BUSINESS

Bank set to leave rates alone

David Smith, Economics Editor

THE Bank of England is set to continue its base rate pause for a second successive month when its monetary policy committee meets this week. Despite concern that consumer spending is too strong for comfort, the Bank is unlikely to raise rates until trends in the economy become clearer.

Base rates, currently 7%, could remain on hold until the end of the year. Some analysts see the next base-rate move as downwards but majority opinion is rates will rise by a quarter or half-point before peaking.

John Shepperd, chief economist at Yamaichi, said: "There is such an element of uncertainty in the data that the pause should continue. There is a belief that the economy is slowing modestly."

Industrial production figures tomorrow are set to show manufacturing output was flat in August. The Confederation of British Industry's distributive trades survey, to be released on Thursday, will be scrutinised for further evidence of a high-street slowdown. The previous survey suggested sales had weakened in August but this was contradicted by the official retail sales data.

Richard Jeffrey, an economist at Charterhouse, dissented from the majority view and said the Bank should raise rates. The drop in gilt yields as a result of speculation that the government is moving towards a more sympathetic attitude on entering European monetary union had, he said, eased monetary policy and the Bank should balance this by raising rates.

The pound, which slipped earlier in the week on Emu speculation, closed at DM2.84 on Friday, more than 20 pfennigs down on this year's peak, but a similar amount up on what markets regard as the eventual Emu entry level of around DM2.65.

Other figures out this week include the latest inflation data. The headline inflation rate is expected to remain unchanged at 3.5%, but the underlying rate should have slipped to 2.7%, close to the official 2.5% target, from 2.8% in August.

A continued freeze on base rates will add to market optimism following Friday's announcement of weaker-than-expected jobs data in America, when non-farm payroll employment rose by 215,000 in September. "Any remaining fears of a Fed tightening have gone," said Gerard Lyons, economist at DKB International. "We now have concrete signs of a slowdown."

Emu speculation is set to continue this week when Gordon Brown visits his French counterpart, Dominique Strauss-Kahn. Treasury officials said that, while much of the discussion would be about the single currency, the chancellor was engaged in a round of information-gathering meetings with his European Union (EU) counterparts before Britain assumes the EU presidency on January 1, 1998.

The markets should be prepared for further uncertainty over Britain's Emu participation with a meeting of European finance ministers later this month. On Friday, the markets reacted sharply when Peter Mandelson, minister without portfolio, appeared to suggest Britain could still enter Emu in the first wave on January 1, 1999, remarks which were later clarified. One Treasury source said: "The markets are completely bonkers."