NEWS

Inflation rise 'blip' that won't reverse rate drops but beware swap rises – analysis

by: Nick Cheek

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Counter to market expectations, the Consumer Prices Index (CPI) measure of inflation rose slightly in December. However, industry experts don't see this as a portent of doom just yet. Although, if swap rates start to rise, that could change.

Inflation rose to four per cent in the year to December 2023, a surprise increase from 3.9 per cent in November, according to the Office for National Statistics. This is the first rise since February 2023, and comes above market forecasts of 3.8 per cent.

Inflation rise: Blip, bump or bomb?

The majority of industry insiders believe that the rise in inflation is temporary and that it is likely to continue to fluctuate over the next year, rather than continue on the ascent.

Justin Moy, managing director at EHF Mortgages, said: "The inflation [increase] looks to be a blip given the isolated product lines that have caused this small rise, so it's not a disaster."

Peter Stamford, mortgage expert at The Mortgage Uni, agreed: "Inflation's recent uptick appears to be a minor blip, not derailing the trend of mortgage rate cuts."

However, Austyn Johnson, founder at Mortgages For Actors, was more circumspect in his response, noting that brokers and borrowers alike need to keep a watchful eye on swap rates.

He said: "If swap rates remain unchanged… the increase won't make much difference. If this makes swap rates rise though, we could see a wave of lenders raising rates again and then a bumpy up/down road ahead. Stability in the market is key, and any bumpiness will just cause issues."

Mortgage rates stable

Given the consensus that the inflation rise is likely to be a bump in the road, the majority of brokers feel that mortgage rates, which are currently on a downward trajectory, should keep falling, but at a slower pace.

Marcus Wright, managing director at Bolton Business Finance, said: "A tiny 0.1 per cent increase in the CPI inflation figure for December is unlikely to change the downward pressure on mortgage rates. We are seeing more customers enquiry about variable rate commercial mortgages, as they are expecting rates to come down in the next one to two years."

Richard Thompson, director at Abbeydale Mortgages, concurred with that view.

He said: "I believe that despite the rise in inflation, the trend of decreasing interest rates on mortgages is likely to persist. Lenders are currently engaged in a price war, demonstrating a strong desire to still lend."

Matt Smith, Rightmove's mortgage expert, noted that the overall picture was still 'positive' but that lenders could potentially pause for breath.

He said: "I'd expect swap rates to rise a little in reaction to today's surprise inflation figures. Average rates had been falling pretty sharply, but this is likely this to slow as lenders take a more cautious approach over the next few weeks. The big picture is still positive for mortgage rates, with rates more stable and attractive for movers than a year ago."

Base rate bounce?

Opinion was divided on what the rise would mean for the Bank of England (BoE) base rate, although a decrease now seems further off than ever, despite a number of investment banks and financial institutions predicting a fall as early as the spring.

Most commentators felt that the central bank would hold the base rate, despite the uplift to inflation; however, several were somewhat more pessimistic.

Gary Bush, financial adviser at MortgageShop.com, said: "This [rise] shouldn't have any effect on the next BoE base rate meeting on 1 Feb. However, it does make our earlier prediction of the first base rate reduction at March's meeting unlikely."

Bob Singh, founder at Chess Mortgages, added: "The long-term expectation is that the falls will be gradual and hence enhances the likelihood of BoE holding rates at the next meeting."

Yet, there were those who felt that this morning's news may prompt the BoE to push rates up again in an attempt to keep inflation under control.

Amanda Aumonier, director of mortgage operations at Better.co.uk, continued: "This shock uptick in inflation could, in theory, prompt the BoE to raise interest rates in an effort to regain control. This possibility will raise concerns for anxious homeowners facing the unenviable challenge of securing a new mortgage deal this year."

Luke Thompson, director at PAB Wealth Management, noted that the inflation figure, coupled with geopolitical tensions in the Middle East, could also move the BoE to shift the base rate upwards once more.

He said: "The BoE knows it can't reduce rates unless they hit the two per cent inflation target and with the issues in the Gulf around shipping, this could have the potential to provide a nasty sting in the tail on those inflation numbers and mean the base rate needs to stay higher for longer."

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Nick Cheek is managing editor of AE3Media and has over 25 years' experience as a corporate and personal finance editor and journalist. He began his journalistic career in Japan writing for the Asahi Evening News. He was also deputy and acting editor at Build It magazine as well as deputy editor at Which? and deputy editor/editor at Which? Money and Which? Money Quarterly. He was also global managing editor at the Ion/Acuris Group (including Mergermarket and Debtwire), where he was founding editor of the high-circulation Capital Insights brand. His work has appeared in Which?, The Sunday Times, the Asahi Evening News and Empire magazine among many others.

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- Yes, to some extent
- Yes, to a large extent
- No

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