Bank of England

Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 1 November 2023

2 November 2023

These are the minutes of the Monetary Policy Committee meeting ending on 1 November 2023.

They are available at https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2023/november-2023.

The Bank of England Act 1998 gives the Bank of England operational responsibility for setting monetary policy to meet the Government's inflation target. Operational decisions are taken by the Bank's Monetary Policy Committee. The minutes of the Committee meeting ending on 13 December will be published on 14 December 2023.

Monetary Policy Summary, November 2023

The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. At its meeting ending on 1 November 2023, the MPC voted by a majority of 6–3 to maintain Bank Rate at 5.25%. Three members preferred to increase Bank Rate by 0.25 percentage points, to 5.5%.

The Committee's updated projections for activity and inflation are set out in the accompanying November Monetary Policy Report. These are conditioned on a market-implied path for Bank Rate that remains around 5¼% until 2024 Q3 and then declines gradually to 4¼% by the end of 2026, a lower profile than underpinned the August projections.

Since the MPC's previous meeting, long-term government bond yields have increased across advanced economies. GDP growth has been stronger than expected in the United States. Underlying inflationary pressures in advanced economies remain elevated. Following events in the Middle East, the oil futures curve has risen somewhat while gas futures prices are little changed.

UK GDP is expected to have been flat in 2023 Q3, weaker than projected in the August Report. Some business surveys are pointing to a slight contraction of output in Q4 but others are less pessimistic. GDP is expected to grow by 0.1% in Q4, also weaker than projected previously.

The MPC continues to consider a wide range of data to inform its view on developments in labour market activity, rather than focusing on a single indicator. The increasing uncertainties surrounding the Labour Force Survey underline the importance of this approach. Against a backdrop of subdued economic activity, employment growth is likely to have softened over the second half of 2023, and to a greater extent than projected in the August Report. Falling vacancies and surveys indicating an easing of recruitment difficulties also point to a loosening in the labour market. Contacts of the Bank's Agents have similarly reported an easing in hiring constraints, although persistent skills shortages remain in some sectors.

Pay growth has remained high across a range of indicators, although the recent rise in the annual rate of growth of private sector regular average weekly earnings has not been apparent in other series. There remains uncertainty about the near-term path of pay, but wage growth is nonetheless projected to decline in coming quarters from these elevated levels.

Twelve-month CPI inflation fell to 6.7% both in September and 2023 Q3, below expectations in the August Report. This downside news largely reflects lower-than-expected core goods price inflation. At close to 7%, services inflation has been only slightly weaker than expected in August. CPI inflation remains well above the 2% target, but is expected to continue to fall sharply, to 4¾% in 2023 Q4, 4½% in 2024 Q1 and 3¾% in 2024 Q2. This decline is expected to be accounted for by lower energy, core goods and food price inflation and, beyond January, by some fall in services inflation.

In the MPC's latest most likely, or modal, projection conditioned on the market-implied path for Bank Rate, CPI inflation returns to the 2% target by the end of 2025. It then falls below the target thereafter, as an increasing degree of economic slack reduces domestic inflationary pressures.

The Committee continues to judge that the risks to its modal inflation projection are skewed to the upside. Second-round effects in domestic prices and wages are expected to take longer to unwind than they did to emerge. There are also upside risks to inflation from energy prices given events in the Middle East. Taking account of this skew, the mean projection for CPI inflation is 2.2% and 1.9% at the two and three-year horizons respectively. Conditioned on the alternative assumption of constant interest rates at 5.25%, which is a higher profile than the market curve beyond the second half of 2024, mean CPI inflation returns to target in two years' time and falls to 1.6% at the three-year horizon.

The MPC's remit is clear that the inflation target applies at all times, reflecting the primacy of price stability in the UK monetary policy framework. The framework recognises that there will be occasions when inflation will depart from the target as a result of shocks and disturbances. Monetary policy will ensure that CPI inflation returns to the 2% target sustainably in the medium term.

Since the MPC's previous decision, there has been little news in key indicators of UK inflation persistence. There have continued to be signs of some impact of tighter monetary policy on the labour market and on momentum in the real economy more generally. Given the significant increase in Bank Rate since the start of this tightening cycle, the current monetary policy stance is restrictive. At this meeting, the Committee voted to maintain Bank Rate at 5.25%.

The MPC will continue to monitor closely indications of persistent inflationary pressures and resilience in the economy as a whole, including a range of measures of the underlying tightness of labour market conditions, wage growth and services price inflation. Monetary policy will need to be sufficiently restrictive for sufficiently long to return inflation to the 2% target sustainably in the medium term, in line with the Committee's remit. The MPC's latest projections indicate that monetary policy is likely to need to be restrictive for an extended

period of time. Further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures.

Minutes of the Monetary Policy Committee meeting ending on 1 November 2023

1. Before turning to its immediate policy decision, the Committee discussed: the international economy; monetary and financial conditions; demand and output; and supply, costs and prices. The latest data on these topics were set out in the accompanying **November 2023 Monetary Policy Report**.

2. The Committee discussed the global economic outlook. Consumer price inflation had generally been easing in advanced economies, but remained elevated. There were upside risks to inflation from energy prices given events in the Middle East. Global growth had remained subdued over the course of 2023 and, in aggregate, had evolved largely as had been expected in the August Monetary Policy Report. Within that, in 2023 Q3, GDP growth in the United States and China had been stronger than expected while euro-area growth had been weaker. Bank staff judged that output was currently above potential in the United States and could remain so for some time, although the extent to which recent strength in activity had also reflected stronger supply was uncertain. In contrast, a sustained period of excess supply was expected in the euro area. In part, that reflected the greater exposure of Europe to the global energy price shock, which had contributed to a more significant trade-off between the outlooks for inflation and growth.

3. Market expectations for the paths of policy rates suggested that interest rates were at or near their peaks in the United Kingdom, the United States and the euro area. Monetary policymakers in each jurisdiction had described the stance of monetary policy as restrictive. Market participants had reported an increasing conviction that UK policy rates would remain ‘higher-for-longer’ and the median respondent to the Bank's latest Market Participants Survey expected Bank Rate to remain at 5.25% until the second half of 2024, before declining gradually. The sensitivity of interest rates over the year ahead to economic data outturns appeared to have diminished, with more variation in expected rates at the two and three-year horizons.

4. The Committee discussed movements in longer-term advanced economy government bond yields, which had risen materially since the MPC’s September meeting, with the largest moves seen in the United States. In part, that was likely to reflect market expectations that global policy rates would remain higher for longer during the current cycle. It was also possible that market perceptions of the equilibrium real interest rate had risen in recent years. Models used by Bank staff suggested that a rise in term premia, the additional compensation that investors required to hold longer-term bonds, had contributed to the most recent rise in

longer-term global yields. That might have reflected increased uncertainty around the economic outlook and interest rates, as well as an evolving assessment of the balance of supply and demand in government bond markets. It remained the case, however, that changes in term premia had accounted for only a small proportion of the overall rise in longer-term advanced economy government bond yields over the past two years, relative to the contribution from the rise in expected policy rates.

5. The Committee discussed the recent weakening in UK GDP growth, in the context of the significant tightening of monetary policy since the end of 2021, continued weakness in potential supply growth and an unwinding of previous fiscal support. Quarterly GDP was expected to have been flat in 2023 Q3. Some business surveys of current output and orders were pointing to a fall in GDP in Q4, although other more forward-looking indicators were less pessimistic about growth prospects.

6. There had been increasing signs of some impact of tighter monetary policy on momentum in the real economy. This was perhaps clearest in weaker housing investment, for which the impact of tighter policy was likely to have come through most quickly. Contacts of the Bank’s Agents were reporting that higher financing costs, along with greater economic uncertainty, had also been inhibiting business investment, although companies with strong cash positions were continuing to invest. The tightening in monetary policy would take time to feed through to consumer spending fully and was taking effect against the backdrop of a broader recovery in real incomes. There had, however, been declines recently in retail sales volumes, consumer services output and consumer confidence.

7. The slowdown in GDP growth had been feeding into a softening of labour demand. A decline in response rates had resulted in the ONS temporarily ceasing to publish Labour Force Survey estimates of employment, unemployment and inactivity from the June data. Nevertheless, the collective steer from a broad range of indicators, which had tracked the underlying trends in official estimates of labour market activity in the past, pointed to employment being broadly flat in the second half of 2023. There was a narrower set of indicators available to monitor developments in the split of non-employment between unemployment and inactivity. The number of vacancies had continued to decline and indicators of recruitment difficulties had eased, consistent with the labour market loosening further. The labour market had nevertheless remained relatively tight.

8. The Committee discussed the degree of persistence in wages and domestic prices. The recent rise in the annual rate of growth of private sector regular average weekly earnings had not been apparent in other indicators of pay, but there was a common signal that wage growth had remained elevated at around 7%. At the same time, annual services CPI inflation had yet to recede meaningfully, with declines in headline inflation having instead been accounted for by lower energy, food and core goods price inflation. The recent persistence in CPI inflation had in part reflected second-round effects, including through companies’ price-

setting behaviour. In its November Monetary Report projections, the MPC also judged that more of the recent unexpected strength in pay had been associated with a higher medium-term unemployment rate, owing to more persistent labour market frictions and a resistance to past losses in real income. To the extent that higher unemployment had reflected such supply-related factors, it would imply less easing in the labour market and hence weigh less on pay growth.

The immediate policy decision

9. The MPC sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment.

10. The Committee agreed that there had been little news in key indicators of UK inflation persistence since the MPC's previous decision. Past increases in Bank Rate had weighed increasingly on the economy with the impact of tighter monetary policy likely to materialise earlier in demand and labour market tightness than in wage growth and services CPI inflation.

11. UK GDP was expected to have been unchanged in 2023 Q3, and to grow by 0.1% in Q4. In the MPC's November Monetary Policy Report projections, GDP was expected to be broadly flat over the first half of the forecast period and growth was projected to remain well below historical averages in the medium term, a weaker profile than in the August Report.

12. Against this backdrop of subdued economic activity, and based on a range of indicators, employment growth was likely to have softened. Falling vacancies and surveys indicating an easing of recruitment difficulties also pointed to a loosening in the labour market.

13. Pay growth had remained high across a range of indicators, although the recent rise in the annual rate of growth of private sector regular average weekly earnings (AWE) had not been apparent in other series. There remained uncertainty about the near-term path of pay. The MPC judged in its November Report projections that more of the recent unexpected strength in pay had been associated with a higher medium-term equilibrium unemployment rate, and therefore greater persistence in wage and price inflation.

14. Twelve-month CPI inflation remained well above the 2% target. Inflation had fallen to 6.7% both in September and 2023 Q3, below expectations in the August Report. The downside news had largely reflected lower-than-expected core goods price inflation. At close to 7%, services CPI inflation was only slightly weaker than had been expected in August.

15. In the MPC's latest most likely, or modal, projections, conditioned on the market-implied path for Bank Rate, CPI inflation was expected to return to the 2% target by the end of 2025. It was then projected to fall below the target thereafter, as an increasing degree of economic slack was expected to reduce domestic inflationary pressures.

16. The Committee continued to judge that the risks around the modal inflation projection were skewed to the upside. Second-round effects in domestic prices and wages were expected to take longer to unwind than they had done to emerge. There were also upside risks to inflation from energy prices given events in the Middle East. Taking account of this skew, the mean projection for CPI inflation was 2.2% and 1.9% at the two and three-year horizons respectively.

17. The MPC also considered its projections conditioned on the alternative assumption of constant interest rates at 5.25% over the forecast period, which was a higher profile than the market curve beyond the second half of 2024. Under this alternative assumption, mean CPI inflation was expected to return to the 2% target in two years' time, three quarters earlier than when conditioned on the market-implied path for interest rates.

18. The MPC's remit was clear that the inflation target applied at all times, reflecting the primacy of price stability in the UK monetary policy framework. The framework recognised that there would be occasions when inflation would depart from the target as a result of shocks and disturbances. Monetary policy would ensure that CPI inflation returned to the 2% target sustainably in the medium term. Monetary policy was also acting to ensure that longer-term inflation expectations were anchored at the 2% target.

19. Given the significant increase in Bank Rate since the start of this tightening cycle, the current monetary policy stance was restrictive. The decision whether to increase or to maintain Bank Rate at this meeting was again finely balanced between the risks of not tightening policy enough when underlying inflationary pressures could prove more persistent, and the risks of tightening policy too much given the impact of policy that was still to come through.

20. Six members judged that maintaining Bank Rate at 5.25% was warranted at this meeting. There had been little news in UK economic data since the previous meeting. GDP growth had weakened and the labour market had continued to loosen. CPI inflation was expected to decline significantly in coming quarters, and the acceleration in AWE, while noteworthy, was not reflected in a broader range of wage growth measures. For most members within this group, the MPC's latest projections indicated that a restrictive monetary policy stance was likely to be warranted for an extended period of time to bring inflation sustainably back to the 2% target. A further rise in Bank Rate remained a possibility. For one member, the risks of overtightening policy had continued to build. Lags in the effects of monetary policy meant that sizeable impacts from past rate increases were still to come through.

21. Three members preferred a 0.25 percentage point increase in Bank Rate, to 5.5%, at this meeting. Although there was some weakening in economic activity, real household incomes had continued to rise, and forward-looking indicators of output had remained positive. The

labour market was still relatively tight, consistent with a rise in the medium-term equilibrium rate of unemployment and strong labour demand, and the pace of loosening had been slow. Measures of wage growth and services inflation had remained elevated. These members continued to judge that there was evidence of more persistent inflationary pressures. An increase in Bank Rate at this meeting was necessary to address the risks of more deeply embedded inflation persistence and bring inflation back to target sustainably in the medium term.

22. The MPC would continue to monitor closely indications of persistent inflationary pressures and resilience in the economy as a whole, including a range of measures of the underlying tightness of labour market conditions, wage growth and services price inflation. Monetary policy would need to be sufficiently restrictive for sufficiently long to return inflation to the 2% target sustainably in the medium term, in line with the Committee’s remit. The MPC’s latest projections indicated that monetary policy was likely to need to be restrictive for an extended period of time. Further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures.

23. The Chair invited the Committee to vote on the proposition that:

Bank Rate should be maintained at 5.25%.

24. Six members (Andrew Bailey, Sarah Breeden, Ben Broadbent, Swati Dhingra, Huw Pill and Dave Ramsden) voted in favour of the proposition. Three members (Megan Greene, Jonathan Haskel and Catherine L Mann) voted against the proposition, preferring to increase Bank Rate by 0.25 percentage points, to 5.5%.

Operational considerations

25. On 25 September, the Bank of England had completed the final gilt sales auction of the October 2022 to September 2023 annual programme to meet the MPC’s decision to reduce the stock of UK government bond purchases held for monetary policy purposes by £80 billion over that period.

26. At its September 2023 meeting, the MPC had voted to reduce the stock of UK government bond purchases held for monetary policy purposes by £100 billion over the 12-month period from October 2023 to September 2024. The first auction of that annual programme had taken place on 2 October 2023.

27. On 1 November, the total stock of assets held for monetary policy purposes was £751 billion, comprising £750 billion of UK government bond purchases and £0.6 billion of sterling non-financial investment-grade corporate bond purchases.

28. The following members of the Committee were present:

Andrew Bailey, Chair
Sarah Breeden
Ben Broadbent
Swati Dhingra
Megan Greene
Jonathan Haskel
Catherine L Mann
Huw Pill
Dave Ramsden

Sarah Breeden was present as an observer before becoming a member on 1 November.

Sam Beckett was present as the Treasury representative.

Ben Bernanke was present as an observer.