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Commenting on the Bank of England's inflation report, Neil Williams, Group Chief Economist at Hermes, said:

"Carney has pulled 'rabbits out of hats' in previous Inflation Report press conferences, such as forward guidance, but less so this time. The three takes today are that the, what I call a "sugar rush", recovery is still on track; that inflation remains a bit punchier than had been expected; and, linked to that, while there's little urgency right now to hike rates, at the back of his mind is the need to get the ball rolling sometime in the next few months.

Financial markets are writing off the notion of a rate hike before Christmas. Yet, with GDP growing at potential and about to be revised higher, inflation probably troughing, and the MPC mindful of bubbling house prices, the first, 25bp hike could come sooner if, to borrowers at least, Carney chooses to become 'Scrooge rather than Santa'. But, even then, he couldn't be clearer that the MPC will – rightly – take only the smallest baby steps to normalisation.

Either way, 'planting the flag' early should help Carney make sure the peak rate, when it comes, is materially lower than the Bank's 5% historic average. I still expect him to cap the peak Bank rate at 3%, supported after 2015 by pulling on the other monetary 'lever' – selling back the gilts bought under QE – which also takes cash out of the system"

-ENDS-

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Notes to Editors:

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