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Commenting on today's Bank of England inflation report, Neil Williams, Chief Economist at Hermes Fund Managers, said:

"Governor Carney is right to kick his unemployment-rate guidance into the long grass, and infer that the first rate hike is off the agenda for 2014. With CPI inflation about to undershoot target, the recovery not yet broad-based enough, and the MPC (rightly) concerned more about GDP levels than growth rates, a rate hike at this stage would be premature. Unemployment may now be a hair's breadth away from Carney's 7% threshold, but was he really going to initiate a sequence of rate increases at a time when inflation is being led more by cost-factors that hit us in the pocket (such as utilities and travel costs), than the feel-good, demand-factors that drive us to the shops, and when real wages are still deflating? The risk now, though, is that his 'Forward Guidance II', based on squeezing the output gap (an abstract concept) to extinction, proves so vague it stretches credibility.

"More tangibly, though, the UK's biggest trading partner, the euro-zone, is still not fixed, and the ECB is still 'holding its nose' to deflation risk. In short, there may be green shoots globally, but these shoots need watering by more cheap liquidity, especially as the euro-zone's dark cloud lingers overhead."

- End -

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