BANK OF ENGLAND

MEETINGS OF THE MONETARY POLICY COMMITTEE

June 2015

A meeting of the Monetary Policy Committee was held on Monday 1 June 2015. The following members of the Committee were present:

Mark Carney, Governor
Ben Broadbent, Deputy Governor, Monetary Policy
Jon Cunliffe, Deputy Governor, Financial Stability
Nemat Shafik, Deputy Governor, Markets and Banking
Kristin Forbes, External Member
Andrew Haldane, Chief Economist
Ian McCafferty, External Member
David Miles, External Member
Martin Weale, External Member

Dave Ramsden was present as the Treasury representative

The following members of staff were present:

Gareth Ramsay, Director, Monetary Analysis
James Bell, MPC Secretariat
Fergal Shortall, MPC Secretariat
Simon Hayes, MPC Secretariat
Melissa Davey, Editor of Inflation Report

Transcript of the Monetary Policy Committee Meeting on

Monday 1 June 2015

Governor Carney. Okay, good morning everyone. So, welcome to our first meeting with the new format, and we are going to go round and from our perspectives and state voting intention, and that voting intention is obviously based on the information received up to this moment. When we reconvene on Wednesday, I will ask for confirmation of those votes and members will do as they wish at that point. And so I'm going to turn to Ben and then after Ben I have David as my next speaker.

Ben Broadbent. Thanks, Governor. Not everything is changing so let me begin, according to custom, with the main international news on the month. The most striking, perhaps, was the revised estimate of GDP growth in the United States, which as foreseen by Kristin now implies that the US economy contracted in the first quarter of this year. Several things suggest that the decline is temporary. It partly reflects the impact of severe weather on residential investment and other construction activity. Housing stocks recovered strongly in April, particularly in those areas of the country where the storms have been most severe. The west coast port strike may also have hit exports and it appears that US GDP data, though said to be seasonally adjusted, nonetheless exhibit residual seasonality. Growth tends to be weaker in the first quarter than in others. All this suggests growth in activity will resume in the second quarter.

It is unlikely to do so very rapidly. As Kristin also pointed out last week, the latest monthly data do not point to the kind of big bounce we saw after a similarly depressed first quarter in 2014. So, at least as far as output is concerned, the latest GDP estimate will leave its mark on growth in the first half of this year and probably on 2015 as a whole.

It is less clear this is the case for the US labour market, however, or, therefore, for US monetary policy. While gross hiring may suffer for a time – and additions to payrolls did fall in March to below 100,000 – a period of bad weather is unlikely to persuade construction firms to lay people off. Payrolls growth bounced back in April to 220,000 odd. And the latest labour market surveys are all consistent with continued firm growth. Employment indices in the PMI and ISM manufacturing surveys went in opposite directions – the first up and the second down. The index for the non-manufacturing ISM rose again to levels above the historical average.

So in what is a more extreme version of the mix of data seen in our own country – softer data, still firm numbers in the labour market – I'm not sure the first quarter GDP estimates in the US should have that much bearing on optimal monetary policy.

Turning to Asia, most indicators for China continue to point to softer growth. There was a small acceleration in industrial production. But retail sales decelerated again, the staff's estimate for GDP growth in the first quarter is around 6.5%, at annualised rate, slightly below last year's. There are other nowcasts suggesting something close to 5% and financial liberalisation of local government finance, while sensible and positive for the longer term, is likely to add downside risks in the next year or two.

In Europe there was for once less news. Nothing much appeared to happen to progress the Greek talks. In that case, with hard deadlines approaching, no news is bad news of course, although perhaps this brinkmanship is always to be expected. The very latest surveys for the eurozone were also a touch softer, notably in Germany, but they remain consistent with faster growth for quite some time and the staff's expectation is still that GDP will rise by 0.5% in the second quarter of this year.

What about home? Well here as in the US, growth is estimated to have slowed notably in the first quarter of the year, and although last week there was no downward revision to the preliminary estimate of 0.3% nor was it revised upwards as we had expected. We still think that it will happen – most revisions occur quite a long time after the event – and to the extent that slowdown in the first quarter is genuine, there isn't much sign it's persisted into the second. The monthly output numbers through the quarter mean you don't need much growth between March and June to achieve stronger GDP growth than in Q1 for the second quarter as a whole. Those data too will be revised of course but the survey indicators also look okay. The weight of CIPS balances for output and expectations are slightly above average. The CBI balances for the service sector, the monthly distribution survey and the broader quarterly survey for non–distribution services, were both pretty strong. The headline balances were both at post-crisis highs. Consistent with the bounce in equity prices in recent months – the two are positively correlated– the strongest rise in this quarterly survey was for business services and finance.

Finally, there still seems to be reasonably robust growth of employment. First quarter saw job creation of 200,000, an annualised rate of 2½ %, faster than during the course of last year. The surveys still point to expanding demand for employment at a rate above that of the working age population and earnings growth has clearly picked up since 2013 and the early part of last year. In the private sector, basic pay has risen at an annualised rate of 3% in each of the past three quarters. The last time pay rose at this rate over any three quarter period was in 2008, immediately before the crisis. If one were to adjust to any extent for these compositional effects we have been analysing the underlying rate of growth would be slightly faster than that. It is true that unemployment is lower than in 2008 and that one therefore needs to invoke something else – a faster adjustment of real pay to slow productivity perhaps, or a slower adjustment to falling unemployment or indeed some other factor – to account for the rates of earnings growth we have been seeing. But the puzzle is not what it was I think.

Having said that, there are some straws in the wind that our forecast – that the steam comes out of the labour market and unemployment begins to decline at a slower rate – is now in the data. Though this reflects higher participation, not slower employment growth as yet, the official ILO rate of unemployment did precisely that in the first quarter, falling by only 0.1 percentage points. The drop in the claimant count in the three months to April was the smallest for a couple of years and the employment surveys, though still consistent with positive jobs growth, have also softened albeit only a bit.

Finally, the strongest surveys for output growth in the second quarter were in business services, so I said, where there seem to be at least in the short run increasing returns, and where in the official data at least, the productivity slowdown has been most marked. Though there is the prospect I think, just the prospect at the moment, of slightly less intensive growth in the next quarter or two. Now that's not to say that unemployment won't fall further, or that earnings won't accelerate further, both these things are in our forecast and they are likely too to necessitate at some point the first rise in official interest rates in the UK for several years. Quite how much of that is necessary remains to be seen. Since the election sterling has risen further and the prospect of fiscal tightening at a pace somewhat higher than in past couple of years has firmed. But that decision is not here yet. For the time being the stance of policy looks appropriate to me and, recognising that this will be formally made at the third part of our meeting on Wednesday, my indicative vote is for no change in either Bank Rate or the stock of purchased assets.

Governor Carney. Thank you, Ben. Now David and then Kristin please.

David Miles. I do not think the UK economic outlook is very much different now from what it was at the time of the May Inflation Report; that seems to be the staff assessment also. And I think it is true both on activity – employment, output – and on inflation. As Ben noted, the ONS didn't change its first estimate of growth in the first quarter, so its second estimate is the same at 0.3%. But I think the staff were right to not change their own assessment of where growth will go over the next few quarters. And it looks likely that that relatively weak number from Q1 is, to a large extent, a result of erratic factors. Inflation came in roughly where we thought it was most likely to and I think it still looks set to stay close to zero for a few months but then really rise quite significantly towards the end of the year. And despite the very low, current inflation rate, my read on the raft of inflation expectations measures is that they remain consistent with most people thinking that inflation gets back to target within a couple of years. And because of that I think the deflation risks – even though the headline number is of course is falling, prices having fallen over the last year – I think the deflation risks (which I don't think have ever been very high) have actually fallen back a little bit further. So for me the question really remains one of when a gradual process of normalisation should begin and how gradual should it be. I think there is little to be said in favour of seriously contemplating a loosening in policy right now. So I think the main monetary policy question that we discussed at some length last month remains relevant, namely, is a pattern of market rates that seems to reflect a most likely path for Bank Rate that is exceptionally shallow (it only goes up by 100 basis points between now and the middle of 2018), is that one that we should feel comfortable with? And perhaps the more substantive economic question, can we expect inflation to gently return to target and more or less stay there if Bank Rate follows a path such as we conditioned on in May? – and that is something which I do think collectively, implicitly, we did sign up to in the May *Inflation Report*. And I am increasingly coming to the view that a level of Bank Rate more than 100 basis points higher than today's rate is likely to be needed 3 years down the road if, if, growth and unemployment roughly follows the path we thought likely in May. So that's one where spare capacity is gone by early next year and growth is more-or-less at its long-run average rate as far ahead as you might look.

Now, just because one thinks that the market path, the conditioning path we used in May, may be a bit lower than one's own view of the appropriate path doesn't in itself have any obvious implications for how you set policy today. And I am inclined, based on the information we've got right now, to continue to vote for no change in Bank Rate and no change in asset purchases. Of course that does not mean one can ignore what you might call market expectations of where rates will go, because obviously they are having an impact on decisions right now.

And I think it is becoming somewhat more clear that this is having an impact on the housing market. Mortgage rates have moved down over the last few months. I think now two, three, four, five year fixed rate mortgages are being offered at rates that are pretty close to all-time lows and clearly that reflects widespread expectations of a very low level of Bank Rate over the next three or four years. In fact, I think it is probably right that the gradual movement down in those mortgage rates since last autumn, since about September of last year, roughly matches the reduction in our conditioning path. In August of last year the conditioning path we used for our forecast then was that Bank Rate at the end of 2017 would be 2.5%. In May that number had come down ie, where Bank Rate would be at the end of 2017 had come down to 1.3%.

Now, fortunately, I think we are in a much better position than would have been true in the past, in the sense that there are much better safeguards now against the risk that people take out mortgages expecting Bank Rates to be at levels which subsequent events show is just too low. And a combination of the Mortgage Market Review and the FPC guidance on lenders having to assess affordability against a 3 percentage point rise in the mortgage rates has to be the first line of defence against that risk, although there is inevitably some uncertainty about just how resilient the new system is because it is a new system. Still, I think we should assess what message the current pattern of market rates is giving to households, especially in an environment where it does look like transactions and house prices themselves are beginning to pick up a bit.

Let me be clear on this: I do not think we should skew monetary policy towards a tightening just because of potential risks in the housing market and the dangers of people borrowing at rates that are lower than they suddenly become– and to repeat, I think the Mortgage Market Review implemented by the FCA and the FPC macro policies have to be the first line of defence. But, I do think that if we have reasons to believe that the pattern of market rates is on the low side relative to a central expectation of where Bank Rate might go, I think that has to be an issue for this Committee. The substantive economic question of course, which we have discussed at some length, is whether a central expectation of what we have called r* is really as low as 1.5% three years from now. I am pretty doubtful about that. Would inflation be steady at close to target or instead rising away from it if rates were that low? My own view is that the second of those is more likely. It is not that I have great confidence that the most likely figure for appropriate Bank Rate in mid-2018 is 3 or close to 3 or some such number. It is more a concern that people might come to believe that 1.5% is the most likely figure and believe that we think it is too. I think no one will thank us if we give the impression now of thinking the curve gives a perfectly reasonable estimate where Bank Rate might go if that is not what most of us believe.

One more positive message I think we should give, and I would like it to be reflected in the minutes I think, is the one that Ben outlined in his what I described as "admirably clear comments" a few days ago on the links between US monetary policy and policy here. And his message, which I strongly agree with, is that there's no reason at all why the MPC should follow a strategy of tying our decisions to those taken by the FOMC. Now it may well turn out that the right thing for us to do is to raise rates in a few months after the FOMC, but it is certainly easy to think of circumstances where we shouldn't do that and where we might raise rates significantly later or even earlier than the Fed. And the misguided view which I often hear, and I think most of us hear quite often as well, that the MPC cannot raise rates before the Fed and we have to raise rates very soon after the Fed is just that, I mean it is thoroughly misguided. But for today, based on the information available, I'm inclined to vote to maintain Bank Rate and the stock of asset purchases unchanged.

Governor Carney. Thank you David. Kristin and then Jon, please.

Kristin Forbes. In 1974, inflation in the US hovered around 10%. The newly elected President Ford felt that something had to be done. As part of his plan, Ford asked Americans to wear buttons with the acronym "WIN" ("Whip Inflation Now") and encouraged people to adapt their behaviour—such as to "eat all you take" and "make a trash inventory to find waste". The White House produced over 12 million WIN buttons for people to wear to show they were joining the fight against inflation. But the campaign proved unsuccessful – both in garnering support and reducing inflation. By 1975, the US was in its worst recession since the 1930s and inflation remained at 9.3%. The WIN buttons became widely ridiculed – with only 100,000 requests for the infamous 12 million buttons.

Luckily, monetary policy has evolved since then and independent central banks have proven more successful than the WIN campaign. Although inflation has averaged close to target (with annual UK inflation 2.1% since the Bank of England's independence), concerns have recently shifted from inflation being too high, to being too low. The -0.1% inflation reading for April is well below target and the lowest since 1960. I continue to support our approach of looking through the recent fall in inflation as it is caused by temporary factors. But near-zero inflation has increased certain risks that must be considered when evaluating when to increase interest rates as slack approaches zero. My biggest concern is that low headline inflation today could support slower wage and income growth – both of which will be critical to sustain consumption and the recovery.

The US is facing a similar challenge – with an equivalent decline in April CPI inflation and slack soon approaching zero. Yet markets are expecting the US to increase interest rates in December 2015 – six months before the expected UK "lift off" of June 2016. This slower start for the UK is noteworthy as the UK is likely closer to full employment and has a smaller output gap. Given the paucity of noteworthy data since the last MPC, and the similarities in the US and UK economies, my comments today will focus on how the Fed is approaching "lift off" relative to our discussions – focusing on the output gap, inflation, and labour market.

First, the Fed places less emphasis on precise estimates of the output gap as a key variable determining when to adjust rates. The output gap is obviously a concept for their analysis and embedded in their models. But they do not attempt the same type of precise bottom-up estimate constructed by adding up individual components of slack and then using this highly imperfect sum as a key factor in rate discussions. I find this approach to be healthy. As we have discussed, estimating the output gap is extremely difficult during periods of stability, and even more challenging during periods of structural change. The analysis presented at Pre-MPC showing the substantial revisions to UK GDP data made me even more worried about the challenges of estimating slack in real time. Q1 GDP data has been revised up by an average of 0.3 percentage points from the preliminary to final release. Much of the revision does not occur until two to three years after the initial release, with additional adjustments occurring over as long as a decade. This highlights the challenge of measuring slack and relying on this measure for forward-looking monetary policy.

A second variable on which the US seems to place less emphasis is current headline inflation. In the UK, inflation near zero has prompted continual headlines and discussion of the potential risks from deflation – such as slipping into a Japanese "lost decade" or consumers delaying purchases. Similar inflation in the US has not prompted the same type of soul searching. This is particularly noteworthy given that UK inflation expectations have fallen by less since 2014, with the cumulative fall in the five-year, five-year inflation swap rates of only 0.2% in the UK relative to about 0.7% in the US. Similarly, five-year, five-year inflation expectations for the UK are 3.2% and currently higher than the 2% in the US, although some of this difference may reflect the use of the RPI that is traditionally higher than the CPI.

What explains these different degrees of concern about headline inflation? The Fed's dual mandate and focus on core instead of headline inflation may play some role. But more important is likely to be the different vulnerabilities of the two economies to external shocks. The smaller weight of the UK in the global economy and its greater share of trade and financial flows relative to GDP, mean that UK inflation is more affected by international developments. In the UK, imports constitute 30% of the CPI price basket, and a 10% appreciation is estimated to reduce the price level by about 2% after three years (with no monetary policy response). In the US, imports constitute only about 17% of the CPI price basket and a 10% appreciation is estimated to reduce the price level by only 0.3% after three years. As Ben discussed yesterday, and analysed at the Special Topics, movements in US interest rates Granger cause movements in UK rates – but not vice versa. Therefore, any evaluation of monetary policy and inflation dynamics must place greater weight on global developments and exchange rate movements in the UK than in the US.

Finally, although there are important differences across the two countries' labour markets, such as declining participation in the middle-aged population in the US, the similarities in recent trends is striking. In both there has been a flattening of the Phillips curve relationship – with sharp falls in unemployment not translating into expected wage gains. Our analysis shows that composition effects could partially explain this (currently dragging down wage inflation by about 0.8%). Differences across US wage measures suggest that composition affects may also be holding back wage growth there, although these effects have not been as carefully documented. Productivity growth in both countries has declined sharply for reasons that are not clear. Measures of labour market churn indicate that both labour markets have strengthened considerably, and are approaching pre-crisis levels by some measures, but still have room for improvement in others. The Pre-MPC presentation nicely captured this for the UK; job-to-job flows have increased rapidly since 2012 to almost reach the 2002 to 2007 average, while resignations are still below this average and indicate some continued hesitation switching jobs.

Where does this leave us? President Forbes [laughter] Jet lag! President Ford would have been envious of the UK and US economies today. Neither country needs to contemplate a campaign with silly slogans to stabilise inflation. In both cases, the labour market is normalising, wage growth is gradually increasing, and even this recent growth may be understating underlying labour market tightness due to composition effects. Comparing how US policymakers are evaluating this progress has made me more comfortable with our own progress toward "lift off". There are obviously important differences in the two economies – including greater drags in the UK from fiscal policy and higher consumer debt, as well as greater vulnerability to euro area risks and the global economy more broadly. Nonetheless, this comparison helped confirm my assessment that the UK's recovery is on track, an increase in interest rates will soon be appropriate, and that date may occur closer to the "lift-off" expected in the US than in the UK. But I doubt that date for any change in monetary policy will be Wednesday when we vote.

Governor Carney. Your intention is?

Kristin Forbes. No change.

Governor Carney. No change. Good. Madam President, thank you very much. Jon and then Minouche.

Jon Cunliffe. I hope I get a vote. Thank you.

Starting with the easy part, the decision this month. The data over the month have evolved largely as I expected, broadly consistent with our May forecast so I see no need at present for a change in my policy stance. There was some news in the data. US Q1 growth has been weaker than we thought but it still looks likely to be a bump in the road. China is weaker, the euro area looks broadly in line. Germany's apparent softening I think is probably temporary and out of line with the fundamentals.

On the domestic front there is the weakness in Q1 UK GDP. Staff had been expecting an upward revision from 0.3 to 0.4, which didn't happen, and there has been an increase in the ERI, up 2% on the month, and 20% since the trough in 2013. But I think overall the position hasn't changed, and I think it is also worth noting the strength of the housing market and mention the mortgage interest rates. It is also worth noting the strength of mortgage approvals of 68,000 in April, an increase of 10% on the month and around the level we had expected to reach in Q1 of next year. But as I say, overall I don't think there is a change in the bigger picture.

We all know the urban myth of the boiled frog. If you put the frog in boiling water it jumps out, but if it's placed in cold water and slowly heated, it won't notice and it boils to death. Accordingly to Wikipedia, biologists have completely disproven the myth, but it remains a warning to us all. So I am conscious for a number of months I have been saying there is not much news in the data and the economy's evolving in line with our forecast. So I thought I ought to subject this to the frog test and look to see whether there had been a series of small changes in any direction to suggest the water temperature may be changing in a way that we are not appreciating. I don't think there are any changes that suggest the water is getting colder and certainly not that the water is freezing. As in recent months there was no material news on inflation expectations which I think remain consistent with inflation returning to target. So my view remains that when the external shocks wash out of inflation and assuming inflation expectations are not materially affected by temporary weak headline inflation, it will be developments in domestic costs, particularly wages, and developments in productivity that will hold the key to whether and when inflation returns to target.

There is a bit of slack left in the labour market, notably in average hours, but it has reduced and a number of labour market indicators are now facing in the same direction and have been making small movements in that direction for a while. Labour market churn has picked up: the job-to-job flows have risen since 2012 from their trough of 0.4% of employment and now stand at around 0.9%, close to the pre-crisis average. Resignations have also picked up since 2011 from a low of 0.8% to 1.2% of employment although they remain some way off the pre-crisis average of nearer to 1.5% and that could suggest there is still some anxiety left in the labour market.

Recruitment difficulties have also increased significantly. The swathe of survey measures of recruitment difficulties are back to pre-crisis levels, having risen steadily and narrowed over the last few years. The vacancy to unemployment ratio, which is a proxy for labour demand, is at its highest level since 2008, having picked up sharply since the beginning of 2014. Furthermore, and probably related to the above factors, there are perhaps some chunky straws in the wind on pay growth, that pay growth is becoming more established. Between January to March 2014 and January to March 2015 whole economy regular pay increased by 2.2%, the highest annual growth rate since April to June 2011 and a percentage point higher than six months ago.

Private sector regular pay growth had been bouncing around between roughly 1 and 2% for four years from the end of 2010 to the end of 2014. Outturns so far this year seems to mark a small shift. We have had six consecutive months in which pay growth has had a number 2 at the front. The latest reading was 2.7% in Q1, the highest since February 2009. Due to compositional effects underlying pay growth may have been even stronger. As Ben has said, if we adjust regular pay growth in the private sector for estimated compositional effects of around 1 percentage point the resulting figure would be around 3.5%. So the picture in the labour market does look a little clearer to me.

Unfortunately I can't say the same about productivity growth. There is an important interaction with compositional effects here. Broadly speaking we are assuming the compositional effects are the main factor weighing down on pay and that they have a similar effect on both pay and productivity and so when they unwind it will be relatively neutral for inflationary pressure. This is a fairly big assumption. I am not saying it's unreasonable but just that it's important and it is something I think we need to watch further. It is possible to have pay pressure without productivity growth – for example if there is pressure to catch up on some of the lost income since 2007 – and composition effects may be dragging down more on pay than productivity and so the unwind could affect one more than the other. The returns to job tenure could reflect the fact that people have used their insider status to extract a pay premium relative to new workers.

I don't think the combination of on the one hand small but repeated improvements in labour market indicators and in pay, but on the other hand no such change in productivity is yet a cause for alarm that the water is getting significantly hotter. We need unit labour costs to pick up to return inflation to target. Moreover there are some arguments to suggest that productivity growth may lag and indeed be driven by pay growth. But if for whatever reason pay picks up without a commensurate increase in productivity over the forecast period, then this may well require a faster policy response than that

[redacted]

imbedded in our forecast. The corollary is also true: if the trend of small signs on pay stalls along with productivity then we will have less inflationary pressure and less output growth which will call for a different policy response.

When we move to eight meetings a year there may be less need for such frog-like thought experiments. But for the present I don't think we are in imminent danger of being boiled or being frozen. The forecast still remains for me the central outcome and my risk management approach still holds. Indeed it will continue to hold while we are close to the zero lower bound, which means all else equal this raises the evidence bar in terms of what I'd need to see in the economy to want to tighten policy. Putting all this together my indicative vote remains no change in Bank Rate or in the stock of assets purchase. Thank you.

Governor Carney. Thank you. Minouche and Andy please.

Nemat Shafik. Thank you. I was fortunate enough to undertake an agency visit this month, during which the [redacted] explained how the world now is unimaginably different from that during of the financial crisis, or even two or three years ago. [redacted]

[redacted] would suggest that the equilibrium interest rate – helpfully defined by the MPC in February 2014 as the level of interest rates needed to keep inflation close to target and to maintain demand in line with supply when the economy is operating at normal capacity – is rising. The impetus to save in order to pay down debt has given way to a desire to expand again, and the availability of credit is certainly no longer a drag on activity.

So I thought for this MPC round my question would be: is this anecdote representative of the broader forces which are currently affecting the equilibrium rate, and will they continue to do so over the coming years? And what does this mean for the stance of monetary policy? We will discuss these difficult questions at length over the coming months as we think about the path to normalisation, but I would like to use my remarks today to sketch out my initial thoughts.

Let me start with the forces affecting the equilibrium rate and build on David's remarks about r*. In its communications about the equilibrium rate, the MPC has focussed on the role of demand headwinds – specifically: high levels of indebtedness in some parts of the private sector, and muted demand from our export markets, and the need for further balance sheet repair in the public sector and I wanted to say something about each of these in turn.

- The news from the private sector is clearly encouraging – the combination of declining interest rates and increasing lending volumes suggest that the debt cycle is slowly turning, [redacted]
    - Non-financial corporates' balance sheets are now in good shape. The Agents' heatmap of credit availability to businesses has moved steadily from red to green. And the credit conditions survey reports a gradual increase in the demand for credit by business, consistent with the annual growth in lending to PNFCs crossing into positive territory in recent data. We are even seeing improvement for SMEs, Q1 2015 was the first time we saw a positive figure for quarterly net lending in our own Funding for Lending Scheme.
    - Relative to firms, households' balance sheets have moved less of the way back to what historically be considered a normal level. But the recent signs have suggested that this overhang of debt may not weigh on consumption as much as we had feared. The latest NMG survey showed that households' concerns say that private sector indebtedness is no longer weighing on the equilibrium rate, but rather that it is probably doing so by less than at any point in the past seven about debt and credit availability have eased somewhat. And the annual rate of growth in unsecured consumer credit is now just above 7%. This is not

[redacted]

to years. And this alleviation of concerns about balance sheets can be expected to continue as incomes increase over the coming years.

- So let me turn next to the external environment. The recovery in the world economy is still fragile, and lacking vigour. And it is difficult not to focus on the many obstacles which could derail it, including, as we discussed a bit, the risk of a disorderly Greek exit from the eurozone (which felt a bit more possible last week than the week before), a disorderly slowdown in China, or a slowdown of any kind in the US given the first quarter GDP numbers. But the fact remains that a recovery is underway, meaning that the downward pressure that world demand has played on our equilibrium interest rate is probably fading and – if our central case materialises – will continue to fade over the coming years.

- The effect of the fiscal consolidation on the path of the equilibrium rate is probably more ambiguous. On the one hand, as the process of adjustment to past consolidation continues, downward pressure on the equilibrium Bank Rate could be expected to alleviate. On the other hand, we know we are going to face three years in which the magnitude of fiscal consolidation (as measured by the cyclically adjusted Public Sector Net Borrowing Requirement) is expected to match that of 2010 to 2013. So the net effect of fiscal policy will at best be ambiguous and could still be a bit of a drag on the recovery.

On balance, I interpret the encouraging signs from the private sector, and the moderate strengthening of the global recovery as meaning that the equilibrium interest rate is probably rising and will continue to do so over the coming years, in spite of uncertainty about the impact of fiscal consolidation.

So what does this mean for monetary policy? [redacted] Many of these policy tools are not in the hands of the central bank, with the exception of keeping our stance accommodative and being patient about getting inflation back to target, and through our macro and micro prudential policies getting financial markets in better shape to assist with reallocation in the economy.

It is also important to keep reassessing the impact of our current stance. It is important to remember that the difference between the equilibrium rate and Bank Rate is not currently a sufficient indicator of our stance. Indeed because output has been growing, the value of the stock of purchased assets has actually declined by about 2 percentage points as a share of nominal GDP from a high of 22.5% of GDP to now 20.7% of GDP, thus making our stance slightly tighter over time. Second, some adjustment to the improving outlook has already taken place by the exchange rate, which is now around 16% higher than it was in its 2013 trough. This had provided a drag to both net trade and inflation which was apparent in both the weaker than expected second release of the Q1GDP data and the first negative print in headline inflation since the 1960s.

So let me sum up. It is very difficult to be precise about the evolution of the equilibrium interest rate, but recent developments do give me comfort that the headwinds affecting the economy are continuing to ease, and that the neutral rate is rising.

For the moment, the pressure to increase Bank Rate in line with the move in the neutral rate is being tempered by the ongoing effects of the exchange rate appreciation and the natural diminishing of the stimulus from QE. But I am becoming a little more certain in my belief that at some point in the coming quarters, barring any new adverse shocks, of which there are many possibilities, it will be appropriate to increase Bank rate. But for now my voting intention is for no change in Bank Rate or the stock of purchased assets.

Governor Carney. So Andy.

Andrew Haldane. Thank you, Governor. So, world growth has undershot IMF forecasts in every year since 2010 – on average, by around 0.5 percentage points. Over that period world growth has averaged a bit less than 4%, ½% below it pre-crisis trend. The world output gap, as best we can tell, has closed but relatively modestly. On current IMF estimates, it's still over 1% of world GDP. That subdued growth picture comes despite short-term real rates having remained negative across the US, UK, the euro area and Japan, while asset purchases by these countries' central banks have totalled over $9 trillion or 12% of world GDP. I say all of this because I think it is relevant for making sense of the growth picture now. Short-term real rates remain negative in the US, UK, euro-area and Japan. Even at a ten-year maturity, they average less than 0.5%. Yet growth remains below trend in Japan and the euro-area and little better than trend in the UK and the US. Recent data surprise indices for these countries do not suggest spontaneous combustion in growth: the indices are in negative territory, in some cases significantly so.

Hope sprung external that the sharp oil price fall last year and this would pay growth dividends. And in some respects it has, boosting confidence and real incomes across these oil importers. What it appears not to have translated into, at least yet, is much if any incremental boost to spending, either by households in the form of consumption or by firms in the form of investment.

Our standard models might imply an mpc[1] close to one out of income windfalls. Surveys of households suggests a number less than half that. So far at least, the cross-country evidence supports what people say they will do, rather than what economists think they should do. So why is that? And does it help in explaining sub-par growth since the crisis, despite extraordinary monetary stimulus?

Our standard models tend to hold fixed a factor that for me goes a long way towards explaining the underwhelming performance of growth, and a number of other related phenomena, since the crisis. And that factor is caution, insecurity, or risk aversion. That's a psychological phenomenon. And financial crises – from the Great Depression to the Asian crises – appear to generate a deep and persistent form of psychological scarring. One way this manifests itself is as an asymmetric response to news. Good news is banked, while bad news induces a defensive response. Insecurity generates the mind-set of the glass appearing half-empty.

I think this crisis-induced psychological state might be important in explaining some behaviour since the crisis. One example, just mentioned, is households' reluctance to spend all of their oil windfalls over the past six months. Consumers are happy that their glass is now less than half empty. But they are no more willing to drink it. Insecurity may also explain households' reluctance to move job, to move house, or to bid aggressively for higher wages, each of which, despite picking up recently, have remained below pre-crisis levels.

Among companies, insecurity manifests itself as a desire to stockpile cash or to buy-back shares rather than invest – a global trend since the crisis. Or, indeed, a reluctance to start a new business – ditto. Among banks, it might explain caution about lending. And in financial markets, it probably helps account for the extraordinary demand for safe assets, which has pushed down global real yields by a further 3 percentage points since the crisis.

Since 2010, the supply of new debt by G7 governments has increased by $10 trillion. This has more than offset the increased demand for government debt from central banks through QE, which implies a very significant increase in the demand for safe assets by the private sector since 2010. I think these crisis-induced anxieties are being added to by secular forces. Many of which had been weighing on growth pre-crisis when the tide was in, but with the tide now out, are more visible: demography, inequality, low investment and the like. The implication of this is not to paint a picture of doom and gloom – growth stills appears to be pretty solid in the UK. But it does explain why I don't expect those oil dividends to be spent fully or later in the year. It is why I don't expect any sustained post-electoral bounce in spending. It is why I don't expect the looser credit conditions of the past year or two to translate into the usual pickup in credit demand and spending. And it is why I don't expect a sudden sprouting of wage growth, despite the tightening labour market. Yes, there have been signs of the Phillips curve showing its face over the past month or two. And wage growth is now more robustly in the "two-point-something" zone. But outside of certain sectors, what I don't see yet are signs of this being the first step on a ladder that leads to 4 or 5% wage growth.

[1] MPC Secretariat clarification: marginal propensity to consume.

I was on an Agents visit myself last week in Scotland. A number of firms I met there had nudged up their settlements this year to lie in that 2 to 2½% zone. Was this the Phillips Curve reasserting itself? Well yes, for many firms that was true but for many these were three year settlements, each year at 2 to 21/2 %. Yes firms had put their first step on the ladder, but they hadn't planned climbing any higher at this stage. I think this is a pretty consistent message across the agency network.

Barring shocks – in other words, with good luck – that leaves me expecting a continuation of the solid but sub-par recovery, globally and in the UK. With bad luck, I'd expect an asymmetric, defensive response from companies, consumers and intermediaries, with a risk then of growth underachieving. That, for me, generates an asymmetric balance of risks to growth and inflation over the period ahead.

As I mentioned last month, I have re-run the policy simulations from February using the May Inflation Report forecasts, and as they are similar to February, they yield a similar conclusion:

The optimal control path for rates, consistent with meeting our inflation and output targets, would actually involve cutting rates now, before proceeding to a path of normalisation in around a year's time. And that's without any consideration of asymmetries in risks I mentioned.

I did not vote for a cut in February, and am not doing so today, for one simple reason: which is if my tale of caution is right, a rate cut would be pocketed by the cautiously optimistic and fretted over by the cautiously pessimistic. On balance, it could even be damaging to confidence. But, at the same time and for the same reasons, I am fearful a rate rise any time soon could set back recovery much more significantly than our model ready-reckoners' would imply. That is due to the asymmetric effects of bad news in an environment of heightened risk-aversion.

That is why a number of countries had to back-track when they set on a course of interest rate "normalisation". With the benefit of glorious hindsight, this was an unnecessary risk for them to have taken then and I believe it would be an unnecessary risk for us to take at the present time.

Against that backdrop, I maintain my neutral stance on the next move in rates and am minded this month to maintain Bank Rate and asset purchases at their current levels. Thank you.

Governor Carney. Thank you, Andy. So, Martin and then Ian please.

Martin Weale. Thank you Governor. I'd like to highlight six developments brought into focus this month.

First is the question of the durability of growth in the euro area and North America bearing in mind that GDP growth has been weak in a number of countries. Material weakness in Germany foreshadowed last month offset good growth in France and some improvement in Italy. I share the view that overall the Q1 data point to a downside risk for the euro area. This is largely separate from the uncertainty surrounding the outcome of the negotiations with Greece.

One might have expected the oil price fall to provide a fillip to growth. But my own work on its effects in the UK, suggests that little of the eventual impact on GDP would have come through in the first quarter. If this is also true of other countries, we should not immediately infer that weak Q1 growth is due to oil having a smaller effect than first seemed likely.

That said, reduced oil investment is a likely contributor to the contractions in Canada and the United States. The boost to consumption may be a bit slower to emerge. The combination of the Q2 indicators for the United States and the discovery of seasonal weakness in the seasonally adjusted Q1 data are both reassuring, although, as with Germany it is hard to avoid seeing a downside risk, relative to what we had expected.

Secondly, I am unsure whether we can draw general conclusions from recent moves in sovereign bond yields. Although the sharp rise in German bond yields seems to have dragged up yields in other countries, the 10-year rate is still below where it was in the autumn. I am probably not the only person more surprised that yields fell as low as they did than that they have since risen. In any case, there is no reason why the effects of the 1994 rise in US bond yields should provide a universal template for the consequences of erratic movements. Inference from a single observation is always statistically weak. In any case, although growth was lower in 1995 than in 1994, both were years of good economic recovery. As to the gap between UK market yields and directly observed expectations, like David, I do not think it is nearly as important as whether the actual yield curve is consistent with the inflation target.

Thirdly, the largest piece of data news for the UK has been the rise in the exchange rate, up 2.7% since the May MPC meeting. This has pushed down a little on the short-term inflation forecast through its impact on energy costs, and if it persists I would expect further effects next year and beyond. The Agents' Survey showed that the level of the exchange rate is already materially affecting both export volumes and export margins adversely.

This, I should say, comes on top of the fact that my work on oil which suggested that, for any given oil price fall, its impact on inflation would be more protracted than we have assumed, but nevertheless should fade away almost completely within two years.

Fourthly, the estimate of Q1 growth was not revised, despite general expectations that it would be slightly stronger than first thought. Good figures for production and construction in March were offset by a weak picture for services. As a consequence, the follow-on effect into Q2 is less than it would have been had the services figure been weakness. I am slightly concerned by this but then again, the broad picture of revisions is such that the number may still move up. And we were shown some very interesting work which pointed to a seasonal pattern in the revisions to seasonally adjusted GDP figures. This suggested that Q1 is more prone to upward revisions than are the later quarters of the year. That at least goes some way to offsetting the downside risk which had concerned me.

In any case, we have seen buoyant retail sales figures for April and most of the business surveys continue to suggest healthy growth in Q2. As such, I'm happy to remain with the idea that here the Q1 weakness was temporary.

The uncertainty over the GDP data feeds through to my fifth point, which relates to the signal that we can or can't take for productivity. With hours worked having grown by 0.2%, a final GDP number of 0.3% would imply that productivity growth remained weak. But if GDP is eventually shown to have grown by 0.5%, with hours growth unchanged, then the picture looks a lot more encouraging.

The work on labour market composition effects, which estimated these at 0.8%, also suggested an additional 0.7 percentage points on labour productivity if the current composition effect unwinds fully. I am, however, sympathetic to Kristin's point that the effect on labour productivity may not appear as rapidly as simple growth accounting would suggest. Additionally, there is a risk that the composition effect itself may not die away fully over, say the next two years. The effect probably depends on the number of people entering the labour market of various types and their qualifications relative to the composition of people leaving the labour market. We have assumptions about some of these underpinning our labour force assumptions, and it would be helpful to look at the prospects for the composition effect in the light of these. If some of the composition effect does persist, then the improvement in productivity may be less than we hope over the next couple of years. As a consequence, the rate of wage increases compatible with target inflation would also be lower.

Finally, we come back to the question of supply and demand in the labour market. The recent claimant count figures do, in contrast to what I described last month, point to a slower decline in unemployment. And one point which struck me particularly in the recent staff note was that workers seemed to be taking fewer holidays, and if they were to revert to earlier patterns then labour supply would be materially lower than had been assumed. It would be interesting to know more about this, and I suspect study of the micro data could give some useful insights.

My sense is of slight upside news in the wage data. I was concerned in the autumn that AWE growth would fade away after the rises we had seen in August and September; but this hasn't happened. Not only is year on year pay growth picking up, but three-month on three-month annualised growth rate is also reasonably buoyant. This is very different from the stagnation we saw in the first half of last year, and does not suggest that wage growth has yet been depressed by zero inflation. It also, of course, suggests that it hasn't been strongly affected by weak short-term expectations of inflation. Or, if it has been, that might indicate that underlying pay pressures are stronger than appears to be the case at first glance.

Overall then I see things still as finely balanced, if I judge policy today with reference to the likely situation in two years' time rather than solely with reference to the most recent data. But I expect that, when I come to vote, I will vote for no change to Bank Rate and no change to asset purchases.

Governor Carney. Thank you Martin. Ian please.

Ian McCafferty. Good morning. It is only just over three weeks since we finalised the May Inflation Report, so it would take quite some shock to overturn the judgements that underlay our forecasts. In fact I would say that the data news since then on balance is neutral and as such is supportive of our key judgements.

The most dramatic news of the month was the sell-off in bunds which was more extreme than either the taper tantrum or the 1994 sell off. But I think this can be well explained as a simple correction to the seemingly ridiculous pricing that prevailed immediately after the ECB interventions, combined with the reappraisal of the deflation risk within the euro zone. The lack of contagion to equity markets supports this interpretation, and I think the impact on the broader euro zone economy is likely to be limited and the correction takes markets only back to levels seen a few months ago and as such any impact on corporate decision-making is likely to be modest.

In terms of the real economy much of the data we have for the second quarter is in line with our expectations.

Internationally the early Q2 data backs up the view that the first quarter weakness in the US and German in particular was mostly a combination of noise and temporary factors. In the US the early Q2 non-farm payroll, core durable goods orders, housing market and consumer confidence data support the outlook for solid if not spectacular growth even if as yet there is no big bounce back from Q1. In Germany the GDP expenditure data suggested that the Q1 slowdown bypassed domestic demand, which continued to grow at a quarterly rate of 0.7%. The weakness in the trade data may even be beneficial if it represented increased imports from elsewhere in the euro zone. In terms of the second quarter the recent PMI and IFO surveys back up the narrative of slightly stronger domestic demand offset by more sluggish in terms of exports, but remain consistent with growth of around 0.4 to 0.5% per quarter. Elsewhere in the euro zone the PMI data also suggested that the better news in France and Italy has continued.

In both the US and the euro zone we've yet to see much of the increase in spending expected from the oil price windfall, raising concerns that consumers are saving rather than spending the gains. I do not think this will persist such that we will see some stronger spending in coming months.

This is mainly because the benefit from lower oil prices is unlikely to prove temporary, the most likely reason for consumers to save any windfall. While Brent prices have solidified in the low $60s they are still some 50% down from their peak and the fundamentals remain soft. Current supply still exceeds even upwardly revised estimates of demand by close to half a million barrels a day, as US shale production is proving more resilient than originally thought. The halving of the rig count in the US has cleared out the least productive rigs but rig closures have slowed dramatically in the past month reflecting the sharp improvement in production costs in remaining shale activities. As a result US supply is still up on a year ago and while increased refinery activity has so far lessened the pressure of this excess supply on storage facilities, offshore storage is now being liquated as tanker rates have risen such that the risks to the price outlook still appear to be on the downside.

In terms of the UK, the demand data provided few surprises. It was slightly disappointing that the Q1 data was not after all revised to 0.4%, but as with Germany the news in the components was encouraging. In particular the increase in business investment of 1.6% on the quarter, even as the drag from North Sea oil started to bite, allayed some concerns that the recovery in business investment had somehow started to peter out late last year.

And early data for Q2 suggests that the economy retains momentum. Surveys of business activity in investment intentions remain robust and recent conversations with individual businesses suggest to me that the election result has provided some increased certainty. I think it is too early to argue that we've simply swapped election uncertainty for referendum uncertainty. Most businesses seem to be taking this so far in their stride so that any real impact in investment intentions is unlikely to manifest itself for some time.

On the supply side there is not much news relative to last month's stock take, but in terms of how quickly slack has eroded from here I am still somewhat concerned about potential upside risks.

Most importantly I've recently been looking at drivers of desired hours and find a strong negative correlation with real income growth. As real incomes rise declared desired hours fall back suggesting a strong substitution effect with leisure. That is, either part-timers have a fixed level of desired income for which they'll work as long as they need, or second earners drop out as their spouses' incomes improve.

If this is the case our equilibrium hours estimate should show some decline over the forecast period rather than as now remaining flat at the Q1 2015 level throughout the forecast, and as such would lead slack to be absorbed slightly more rapidly than we have in the Inflation Report.

On the wage front I've done the same calculation as Ben set out at our last meeting, that if compositional effects were adjusted for, underlying private sector pay may be rising by up to 3.5% already. However, from recent agency visits – I too have been going round the country after the election – it appears that near-term pay pressures remain relatively stable at this level, though this may simply be because the majority of settlements for this year have already been completed.

But measures of labour market tightness continue to tick up. Vacancy rates are rising, demand for labour is still firm, job to job flows are now close to their pre-crisis average and skill shortages are increasingly reported. Pay pressures for job changes are picking up markedly. So I still believe that while the near-term risks to wages probably lies on the downside, this switches once we get into 2016.

So as I said last month, the balance of risks around our central forecast for me is gradually shifting. The downside risks of deflationary psychology and persistent below target inflation have diminished. In the near term persistent low wage growth remains an issue but looking into 2016 as slack finally disappears I'm increasingly concerned that we will not be able to achieve the dogleg in unemployment described in the forecast without a more marked acceleration in nominal wage growth. And as such for me the policy decision this month remains finally balanced. However at this stage I find it difficult to justify a marked change in my position from last month and as such I too am inclined to leave policy unchanged for a little longer.

Governor Carney. Thank you, Ian, thank you all. So, last month I suggested that to start normalising policy we'd ideally like to see a range of indicators moving in the right direction. I picked three: sustained economic growth above trend with positive leading indicators; wage growth accelerating relative to productivity growth; and core CPI firming from currently weak levels. I too note the relatively limited lapse of time since we last met, so it's not surprising to say I don't have deep new news on any of those. I would say neutral to, on balance, positive, certainly consistent with our forecast as David, Ian and others have suggested. Let me just expand a bit on each of the three.

In terms of momentum, not taking too much of a signal from the non-revision of Q1 GDP given the nature of the statistics and points others have made, I would note that there is no evidence yet of that oil dividend. Martin, I take your caution in terms of timing on consumption, but I think there is something to what Andy is saying in terms of consumer behaviour. I was one who viewed our mpc of 0.7 originally in our February forecast as being unnecessarily conservative and, at best, we would be lucky to achieve it, although we'll never really know whether or not that was the case.

I wouldn't take too much reassurance from strong retail sales with respect to role of consumption, given the relatively low correlation between the two – others know that. But nor would I be too chastened by the sharp fall in the GfK; it is one measure, there's broader indicators consistent with higher confidence, and the level of confidence is still elevated relative to historic. So I would suggest we're on track for above trend growth in the second quarter, once one takes into account industry surveys.

In terms of wages and productivity, let me just associate myself with the comments of Jon, Ben, Martin, Ian and others in terms of the firming of private sector pay. It's welcome; it's as expected. In terms of risk from persistently weak wage expectations, I wouldn't say they've intensified in any respect. And it's hard to measure wage expectations. Inflation expectations have generally held up. I would just put one caveat around that, they have held up. When we look at market based measures of inflation expectations, to the extent you take them as read. And one recognises the wedge between RPI, CPI so if you believe the market's efficient. Market expectations of inflation are below target out beyond five years, and that has been the case for some time, and the adjusted target 10 years if you look at instantaneous forward expectations so you know, it's something to note but I'm certainly in the firmly anchored inflation expectations camp – although I'm unable to get that phrase into the minutes, and don't worry, I won't try it. Just because I've uttered it I won't try to adjust carefully crafted language there.

I think it was an interesting conversation/analysis Ben took us through on Friday on the dogleg and the job-to-job flows. It goes, in part, to the possibility of super hysteresis, in other words not just level drops but trend drops in potential, partially explained in turn by lower resource churn. Certainly we have seen, as Kristin and others have noted, lower levels of creative destruction in the UK caused partially, initially, by a broken financial system, then by forbearance, and I would say almost passive forbearance, if I can use that phrase, that Kristin flagged around low levels of interest rates leading to high firm survival rates and reducing the number of company liquidations, which are still running about 40% below their peak in the 1990s recession. So we may have some pent up, if you will, destruction to come. And staff estimates using firm-level data are that resource reallocation across firms has contributed only about a third of the levels seen in 2004 to 7.

I'm not sure that is going to map into a big chunk on overall productivity. But picking up on Ben's job-to-job flow work, Jamie Bell and [redacted] did some rough calculations to think about the scenario of what happens with the stick of higher interest rates; so if you have the stick of higher interest rates, is basically the question I asked of Ben, where higher debt servicing costs obviously eat into firms' profits, hitting the least productive the hardest, a bit of Andrew Mellon and all of this liquidate labour, stocks, farmers, real estate purge the rottenness of the system and obviously a slightly, in isolation, a slightly risky policy in a highly indebted low inflation environment, but let's just assume that we have an ending to forbearance and an ending to forbearance so that the job destruction rate increases to a level that prevailed in the mid-90s so in other words about 1.5% and it does so in a way that it follows the path of Bank Rate going up over the course of the next three years. Now, if that were the only thing going on – and, of course, it won't be the only thing going on – but all other flows in the labour market stay the same, that unemployment rate would rise back up to 5.8%. The point being that if you have some endogeneity here with, in terms of job destruction, with the path of rates, you have a dampening of the labour market as one would expect. In order to achieve our IR forecast in that scenario where job destruction goes back to average levels, not to higher levels, average levels, we would need to see a job creation rate go to a record high of 34% from 27% at present. It is quite high at present but it would have to further increase. Take it for what it's worth, but it just gives a bit of a sense of a dampening that could come if there's an endogenous response to a normalisation path policy. The fact is we don't know; we'll have to see with time.

Let me finish with inflation, and just a point I'm slightly picking up from and extrapolating something Kristin said. Everyone's aware the ONS measure of core is 0.8%. Also, you are aware of staff analysis if you adjust by inverse import intensity that figure so you adjust out the measure of the exchange rate effect, that core measure goes to 1¾%, so consistent with a modest drag on inflation from domestic costs. But now I'm going to take up my sledgehammer. That's fascinating but it is kind of irrelevant. We can't just wash our hands of these exchange rate effects, because they are relevant for the policy horizon. Pass through from exchange rate changes are persistent. Material exchange rate changes appear to have been very protracted and material in the UK, and it's relevant from a pure monetary policy horizon that seeks to offset the consequences of nominal frictions.

Simple illustration: take core CPI ex-food energy and then remove one-off changes to VAT and tuition fees, which you should when adjusting core. There's no contemporaneous correlation between that measure and annual changes in the exchange rate. Lagging by a year, the correlation's -0.22; lagging two years, -0.5; lagging three years, just under two-thirds. That's the peak and then it tails back down to 0.44 at four years, consistent with our four-year pass through thing. Point being, it's there within the policy horizon and obviously correlations can be misleading but it can be material. And I would say that it obviously makes our life a little more difficult, and what makes our life even more difficult in that environment is that the channel, one of the major channels at the moment of G3 monetary policy (we're not in the G3) is the exchange rate. It is the one bit of the conversation one tends to have more and more with the perpetrator of various exchange rate moves, denying and accusing the other ones of following that path. So there is a risk – I am mentioning this because I need to have something to talk about when it's only been three weeks since our last meeting! – I wouldn't read too much into it, but there does remain a risk to monetary policy of further persistent appreciation of sterling. It's up I think close to 20% on trough, it was quoted as 16. And particularly given a higher probability of a Graccident that has come but all that said just let me also associate myself with others who take the view that we do not, will not, in any way tie ourselves to the path of US monetary policy, and honestly the fundamentals behind that and the implications of that will have impacts on the UK. But we will normalise policy at a timing and pace appropriate for UK perspectives on inflation and our remit.

So, I, and as I believe I heard all others at this stage, given the information we all have, I intend to vote, current intention is to vote for no change in Bank Rate, no change in asset purchases. I do note continued, limited (given the time horizon) progress toward normalisation over the course, since the last meeting. So, with that, we can close this meeting. We will be meeting tomorrow to do the data check, which is the first cut of the minutes which I believe came around this morning. So we meet tomorrow afternoon on that. Thank you everyone.

A meeting of the Monetary Policy Committee was held on Wednesday 3 June 2015. The following members of the Committee were present:

Mark Carney, Governor
Ben Broadbent, Deputy Governor, Monetary Policy
Jon Cunliffe, Deputy Governor, Financial Stability
Nemat Shafik, Deputy Governor, Markets and Banking
Kristin Forbes, External Member
Andrew Haldane, Chief Economist
Ian McCafferty, External Member
David Miles, External Member
Martin Weale, External Member

Dave Ramsden was present as the Treasury representative

The following members of staff were present:

Gareth Ramsay, Director, Monetary Analysis
James Bell, MPC Secretariat
Fergal Shortall, MPC Secretariat
Simon Hayes, MPC Secretariat
Melissa Davey, Editor of Inflation Report

[redacted]

Transcript of the Monetary Policy Committee Meeting on

Wednesday 3 June 2015

Governor Carney. Good afternoon, everyone. So, this is the continuation of our meeting of Monday which is to cast final votes for this month's decision, having offered indicative ones on Monday subject to new information. And then, also, we have to agree the statement, and then we'll have some housekeeping at the end in terms of Agents' surveys and others. So just to take stock of recent events, I'm going to ask Andy to update on any news. I don't have any pre-releases, but I do want to say a word about Greece after Andy speaks.

> **Andrew Haldane.** Thank you, Governor. So, on the domestic side let me mention three bits of data we've had since we last met. For the CIPS data we had already seen the composite and the manufacturing components of that. We now have services and construction as well. Not huge amounts of new news in that I don't think. The services balances were roughly in line with composites, as you might expect, so down a touch on the output side and up a touch on the expectations side. Construction was up a bit.
>
> Secondly on housing, we had the Halifax and Nationwide house price indices, both of which recorded strong numbers for May relative to our expectation, so that's consistent with a somewhat stronger pick up in house price inflation that we had expected.
>
> And finally on the labour market we received the REC data. I don't think there was huge amounts of news in that but for what it's worth the wages, the salaries balance was off a touch on the month, though remaining at the top of our survey swathe.
>
> Internationally the only extra data out of that which we hadn't already seen is from the euro area where the PMI reading for May fell a bit less than we had expected. And there was also a stronger retail sales number for the euro area in April, up 0.7%. That was it, thank you.

Governor Carney. [redacted]

Ben Broadbent. One result of that is that currency is now within half a percent of where it was for the May Inflation Report for what it's worth.

Jon Cunliffe. So what is within half a percent?

Ben Broadbent. Trade weighted sterling is around, within around half a percent of May Inflation Report level.

Governor Carney. OK good. So what I would propose: I'm going to put the proposition forward that no change in Bank Rate, no change in asset purchases. I'll just go round the table in the same order we did last week to confirm or deny. It's time to stand and deliver, once and for all. So that means I start with Dr Broadbent. Ben.

Ben Broadbent. Yes, not having heard anything just now, any great substance of change, my view I stick by no change, no change for either Bank Rate or asset purchases.

Governor Carney. Kristin.

Kristin Forbes. Confirm, no change, no change.

Governor Carney. Jon.

Jon Cunliffe. Confirm, no change, no change.

Governor Carney. OK, Minouche.

Nemat Shafik. Confirm no change, no change.

Governor Carney. Very good. Andy.

Andrew Haldane. Yes confirm, no change, no change thank you.

Governor Carney. Martin.

Martin Weale. As expected, no change, no change.

Governor Carney. As expected, yes. Ian.

Ian McCafferty. No change, no change.

Governor Carney. Myself, as expected no change, no change.

David Miles. Can I vote?

Governor Carney. David. [laughter]

David Miles. I'm going to change my mind [laughter], just go off in a huff. I confirm no change, no change.

Governor Carney. I didn't say that was final. I just said and myself but I did go out of order I see that. So, can we restart the tape? [laughter]. So that is, with David that is nine. So we should, as a consequence we should look at the statement. Should be straightforward. Jamie will just distribute those.