Interest rates: “the turn of the year”

The Governor of the Bank of England has made another interest rate pronouncement.

Almost since he started the job in July 2013, Mark Carney has used his position of Governor of the Bank of England to talk about when UK interest rates will begin to increase. So far he has largely managed to prove that central bankers, however powerful, possess no greater forecasting ability than most other financial experts.

The latest proof of this takes us back to last July, when Mr Carney told an audience assembled in Lincoln Cathedral that “it would not seem unreasonable to me to expect that once normalisation begins, interest rate increases would proceed slowly and rise to a level in the medium term that is perhaps about half as high as historical averages. In my view, *the decision* as to when to start such a process of adjustment will likely come into sharper relief around the turn of this year.”

The comment was widely interpreted as meaning the Bank of England was likely to start raising interest rates as 2016 got under way. However, although Mr Carney’s transatlantic colleagues at the Federal Reserve began their rate rises in December, a UK move is now unlikely in the short term. In a speech at Queen Mary University on 19 January, tellingly entitled “The turn of the year” Mr Carney referred to his summer statement and said “Well the year has turned, and, in my view, the decision proved straightforward: now is not yet the time to raise interest rates.”

Mr Carney’s apparent climb down was not much of a surprise, given the January gyrations in global financial markets and virtually zero UK inflation. With Japan now having moved to negative interest rates, January ended with some pundits suggesting that it might be 2017 before Mr Carney fires the interest rate starting gun.

All of which is good news if you are a borrower, but bad news if you have savings on deposit. Yes, you may well benefit from the new personal savings allowance which arrives in April, but probably not much – HM Revenue & Customs put the average gain at just £25.

One consequence of the volatile stock markets that are staying Mr Carney’s hand is that dividend yields are rising as share prices fall. The UK share market had an average yield of 3.83% at the end of January – nearly eight times base rate. If your primary need is income, the relative attraction of share-based investment has grown significantly since last summer.

The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.