

UK Household Interest Rate Expectations Index

Households prepare for higher interest rates

Key points:

- Households' expectations of imminent Bank of England rate rise jumps to eight-year survey high
- Around 47% forecast higher interest rates in the next 3 months, up from 21% in September
- On a six-month horizon, the majority of UK households (65%) anticipate a rate hike

UK Households' Interest Rate Expectations



Source: IHS Markit
*Net balance of those expecting a rate hike within the next 3 months, minus those expecting a cut at some time.

UK households' expectations for a rise in the interest rate set by the Bank of England have spiked higher during October and are now higher than seen before the previous rate hike in November 2017, according to survey data compiled by IHS Markit.

Almost half of the surveyed households (47%) anticipate an increase in the Bank of England base rate during the next three months, up from 21% in September. Meanwhile, the proportion predicting that the next change will be an interest rate cut has dipped from 10% to 8% in October.

At +40% in October, up sharply from +12% in September, the resulting net balance was the highest since the survey began in July 2013.

Interest rate expectations have therefore altered abruptly from earlier in the year amid unprecedented inflationary pressures, with growing numbers of

households now expecting rates to rise rather than fall ahead of the next Bank of England monetary policy announcement, scheduled for noon on 4th November.

Mortgage holders are especially expectant of a rate hike, according to the latest data. The respective net balance for those owning a property with a mortgage rose from 11% in September to an all-time high of 44% in October. This suggests that mortgage holders are already braced for higher borrowing costs.

The latest representative survey of 1,500 UK households also showed that a considerable majority of 65% anticipate a rate hike within the six months, up from 43% in September. On a year-ahead horizon, latest data showed that over three-quarters of households (78%) now expect interest rates to rise by October 2022.

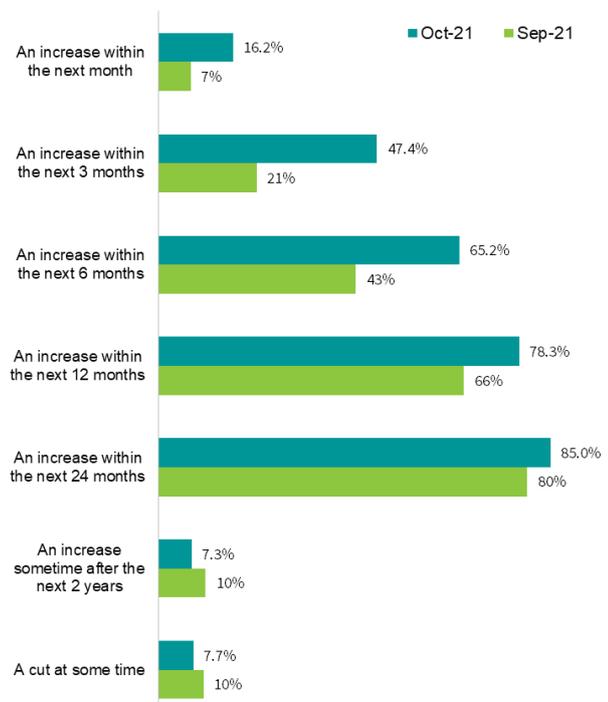
Fewer than one-in-ten (8%) expect the next move by the Bank of England to be a cut in interest rates, the lowest since May 2019.

On a regional basis, households in Yorkshire & Humber recorded the greatest net balance in October (53%), followed closely by Wales (52%). At the other end of the scale, households in Scotland (26%) and the North East of England (27%) were the least likely to predict an interest rate hike, albeit with expectations still picking up considerably since September.

Commenting, Lewis Cooper, Economist at IHS Markit, said:

“Interest rate expectations are heating up, with households clearly buying into the Bank of England governor’s recent rhetoric that higher borrowing costs are imminent. With markets also starting to price in a rate hike at next week’s monetary policy meeting, the data show that policymakers have paved the way for rates to rise if the Monetary Policy Committee sees fit.”

UK households' views on next change in Bank of England base rate*

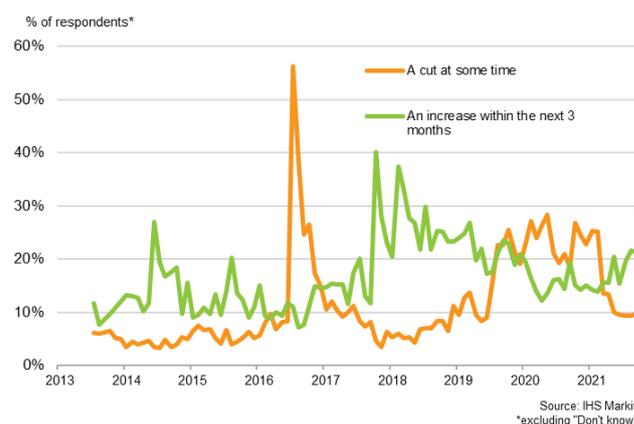


Source: IHS Markit
 **The interest rate set by the Bank of England is currently 0.1%. Please let us know when and how you think the Bank will next change interest rates by choosing one of the options below. Please choose only one answer.† Figures are cumulative % of respondents excluding "don't know".

Household interest rate expectations and MPC voting history



Households' Interest Rate Expectations - breakdown



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Notes to editors:

About the Household Interest Rate Expectations Index

The IHS Markit UK Household Interest Rate Expectations Index is a single figure indicator of households' interest rate expectations, designed to give a timely gauge of the extent to which the BoE has managed households' expectations.

The survey is based on monthly responses from approximately 1,500 individuals in the UK, with data collected by Ipsos MORI from its panel of respondents aged 18-64. The survey sample is structured according to gender, region and age to ensure the survey results accurately reflect the true composition of the population. Results are also weighted to further improve representativeness.

Index numbers

The index is calculated as the percentage net balance of those expecting the next move in interest rates by the Bank of England to be a hike within three months less those anticipating a decline at some time in the future.

Ipsos MORI technical details (October survey)

Ipsos MORI interviewed 1500 adults aged 18-64 across Great Britain from its online panel of respondents. Interviews were conducted online between October 21st – 25th 2021. A representative sample of adults was interviewed with quota controls set by gender, age and region and the resultant survey data weighted to the known GB profile of this audience by gender, age, region and household income. Ipsos MORI was responsible for the fieldwork and data collection only and not responsible for the analysis, reporting or interpretation of the survey results.

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