

Essential Reference Paper C

Interest Rate Forecast

The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

| | Dec-15 | Mar-16 | Jun-16 | Sep-16 | Dec-16 | Mar-17 | Jun-17 | Sep-17 | Dec-17 | Mar-18 | Jun-18 |
|----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Bank rate | 0.50% | 0.50% | 0.75% | 0.75% | 1.00% | 1.00% | 1.25% | 1.50% | 1.50% | 1.75% | 1.75% |
| 5yr PWLB rate | 2.40% | 2.50% | 2.60% | 2.80% | 2.90% | 3.00% | 3.10% | 3.20% | 3.30% | 3.40% | 3.50% |
| 10yr PWLB rate | 3.00% | 3.20% | 3.30% | 3.40% | 3.50% | 3.70% | 3.80% | 3.90% | 4.00% | 4.10% | 4.20% |
| 25yr PWLB rate | 3.60% | 3.80% | 3.90% | 4.00% | 4.10% | 4.20% | 4.30% | 4.40% | 4.50% | 4.60% | 4.60% |
| 50yr PWLB rate | 3.60% | 3.80% | 3.90% | 4.00% | 4.10% | 4.20% | 4.30% | 4.40% | 4.50% | 4.60% | 4.60% |

* Public Works Loan Board (PWLB)

Capita Asset Services undertook a review of its interest rate forecasts on 11 August after the August Bank of England Inflation Report. This latest forecast includes no change in the timing of the first increase in Bank Rate as being quarter 2 of 2016.

With CPI inflation now likely to be at or near zero for most of 2015, it is difficult for the Bank of England Monetary Policy Committee (MPC) to start increasing the Bank Rate when the Inflation Report forecast was also notably subdued with inflation barely getting back up to the 2% target within the 2-3 year time horizon.

Despite average weekly earnings ticking up to 2.9% year-on year (y/y) in the three months ending in July, (as announced in mid-September), this is unlikely to provide ammunition for the MPC to take action to raise the Bank Rate soon as labour productivity growth meant that net labour unit costs are still only rising by about 1% y/y. The significant appreciation of Sterling against the Euro in 2015 has also acted as a dampening to UK growth while sharp volatility in financial markets since the Inflation Report has depressed equity prices, raised bond prices and lowered bond yields (and PWLB rates).

The Governor of the Bank of England, Mark Carney, has repeatedly stated that increases in Bank Rate will be slow and gradual. The MPC is concerned about the impact of increases on many heavily indebted consumers, especially when average disposable income is only just starting a significant recovery as a result of recent increases in the rate of wage inflation, though some consumers will not have seen that benefit come through for them.