Report to Treasury Select Committee

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Voting record

I have voted for no change in monetary policy, either Bank Rate or the stock of purchased assets, throughout the year. Let me say a little about those decisions in the context of the underlying trends in the economy, before turning to a brief overview of the economic outlook from here.

One thing we have learned very clearly in recent years is that the level of official interest rates consistent with a stable economy – the level that ensures that the demand for economic output matches the economy's capacity to supply it, keeping inflationary pressure stable – can vary over time. In particular, over the past twenty years or so, this "neutral" interest rate has tended to decline, throughout the developed world. A variety of factors, including demographic patterns, appear to have pushed up desired rates of saving. Particularly since the crisis, global investment demand has also been weak.

Whatever the underlying explanation for this trend, the important point is that there is no single, constant number that can be considered a "normal" level of interest rates: what constitutes "easy" or "tight" policy depends on the prevailing level of the "neutral" interest rate at the time. Just as importantly, longer-term variations in official interest rates are likely to have been driven not by cyclical factors, still less the whim of monetary policy makers (including the MPC) but by the deeper forces operating on this neutral rate. I make these points because it is often said that the MPC has chosen to keep interest rates low, as if it could easily have chosen to do something else entirely. While that choice is clearly there in a narrow sense, however – the nine members of the Committee vote on Bank Rate at every policy meeting – this does not mean that interest rates are low simply because the MPC has decided they should be. Given the decline in the neutral rate of interest, a materially higher setting for Bank Rate would have weakened the economy and pushed inflation that much further below target.

Nor is it clear that policy has been too tight, however. Domestic cost pressures have been relatively subdued. But we continue to expect a gradual acceleration in unit labour costs and what weakness there has been accounts for only a small part of the undershoot of CPI inflation over the past year, relative to the 2% target. Instead, the vast bulk of the undershoot is due to two factors – the dampening effects of sterling's appreciation mid-2014 till the autumn of last year and, more importantly, the large decline in commodity prices – whose effects are likely to have peaked.

It is against this backdrop that I have believed it appropriate to leave interest rates and asset purchases unchanged.

The outlook

The economy has continued to grow over the past year, albeit at a somewhat slower rate, and unemployment has continued to decline. Inflation has passed its trough and, despite the slight dip in the latest monthly release, is likely to rise gradually through the rest of the year. Broadly speaking, therefore, the economy has evolved in line with the MPC's expectations a year ago. That said, there are a number of developments that have been slightly weaker than the Committee expected. First, growth of average earnings and unit labour costs have been slightly lower than expected, and lower than the rates consistent with meeting the inflation target. The MPC still expects unit costs to accelerate and, after a soft patch through the middle part of 2015, perhaps in response to low headline inflation, wage growth has picked up. But annual wage growth is nonetheless lower than had been predicted. Second, in the most recent data, economic growth looks to have weakened to below its trend rate. The MPC's central forecast for the second quarter of this year is for GDP to grow by 0.3%, barely 1% at an annualised rate. At least in part, that slowdown may well be the result of heightened uncertainty concerning the EU referendum, prompting firms to delay some spending decisions. Conditional on remaining in the EU, those decisions are likely to be re-instated, and the Committee therefore expects this soft patch to pass. A vote to leave the EU would have more material consequences, and is likely to lead to a period of lower growth in aggregate demand, in potential supply, and a further, perhaps sharp, decline in sterling's exchange rate. The consequences for inflationary pressure, and therefore for monetary policy, would depend on the relative magnitude of these effects.

Explaining monetary policy

Since May 2015 I have given three on-the-record speeches on various monetary policy issues:

23.09.15 Compositional shifts in the labour market
18.11.15 The MPC's forecasts and the yield curve: predictions versus promises
02.03.16 Central banks and digital currencies

On the day of each Inflation Report, in addition to answering questions alongside the Governor at the televised press conference, I host a briefing meeting at the Bank for private sector economists. I chaired a session of the Bank's Monetary Policy Roundtable, a forum to discuss various issues with external economists.

I made four regional visits (to Central Southern, South East & East Anglia, Yorkshire & Humber and the East Midlands). These have involved meetings and roundtables with local businesses and events at which I have presented, and taken questions on, the Inflation Report.

I have given several interviews, including to ITV, Sky News, BBC Radio 4 and BBC 5 Live, and the Economist. I have attended a variety of meetings and events with journalists, City economists and market participants. Finally, as Deputy Governor for Monetary Policy, I have represented the Bank's views in international settings, including Jackson Hole and the OECD.