GLOBAL ECONOMICS
| FLASH REPORT

November 7, 2019

BoE: Softens Stance in Surprise Split Vote

- **The MPC kept the Bank Rate on hold at 0.75%, but surprised with two dissenting votes in favour of a 25 bps cut.**
- **Guidance remained bi-directional, but with a softer economic outlook and risks now characterized as skewed to the downside by the Governor.**
- **We continue to forecast that the BoE will remain on hold over our forecast horizon as US-China trade risks appear to be improving, global economic indicators seem to be hitting an inflection point, and Brexit uncertainties are clarifying.**

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DISSENTING DOVES

As expected, the Bank of England's (BoE) Monetary Policy Committee (MPC) held its benchmark Bank Rate unchanged at 0.75%, keeping the BoE's policy rate well below that of the Fed (chart 1). What was unexpected, however, was the split 7–2 vote behind the decision, with MPC members Michael Saunders and Jonathan Haskel opting for a 25 bps cut, the first MPC votes for lower policy rates since 2016 and the first MPC decision that was not unanimous since June 2018. Saunders and Haskel noted subdued core inflation, a weaker global economic environment, a softening in labour markets, and ongoing Brexit uncertainties as the basis for their dovish turn.

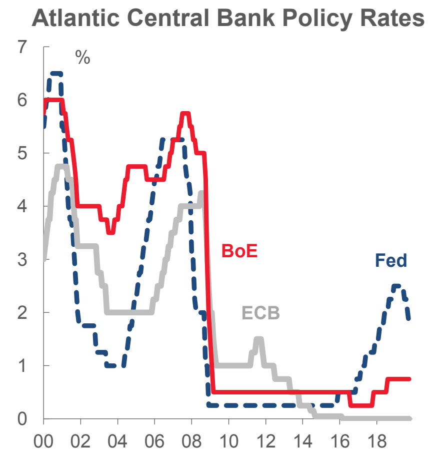
The dissent by Saunders was particularly notable since about 18 months ago he had been an outlying vote for a rate hike. That said, his more recent comments had marked him as an emerging dove, whereas Haskel's vote for a rate cut came as a surprise.

MAJORITY'S GUIDANCE AND RISKS REMAIN BI-DIRECTIONAL

The majority of the MPC voted to hold the Bank Rate unchanged, noting that risks remain bi-directional with guidance now shifted a bit more dovishly than before as Gov. Carney noted risks are skewed to the downside. On the downside, MPC members in the majority reiterated their past point that, "If global growth fails to stabilize, or if Brexit uncertainty remains entrenched, monetary policy may need to reinforce the expected recovery." On the upside, the MPC's majority also again noted that its view remains unchanged that if major risks don't come to fruition, then limited and gradually-paced rate hikes may be needed. Conviction one way or the other doesn't look particularly strong.

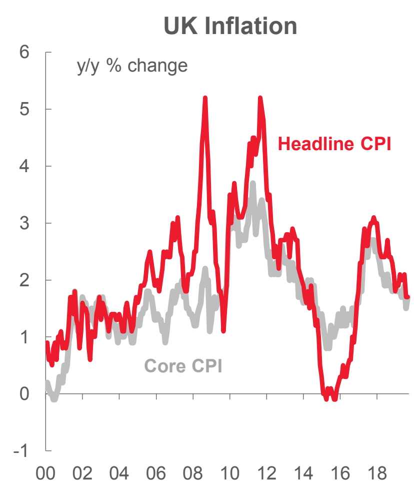
The forward-looking stance for the majority of MPC members appears to remain broadly balanced, but with a greater awareness of negative possibilities. Gov. Carney echoed this two-way view in the press conference, additionally noting that Brexit uncertainties are weighing particularly hard on business investment. Even though reduced Brexit uncertainty and stronger world economic developments feature in the BoE's forecast, Gov. Carney underscored that neither is assured and that the global economy risks getting stuck in a slow-growth rut.

Chart 1



Sources: Scotiabank Economics, Bank of England, Federal Reserve Board, European Central Bank.

Chart 2

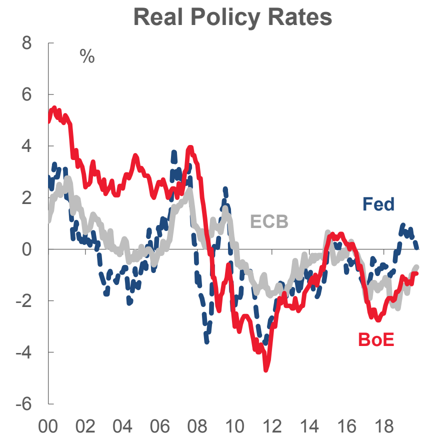


Sources: Scotiabank Economics, ONS.

The somewhat more dovish tenor of today's BoE communications is interesting since, on balance, risks have clarified somewhat since September's rate decision. Prime Minister Boris Johnson has agreed an exit deal with the European Union (EU) by January 31, 2020 with a national election on December 12, 2019 serving as an informal referendum on the draft pact. The BoE's forecasts are now based on an assumption that Johnson's deal paves the way for an "orderly transition to a deep free trade agreement" between the UK and EU that would mirror the existing EU-Canada Comprehensive and Economic Trade Agreement (CETA)—rather than the BoE's prior set of messier forecast possibilities.

The global economy may also be turning a corner just as the MPC sounds a more dovish note. We are likely beginning to see the bottom in manufacturing and services indicators. Similarly, the emerging preliminary phase 1 US-China trade deal is set to lift sentiment and could underpin stronger global demand. While the deal may not unwind damage already done, and is likely to be more cosmetic than substantive, a deal would at least curb further protectionist escalation from the White House and reduce uncertainty going forward.

Chart 3



Sources: Scotiabank Economics, Bank of England, Federal Reserve Board, European Central Bank, ONS, BLS, Eurostat.

Despite these developments, the BoE's rechristened *Inflation Report*—now the *Monetary Policy Report*-—brought down its growth and inflation forecasts (principally owing to lower energy prices), and raised projected unemployment rates even with a clearer Brexit outlook. Inflation, which is a little below the 2% target (chart 2), would be expected to remain sub-target until late-2021.

WE SEE THE BoE REMAINING ON HOLD

Although the split decision and forecast revisions add a somewhat more dovish tint to the MPC's views, we continue to forecast that the BoE will remain on hold over our forecast horizon. In contrast, markets are pricing at least one cut, and today's split vote brought slightly forward the expected timing of this cut. Although this pricing anticipates that the BoE will join the vast majority of major central banks that have made their monetary policies more accommodative over the course of 2019, two dissenters against a large majority that still sees two-ways risks don't incline us to change our forecast. Monetary policy is already accommodative (chart 3). Sterling markets appeared to agree: although GBP fell on the announcement of the split vote, it remained well within recent ranges.