

# **INFLATION REPORT PRESS CONFERENCE**

**Wednesday 13 November 2013**

## **Opening Remarks by the Governor**

Inflation is now as low as it has been since 2009. Jobs are being created at a rate of 60,000 per month. The economy is growing at its fastest pace in 6 years.

For the first time in a long time, you don't have to be an optimist to see the glass as half full. The recovery has finally taken hold.

It is welcome that the economy is growing again, but a return to growth is not yet a return to normality. Nearly one million more people are out of work than in the years before the financial crisis. Many others in part time work would prefer to be working full time. Real wages are not yet increasing. And the economy remains 2.5% smaller than it was in 2008.

A strong and sustained recovery is needed to put people back in work and use up the slack in the economy.

A sustained recovery requires a revival of business investment.

So far the upswing in growth has been driven by a modest recovery in consumer spending and a revival in housing investment. That is not surprising – we cannot expect to see strong export demand from the UK's major trading partners, and business investment typically takes time to pick up during recoveries.

The eventual recovery in business investment will be supported by the continuing improvement in credit conditions as our banking system gains in strength, and by reduced uncertainty about future prospects. While recent surveys of investment intentions have been encouraging, the handover from household to business spending may not be smooth. Quarterly growth rates of GDP are likely to ease back a little next year and, over the forecast horizon, growth is likely to remain modest compared to past recoveries.

A sustained recovery requires price stability. CPI inflation has fallen back unexpectedly sharply, to 2.2% in October. It may tick up slightly in coming months as recently announced

utility price increases take effect. But the lower starting point, an appreciation of sterling in recent months, and persistently weak domestic price pressures mean that inflation is projected to be significantly lower than in August. Under the assumption that Bank Rate follows a path implied by market yields, the 2% target is reached a full year earlier and inflation is expected to remain persistently a little below the target in the later part of the forecast period. The MPC assesses the chance of inflation being at or above 2.5% towards the end of next year to be only around one in three – much lower than in August. The MPC also judges that inflation expectations remain sufficiently well anchored.

A sustained recovery requires confidence that exceptionally stimulative monetary policy will be maintained in the face of weak foreign demand and on-going repair of household, bank and government balance sheets. Our forward guidance means the MPC will not even consider raising Bank Rate at least until the unemployment rate reaches 7%. Through that guidance we are giving businesses and households the confidence that interest rates won't go up until jobs, incomes and spending are recovering at a sustainable pace.

In line with the unexpected strength of demand, the unemployment rate has fallen a little more rapidly than expected in August. That is to be welcomed: 100,000 more people are in work as a result.

The MPC continues to make the conservative assumption that productivity recovers only gradually so that none of the gap relative to its pre-crisis path is closed over the forecast period. As a result, stronger near-term growth causes unemployment to fall faster than expected in August. Based on the assumption that Bank Rate follows market interest rates, we judge there to be a two in five chance that unemployment will reach the 7% threshold by the end of next year, and a three in five chance that it will have done so by the end of 2015.

Although the MPC now expects the 7% threshold to be reached earlier than we did in August, what really matters is what we will learn about the economy along the journey to that threshold. Already, the Bank has revised up its view of the average hours people want to work, which implies somewhat more slack in the labour market than previously assumed. Our views on productivity will also evolve as the recovery progresses.

It is important to remember that the unemployment threshold is a staging post for assessing policy, not a trigger for an automatic increase in Bank Rate. When the threshold is reached, the MPC will set policy to balance the outlook for inflation against the need to provide continued support to the recovery in output and employment.

As one illustration of the potential trade-offs, compare the MPC's projections conditioned on the alternative assumption that Bank Rate is held constant until the end of the forecast horizon. These projections show materially stronger growth – nearly 1 per cent of GDP – and more rapidly falling unemployment, even though inflation is close to the target by the end of the forecast period. Such policy trade-offs will inform future MPC decisions on the timing of any Bank Rate increase after the threshold is reached.

With the recovery taking hold, our task now is to secure it. The Bank will remain vigilant to risks to financial stability from the housing sector, in particular from rapid increases in house prices and household leverage. We have a direct line of sight on the housing market across all of our responsibilities, and any potential risks will in the first instance be addressed by the Financial Policy Committee. We will continue the process of repairing the financial sector. And we will continue to provide exceptional monetary stimulus so that British households and businesses have, for the first time in a long time, the confidence not just that the glass is half full, but that it will be filled.