFI data suggests that the percentage of households expecting a rise in Bank Rate in the next year has fallen since September to 52% in the November HFI survey.**

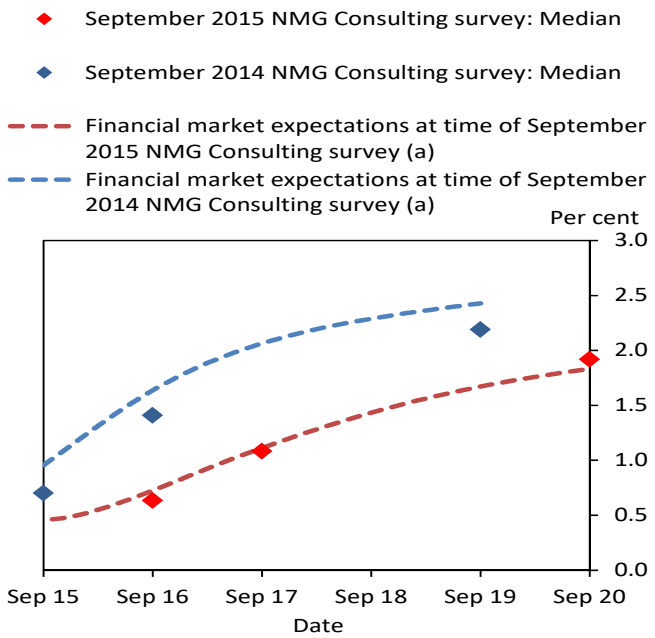
1) The median expectations of households in the NMG survey conducted in September 2015 for Bank Rate were 0.6%, 1.1% and 1.9% one, two and five years ahead respectively (Table 1)[1].

2) 61% of households in the NMG survey expected Bank Rate to be higher than 0.5% in September 2016, a year after the survey was conducted (Table 1). 85% of households expected Bank Rate to be higher than 0.5% in September 2017, two years after the survey was conducted.

3) Households' median expectations for Bank Rate were very similar to those based on financial market measures at the time of the 2015 survey (red diamonds and line in Chart 1).

4) Data from Markit's Household Finance Index (HFI) suggests that households' expectations at least for the timing of the first interest rate rise have been pushed out since September, as have financial market expectations. In the November HFI 52% of households expect an interest rate rise in the next 12 months, compared to 66% in the October HFI and 72% in the September HFI. This survey only asks about expectations for the next move in Bank Rate[2].

Chart 1 – Bank Rate expectations from NMG and financial markets



(a) Forward curve estimated using overnight index swap rates over the period which the survey was conducted. Forward curves constructed in this way are likely to reflect a measure close to the mean expectation of financial market participants.

Table 1: Bank Rate expectations, NMG Survey 2015 H2*

	Median Bank rate expectation (per cent)	Full distribution of bank rate expectations (percentage of households**)								
		>0.50%	0%-0.49%	0.50%	0.51%-0.9%	1%-1.9%	2%-2.9%	3%-3.9%	4%-4.9%	>=5%
1 year ahead	0.6	61	8	30	45	14	2	0	0	0
2 years ahead	1.1	85	5	10	32	38	12	2	1	1
5 years ahead	1.9	90	4	5	14	29	27	12	5	4

* survey conducted between 2 and 22 September 2015
** excludes households who respond don't know

[1] NMG Question: 'The level of interest rates set by the Bank of England (Bank Rate) is currently 0.5%. At what level do you expect that interest rate to be in each of the following time periods? One year from now/two years from now/five years from now?'. NMG Survey contains 6000 households.
[2] Markit HFI Question: The interest rate set by the Bank of England is currently 0.5%. Please let us know when and how you think the Bank will next change interest rates?. Markit HFI survey contains 1500 adults.