Report to the Treasury Committee

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Voting Record

I joined the MPC just as the Committee was putting the finishing touches to the August 2014 Inflation Report forecast. At the time, the best collective judgement of the Committee was that the degree of slack in the economy would continue to diminish, and that inflation would remain relatively close to target. My own view of the outlook was very close to that captured by this best collective judgement, which was conditioned on a path for Bank Rate that began to increase in the middle of 2015 and reached 1.5% in the first quarter of 2016.

Since then, however, I have voted to maintain Bank Rate at 0.5% and the stock of purchased assets at £375bn. In making my decision each month two underlying developments have been key.

First, growth in the world economy has proven less robust than expected. Activity in emerging economies has continued to slow as many of them struggle to deal with lower commodity prices, high levels of indebtedness, or both. This has been only partly offset by advanced economy growth, which remains below average. As a summary indicator of how the world economy has disappointed, the IMF now thinks global growth was 3.1% in 2015, compared with the 4.0% expected at the time I joined the MPC.

This weakness in world demand has led some to suggest that there is a structural deficiency in aggregate demand relative to potential supply, with the extremely low level of long term interest rates being used as evidence. My own view – set out in a speech to the Association of Corporate Treasurers - is that it would be overly pessimistic to assume that the headwinds currently affecting the global economy will persist for decades to come. And while there are good reasons for the exceptionally low level of long term interest rates – including the compressed level of term premia and the ongoing process of balance sheet repair – these can be expected to unwind as global growth recovers.

That said, the disappointing performance of the world economy in the period after I joined the MPC did make it apparent that we would be reliant on resilient growth in private final demand in the UK in order to bring about the envisaged narrowing of slack in the economy. To put it simply, we would have to make our own growth. This was a contributory factor in my decision not to vote for an increase in Bank Rate over the past 18 months. Over this period private final domestic demand has continued to grow at around 3%, and slack has continued to narrow. As a result the unemployment rate has fallen to 5.1%, which is about in line with its equilibrium rate, and consumer and business surveys suggest the domestic economy should retain its momentum over the coming quarters.

The second factor that has been important in my decision not to vote for an increase in Bank Rate thus far has been uncertainty about the relationship between the real economy and inflation. As I highlighted in a recent speech to the Institute of Directors, while most real variables are at or beyond levels at which Bank Rate has been raised in the past, most nominal variables are below. And contrary to what one would expect given their historically negative correlation, headline inflation has actually fallen sharply even as unemployment has continued to decline.

Of course much of this weakness in headline inflation is itself attributable to developments abroad. An increase in the global supply of oil, coupled with the softening of global demand has seen commodity prices fall by around 60% since the middle of 2014. And the appreciation of sterling from its 2013 trough was as much to do with the relative weakness of our largest trading partner as it was a reflection of the strength of the UK's outlook.

But not all of the weakness in inflation can be explained by the price of things we import – a portion of the current deviation from target is due to weakness in domestically generated inflation. Wage growth in particular has tended to disappoint over recent years: likely growing only 1.6% more quickly than productivity over the course of 2015. For comparison, one would ordinarily expect wages to grow about 2-3% more quickly than productivity growth in order to generate inflation at target over the medium term.

Should the labour market continue to tighten, I expect wage growth will ultimately pick up to levels more consistent with inflation being at target. But it is difficult to predict the timing of that pick up due to the existence of alternative explanations for the weakness to date (which include shifts in the composition of employment growth, the possible influence of low rates of headline inflation, or a lasting impact of the recession on workers' bargaining behaviour). And in the presence of such uncertainty, I have judged it appropriate to refrain from voting for an increase in Bank Rate until I am convinced that wage growth will be sustained at a level consistent with inflation returning to target.

Looking forward, the February Inflation Report forecast for inflation to return to target over the next two years and rise above it thereafter was conditioned on a market path for Bank Rate which rises gently over the coming years. Consistent with this forecast, I continue to believe it more likely than not that the next move in Bank Rate will be up – even if uncertainty about the behaviour of wage growth makes the timing of that move uncertain. Moreover, once that uncertainty has dissipated, I would expect the economy to warrant a path for Bank Rate that increases more quickly than that implied by the market yield curve used to condition in the February Inflation Report forecast. But, as my experience since joining the committee has shown, one must be willing to retain flexibility to respond to surprises, which can emanate from the world economy, the domestic economy, or financial markets.

Communications and External engagement

There have been four themes to my external communications that are relevant to the transparency and effectiveness of monetary policy.

- Over the course of the past 18 months I have provided regular updates of my own policy view through published speeches and interviews with the media. I have also endeavoured to communicate the best collective judgement of the committee, by presenting the key themes of the Inflation Report to business on regional visits, and in interviews on national radio.
- Given my position on all three statutory committees (the MPC, the FPC and the PRA Board), I have also sought to explain how policy is co-ordinated across them. One of my first speeches – given at Warwick University - explained how the Bank's balance sheet is the point at which monetary, macro- and micro-prudential policies meet, and outlined the benefits of a clearly articulated framework for gathering information and making decisions. And at the IMF's annual meetings in Lima I set out my thoughts on how monetary policy and macroprudential policy should be co-ordinated.
- I believe strongly that a more effective financial system increases the efficacy of monetary policy. As such, the theme of improving the effectiveness of the financial system is apparent in much of what I do and communicate as Deputy Governor for Markets and Banking. This includes my role leading the Fair and Effective Markets Review, my organisation of a session on the role of central banks in financial markets at the Open Forum, and my recent launch of our plan to create a new blueprint for our Real Time Gross Settlement system, with the intention of ensuring that the mechanism for implementing monetary policy remains robust to developments in the wider payments system.
- Because of my responsibilities for the balance sheet, I have also focussed on managing and explaining the role of the APF in affecting monetary conditions. This culminated in the MPC's communication that its intention to use Bank Rate as the marginal tool for monetary policy means it currently expects to maintain the stock of asset purchases until Bank Rate has reached around 2%. This has provided greater clarity to financial markets on the MPC's latest thinking, and has been welcomed by market participants.

Alongside these set piece communications, it is vital to maintain a regular ongoing dialogue with participants in both financial markets and the real economy – as this provides a means of listening to their views. As you would expect, my responsibilities as a Deputy Governor keep me in regular contact with market participants through both bilateral meetings and roundtable events. As for the real economy, I have undertaken 5 regional visits and I value highly the ability of businesses around the country to provide insights and new angles to what we see in the aggregated data. Wherever possible, I endeavour to reflect these insights in my own policy views and public statements.

External engagements since joining the MPC

Speeches

“A new heart for a changing payment system” - Bank of England, 27 January 2016

“Treading Carefully” - Institute of Directors, 14 December 2015

“Dealing with change: Liquidity in evolving market structures” - AQR Asset Management Institute, London, 27 October 2015

“Fixing the global financial safety net: lessons from central banking” - The David Hume Institute, Edinburgh, 22 September 2015

“Interpreting the yield curve: warning or opportunity” - Association of Corporate Treasurers Annual Conference, Manchester, 22 May 2015

“Goodbye ambiguity, hello clarity: The Bank of England’s relationship with financial markets” - Warwick University, 26 February 2015

“Making markets fair and effective” - The London School of Economics, 27 October 2014

Blogs and Op Eds

Understanding the past to safeguard the future – Op Ed in The Banker, January 2016

Fixing the Global Financial Safety Net – Blog on VoxEU, 5 October 2015

Interpreting the yield curve: Pessimism or precaution– Blog on VoxEU, 25 June 2015

Fines aren’t enough for fair markets – Op Ed in Wall Street Journal, 18 June 2015

Fairer markets that will serve us all – Op Ed in The Financial Times, 25 September 2014

Interviews

BBC Today Programme Interview - 6 November 2015

BBC Wake Up to Money Interview - 6 November 2015

Financial Times Interview – 11 June 2015

Kent Online – 26 March 2015

Times Interview – 26 February 2015

Financial Times Interview - 27 October 2014

Yorkshire Post – 25 September 2014

Selected conference and other event participation

Making GDP-linked bonds a reality – panel chair, 30 November 2015

Cumberland Lodge Financial Services Summit – panel member, 12 November 2015

The Open Forum– panel member and organiser, 11 November 2015

FT City Network – guest speaker, 9 November 2015

CSFI Young economists dinner – guest speaker, 14 October 2014

IMF panel: Revisiting monetary policy - panel member, 10 October 2015

IMF Panel: Future of central banking in Latin America – Panel chair, 8 October 2015

Monetary, Financial and Prudential Policy Interactions in the Post-Crisis World – panel chair, 17 June 2015

National Asset and Liability Management Conference - keynote address, 13 March 2015

London Business School – guest speaker, 9 March 2015

CityUK Roundtable - guest speaker, 12 February 2015

Bruegel conference: How fair and effective are our financial markets? – 21 January 2015

Civil Service Leadership Conference 2014 – keynote address, 11 December 2014

Regional visits

Central Southern - 6 November 2015

Scotland - 22 September 2015

Manchester - 22 May 2015

South East - 23 March 2015

Yorkshire & Humber - 24 September 2014

International meetings

Central Bank Deputy Governor Representative on the G7

Member of the BIS Committee on the Global Financial System

Bank of England Representative at the UK-China Economic and Financial Dialogue in London and Beijing

Regular attendee at IMF Annual and Spring meetings