

INFLATION REPORT PRESS CONFERENCE

THURSDAY 11 MAY 2017

Jenny Scott (JS): As always, could you please give your name, the organisation you represent, and stick to one question if you could, please, thanks. Noreena, and then Chris.

Noreena Hertz, ITV: Noreena Hertz, ITV News. Governor, can you explain in laymen's language for our viewers, what you're seeing with real wages, and what your expectations for wages are, over the coming two years, because I know that's going to be of real concern to people?

Mark Carney (MC): Well, I think the first thing that people are experiencing across the country, and they have experienced for several years, is that the actual pace of wage growth has been relatively slow, relative to past experience. So even though a tremendous amount of employment has been created, wages are not picking up as much as they would have done in the past, that's the first point. The second is that we have expected, since the summer of last year, that there would be a squeeze on real incomes around this time, and basically over the course of this year, in other words the wages that people are getting are not going to be sufficient to compensate for the rises in consumer prices, prices in the shop. So this is going to be a more challenging time for British households over the course of this year. Real income growth, to use our terminology, will be negative, to use theirs, wages won't keep up with prices for the goods and services they consume. I think it's important to put this in context, and the context is that the economy is still growing solidly, the economy is still creating jobs, wages are still growing, and we actually expect that the pace of wage growth is going to accelerate as this year progresses, and certainly into 2018, 2019, and this higher inflation that we're experiencing now will come off in subsequent years, so real income growth, we expect, will return, and people will start moving ahead in the latter years of the forecast.

Now there are lots of assumptions and judgements around those conclusions, but that's our best judgement.

JS: Chris?

Chris Giles, FT: Chris Giles from the Financial Times. Governor, you said that the forecasts are dependent on a smooth Brexit, a smooth leaving of the European Union. How dependent are they? How much would the forecasts be worse if we didn't have a smooth exit?

MC: So, in order to precisely answer that question, we would have had to do an alternative forecast, as you can appreciate, with some variant of a disorderly negotiating process, and we have not done that, so I can't give you a precise answer to that. What I can say is that, as has been the case since our August forecast of last year, we have assumed that the process of leaving the European Union would be a smooth one. What does that mean? That means that there will be an agreement about the future trading arrangements, and that there will be a transition, or an implementation period, from the negotiation to that new agreement. Now, we, like everyone else, don't know exactly the shape of what that agreement is going to be, that's why there's a negotiation, and so we have conditioned on a range of possible outcomes. We haven't changed those judgements, that averaging period, but what we do have is an economy which gradually adjusts to those new trading arrangements, that happen at some point in the future, in other words, some point after the forecast horizon. So one of the consequences, and I'll finish with this, of that process, is there's a bit of a drag on productivity in our forecast as the economy reorients to those new arrangements, but there is not any, sort of, sharp break or sharp readjustment, let's see.

JS: Ed, and then Kamal, please.

Ed Conway, Sky: Thanks, Ed Conway from Sky News. It's kind of really following on those two questions. Can you be specific about whether this squeeze that we're seeing in real earnings that you've just talked about, is a consequence, direct or indirect, of Brexit, of the referendum? Just, additionally to that, we're kind of almost a year on, other than that, can you tell us what impacts there have been, or haven't been, on the UK economy from the referendum vote?

MC: Packed a lot in there, Ed. The highly efficient question there, so it's going to be a longer answer. In terms of your first question, which I'll characterise as, 'Is the squeeze in real incomes all because of Brexit?' Is that a fair characterisation? The short answer is no, because part of the story here is that

wage growth has been weak. Now, wage growth has been weak for several years, despite relatively strong, and in some respects, exceptionally strong in terms of actual quantities of labour markets, in other words how many jobs have been created, and hours that people are working. We've had quite a strong labour market for several years, and wage growth has been weaker than one would have expected. Now, in our last forecast, part of the way-, our judgement has been that actually there's probably a bit more slack in the labour market, put in a more positive way, the labour market has probably more people can work without-, more people are seeking work, and the level of unemployment, the amount of jobs this economy can create in a sustainable manner, is higher than we thought previously, so that's part of the answer to it.

Another part of the answer is, we think weak wage growth partly reflects the relatively poor productivity performance in this economy for the last several years, and since the financial crisis. Now, that pre-dated Brexit, and actually what we have seen in the last few quarters has been some modest improvement in productivity performance. So there are two elements there of this squeeze around wages, which pre-date the Brexit process. Now, there's one element which is largely the product of the decision to leave the European Union, which is the overshoot of inflation. It's because the currency went down, and the currency went down because of a judgement, I'm not endorsing the judgement, I'm observing the judgement, the judgement of the market that there would be consequences for the UK's medium-term prospects, and the exchange rate needed to adjust accordingly. So that element is there. I think the related question, for which there is some evidence, we picked some of this up when we go round the country and talk to businesses, but I wouldn't say it's conclusive, there is some evidence that businesses are hesitating to bring in higher wage costs at a time of some uncertainty about market access and other costs that could be associated with the Brexit process, and that workers, that bargaining dynamic, is resulting in more modest wage settlements.

But, we do expect, in this forecast, or our central expectation in this forecast is, despite all those factors, we do expect wages to pick up, and we do expect real income growth to turn positive, again, over the course of the next few years, and that is during the period of leaving the European Union, so it's not as black and white. Given that I probably used up two minutes on that answer, maybe I'll-, can I stop there? Is that alright? We will go for other questions, and if we have time, I'll come back to your other one, if that's okay.

JS: Kamal.

Kamal Ahmed, BBC: Kamal Ahmed from the BBC. Governor, you've spoken about this sharp squeeze on living standards this year, why are you so confident that that will come to an end, and that wage growth will hit 3.75%, you suggest, by the end of 2019? What are the reasons for people's incomes starting to rise more rapidly than inflation? Can I also ask, what preparations does the Bank do for the possibility of a radical change in economic direction after a general election, for example towards more public ownership, higher borrowing and possibly higher taxes for investment? I just wondered what work the Bank has to do on the possible outcomes on June 9th?

MC: Well, we'll start the work to adjust to the new government on June 9th, so that's the answer to the second part of the question. Let me start on the first question, then I'll hand to Ben, in terms of our confidence. First, there's no guarantee here, this is a forecast. It's driven off of the tightness in the labour market, which, even though we think the equilibrium level of unemployment is lower than the current rate of unemployment, we are continuing to add jobs, average hours worked actually were quite strong growth in the first quarter, so the market's getting tighter. You pick it up in surveys, not just our surveys. You've seen the most recent REC survey, which was a bit mixed, but did show that, in terms of skilled recruitment difficulties, that continues to be above average, so there is tightness in the labour market. There's some catch-up to do for workers. Even though productivity growth has been relatively meagre, over the forecast, our path for wage growth is below our path for productivity growth. Ultimately, workers share in productivity gains and so there should be some catch-up there. Then, I guess, the third point I would make, which is that, again, we're conditioning on a smooth Brexit process, as we have been since August, that's not new, but, to the extent to which that is the case, and the extent to which uncertainty over that process is temporarily weighing on wages that should dissipate.

I wouldn't overplay that point, given the conditions I've put around my answer to Mr Conway, but, Ben, do you want to expand?

Ben Broadbent (BB): No, I think that covers most of it. One small thing I'd point out is, just to be precise about wages and income, so real wages are falling this year, real incomes, in aggregate, are not. That's because we've got some employment growth, and, it's also you've got to remember that almost

half of household income is not wages. It comes from various other things, including pensions, both public and private, and those are rising slightly faster than wages. That's one small thing. The only other thing I'd, wwo other things, quickly, to point out. One is that the squeeze that's coming from rising import prices doesn't last forever. As the Governor said, we're seeing it pretty acutely right at the moment, but it does, sort of, dwindle over the forecast period and that contributes to a rise in income growth in real terms. The last point to make is about that nominal wage growth. It has been weaker than we've expected on many occasions in the last two or three years. That's why the committee, earlier this year, lowered its estimate of the equilibrium rate. We still think that the tightness of the labour market means something for future wage growth, so, you know, it was weaker, again, in Q1 - even weaker than we had expected after lowering that equilibrium estimate - but we still think that that will help some recovery in the growth rate of nominal pay over the forecast period.

JS: Szu, and then David.

Szu Chan, Telegraph: Szu Chan from The Telegraph. Your forecast projects more balanced growth over the next three years, with stronger business investment and exports. Does the bank welcome that, and, to borrow the words from Ben Broadbent's speech, can this "sweet spot" last?

MC: Okay. Well, I'll let Ben expand, in a moment, on this "sweet spot". I mean, certainly, it's welcome to have more balanced growth. It still has to come. I mean, this is a forecast. I'd say a couple of things of context. First, we see some pick-up in investment and some positive contribution from net trade for most of the forecast, but it's not booming. I think investment growth is roughly half of past averages, net trade, export growth, kind of, one and three quarters, three quarters per cent growth 2018, 2019, and, particularly with respect to the latter and, to some extent, the former, relatively modest given the scale of the depreciation, given the strength of the global economy, and this is a partial answer to Ed Conway's question earlier. He's not listening now, but that's even better, so I can say I answered his question, but, in partial answer to that, that's part of the Brexit, the Brexit judgement there is that, for some exporters adding capacity right now, if they're tightly linked into a European supply chain, about which there is some uncertainty, makes less sense. We're not just saying that theoretically. We know that from talking to a series of companies around the country, it's not surprising. Then, on the investment side, you definitely get some of that effect here. So, the point I'm

making is there's more balance. You're absolutely right. That is welcome, but these are not big numbers in the grand scheme of things.

BB: No, I think that says it all, really. I mean, I think the point I was trying to make in the speech is that the exchange rate is weak in anticipation of something that hasn't happened, so, for the time being, you've got, on the face of it, what are pretty propitious and helpful conditions for exporters. Nevertheless, as the Governor said, allowing for those for the strength of the world economy, the level of investment at the start of the forecast is quite low, given those conditions, and, while we're expecting it to grow, our forecasts are not that strong. So, there's some rebalancing.

JS: Yes, David.

David Smith, Sunday Times: David Smith, Sunday Times. Governor, going back to wages, the forecast that you're making of quite a strong recovery in average earnings growth does seem puzzlingly bold, given that you expect the equilibrium unemployment rate to be at or above its equilibrium right through to the second quarter of 2020. Surely, that is the appropriate measure of slack to take into account when you're looking for wage pressure.

MC: David, I think, as you know, I mean, it's not a binary thing. Historically, in the UK, there's been a pretty well-functioning wage-Phillips curve in this economy. I think there has been a question of whether there's been a level shift, given where the equilibrium rate of unemployment has gone. I mean, different people have had different views, and there are certainly some on the committee who think it may be lower than where we settled, some who think it's potentially higher. But, it's a pretty well-researched view when we drop the level of unemployment, but, to get back to my broader answer, it's not as if you magically start to have wage pressure, and wage pressure consistent with productivity growth and inflation at target, because, in the end, I mean, we're talking about three and three quarter per cent wage growth, I think, by the end of the forecast, productivity growth a little less than one and three quarters, let's say one and a half, one and three quarters, I think, by the end, inflation a bit above two. Normally, when you get back into equilibrium, which is where we are by the end of the forecast, you would expect, in a perfect world, and, of course, there are always lags and leads and things, but in a perfect world you would say productivity plus inflation being nominal growth, so you would have nominal growth above four, and, on top of that, there is some productivity catch-up to be done.

Workers, in our forecast at least, aren't getting paid for the productivity boost that we expect, and aren't being fully compensated for the productivity boost that we expect in the intervening three years. It's only that they get back to running at roughly the rate they should. That's a very theoretical, model-based answer.

The, sort of, real economy answer is, actually, you know, we've got 4.7% unemployment, we've got very high participation, average hours are picking up, we're seeing some recruitment difficulties, there's a variety of reasons to expect wage growth to be stronger. There is some inertia in that market. There's some, you know, historic productivity weakness, and there may be some uncertainty effects that are weighing on it, as well. It's also possible the equilibrium rate of unemployment is a little lower. I'm not saying that, but it's also possible, I'll have to look at it over time, but there should be some build and, whether we have it precisely right, time will tell.

JS: Hugo, and then Phil.

Hugo Duncan, Daily Mail: Hugo Duncan from the Daily Mail. Governor, you've spoken about the impact of the exchange rate on inflation. I wonder what impact you see the oil price having on inflation, and the recent falls in the price of crude, and how that might affect the squeeze on family finances this year.

MC: Yes. Well, you know, it's always dangerous to update forecasts in real-time, because Brent will be below 50, and then above 50 in the course of a week. I think, you know, rule of thumb, it's about, probably relative to the closing of the forecast to the trough for the oil price, which was, sort of, 8% off or 50. I'm going from memory in terms of the conditioning assumption, it's probably 0.1 off inflation, sort of, out to a year. So, I think one of the important things to think is, so, that's something and then also there's an exchange rate effect, which, again, it has to persist, and, also, the curve is a little steeper, and all this. You can always update the forecast, so you don't want to get too much into it. On the oil price, so there may be something given back from the oil price, if it remains at a lower level, to British households. From monetary policy perspective, you know, that's likely to come through relatively quickly and not over the policy horizon, so it's interesting, it's welcome, and I'd make one other point, actually, which is since it would appear to be supply-driven, if it does persist, it's actually stimulative. But, obviously, we're not banking on it. We'll deal with it in August if it persists, and it also doesn't

really shade policy, because you would be reacting to something that's over by the time the full force of your policy move takes effect.

JS: Phil, and then Ben.

Phil Aldrick, The Times: Phil Aldrick at The Times. Governor, inflation is above forecast, the UK is at full employment, we've got an economy growing at around trend rate, the output gap is closing. I just wondered how you can justify excessive stimulus at these levels, and what does it take for the bank to raise rates? Are you simply worried that households just can't stomach a rate rise?

MC: Well, first off, where to begin on that. The stimulus isn't excessive, it's appropriate, first point, and that's the judgement of the committee. Secondly, inflation is above target, why is inflation above target? Inflation's above target because the exchange rate went down 16%. Why did the exchange rate go down 16%? Largely because of the decision to leave the European Union. Okay, that's a market judgement. I'm not endorsing the judgement, but that's the market judgement, that's the flow-through. The question is do we lean against that, and lean against something which has a real, underlying, fundamental aspect to it, something we can't affect. Changing monetary policy is not going to change the future trading relationship between the UK and the European Union, or the UK and other countries. Those decisions are going to be taken, quite appropriately, by governments.

In terms of the economy, the economy's not at full employment, the economy is above full employment, and the output gap - part of the reason to loop back to the start of my answer - part of the reason why the output gap is closing over the forecast is because monetary policy is appropriate. Now, we have said that we used a conditioning curve for the forecast, as we always do with convention. We just take a fifteen-day average at the time we freeze or finalise the forecast. In that curve there was one 25 basis point hike in interest rates over the course of the next three years. The judgement of the committee was that, if the forecast is coming to pass, that's too little. Then, if things unfolded as per the forecast, you would expect us to withdraw some more monetary stimulus over the course of the next few years, but that's withdrawal of stimulus - or raising of interest rates, to be precise - to a modest extent, in a positive economic environment, an environment where the economy is growing above trend, and we are closing the output gap.

JS: Ben, and then Jim.

Ben Chu, The Independent: Ben Chu from The Independent. Governor, you've revised down the savings ratio again in this set of forecasts, and you've put a technical annex sort of suggesting why that isn't quite, possibly, as alarming as it might look. At the time of the March budget, your former colleague, Sir Charlie Bean, took a very different tone. He said that the fall in the savings ratio highlighted the fact that, in his view, it wasn't sustainable. Not sustainable was his view. Do you disagree with that, or is it a question of nuance? What's going on?

MC: Well, I'm going to allow my current colleague, Dr Broadbent, to discuss the nuances of the saving ratio, and I'll just preface it by, one's got to look at the difference between, you know, there's the direction of the saving ratio; there's the statistical reporting of the savings ratio; and there are the cash and non-cash elements of the savings ratio. All of these are relevant, and it takes a very special and, to some extent, sad individual to be fully versed in all aspects of it, and, fortunately, we have one here today. Ben.

BB: I'd make a distinction, as well, between the level of the saving rate, and Charlie may or may not have been talking about that. I suspect he was talking about the decline in the saving rate, and there's no doubt that, to the extent it's true, and I'll come back to that in a moment, that the saving rate was falling in the second half of last year. From whatever level, that's unlikely to be sustainable for very long, and, indeed, in our forecast it's, sort of, roughly flat. When it comes to the level, unfortunately it's very difficult to make a judgement even in normal times, I would say, or most of the time, because the level is often revised and what we alert people to in the box, page sixteen, is that we know we're going to get quite big revisions later this year in the Blue Book, which will, generally, be upwards, and those might also change the recent slope, so I completely agree with Charlie. In the end, this thing can't fall forever and, if you get a period in which it falls steeply, then you can be pretty sure that it's not going to carry on doing so for very long, and that's the case in our forecast, it sort of flattens out. When it comes to the level, though, I'd be very wary about making judgements about what is or isn't sustainable, not least because we can't be really sure in real-time what that level is.

MC: A final thing, which is to, sort of, link some of the questions in your question, which is the forecast does rely heavily on a pick-up in wage growth, so it's not a forecast where there's a U-shape

consumption growth over the forecast, and it's not a debt-fuelled consumption boom, is my point. It relies on wages. It doesn't rely on the savings rate going to zero and negative, and so, obviously, people can ask whatever they want, but it's entirely appropriate to focus in on what is happening with wages, what can be expected to happen with wages over the course of the new few years, because it's absolutely one of the key judgements. We expect wage growth to pick up. If it doesn't, it has consequences.

JS: Gemma.

Gemma Acton, CNBC: Gemma Acton from CNBC. Governor Carney, you've spoken in the past about the threat of automation, and I appreciate that this is a secular trend, but it's one that's, arguably, accelerating and a potential paradigm changer. How do you reconcile this with such a buoyant view of the labour market going forward?

MC: Well, a couple of things. I mean, we do look at secular trends, because there are a few from time to time, and one can think of China's integration into the global trading system as being a classic example of the previous decade. There are few secular trends which actually impact consistently on inflation prices in this country and, therefore, monetary policy has to take into account. It is possible that, at some point, automation, to use your term, machine learning, other terms, that will have those impacts in the UK. It's possible. It's not yet clear that that is the case, and what is clear is that the UK labour market, to use your adjective, has been buoyant. It has been very strong. You know, there are more people employed in this country than ever before. Employment growth continues to be strong, as I said in my remarks earlier. It's not just jobs, but the amount of hours people are working has also picked up smartly, and, again, in terms of the pick-up in wage growth, yes, it is faster wage growth, by the end of the forecast three and three quarters per cent than we have been seeing, it's not especially fast wage growth, and I would keep that in mind, as well. So, your question's on point. It's the type of thing we think about, but I wouldn't say that we're in a period of time, you can just see that from, actually, the employment numbers, where there's wide-scale displacement of work as a consequence of these bigger trends.

JS: Richard, and then Simon.

Richard Barnsley, Wall Street Journal: Richard Barnsley from the Wall Street Journal. Governor, the Bank sounds quite upbeat about the prospects for global growth. Could you just talk a little bit about the risks around that, the way markets are responding to it, and, perhaps, also the balance between stronger global growth and tighter monetary policy around the world?

MC: Sure. In terms of risk to global growth, I would say there's a slight skew to the downside, net on global growth. Now, that's starting from a position where we are near the top of consensus in our global forecast. That was the case in February. We've upgraded a bit more this time round, so we've remained there. So, again, I've put it in context. One of the medium-term risks, and, of course, medium-term risks are always medium-term risks until they crystallise, and then they're, all of a sudden, near-term risks, does relate to the rate of growth in China and the necessary series of adjustments in that economy. You know, from the manufacturing to services sector, from external demand to domestic demand, the shifts that are necessary in both the property market and, very much, in the financial sector, and some of the pressures that exist in an economy that has very high levels of private debt. All of those issues are well-known to the Chinese authorities and they have plans, and have put them in place, and we've seen some moves in the recent weeks consistent with those, so that is one of the bigger risks. I mean, I won't presume to make any judgements about other people's monetary policies.

I think the thing to watch, for all of us, in a global context, and you can have lots of false precision about this and we wouldn't presume it, is that a-, I'm going to finish with a, sort of, positive global scenario, which isn't assured by any stretch. In a positive scenario where you have broad-based growth, the levels of uncertainty coming down, if we start to see a pick-up of private investment relative to savings, there could be some upward pressure on global equilibrium interest rates, which, in and of itself, would give monetary policy more traction on unchanged policy, and that's something to watch for over the horizon, and it affects all of us. The one last thing I'll say on that, though, is that I think we should all remember-, colleagues at the bank, Rachel and Smith, have done a lot of work, I would recommend, if you haven't seen their work, that decomposes the effects on equilibrium real interest rates, R^* use of shorthand, and the bigger effects on that are broader forces, demographics, other forces than just the savings investment. The investment stands per se, but, with that caveat, one

could see a rise and one would hope to see a rise in R^* over the course of the next several years, which has some consequences for the path of policy.

JS: Simon.

Simon Vigar, Five News: Hello, Simon Vigar, Five News. Governor, you said that, hopefully, next year or the year after wages will catch up. In your view, is that going to be anywhere near enough for people who are struggling to make ends meet right now?

MC: Well, I think the first thing is to recognise that, you know, the economy is starting a period of adjustment and the first thing to make ends meet is to have a job, and so part of this is making a judgement, in exceptional circumstances that we're in, that we have an appropriate sense of monetary policy so that as many people are in work as possible, and that's why we are tolerating this overshoot of inflation, because the origin of that overshoot is the exchange rate, and the origin of the exchange rate move is this future adjustment to a new relationship with the European Union. So, first and foremost, we're making a conscious decision, at least for a period of time, where there's a trade-off between people being in work and (TC: 00:50:00) inflation being a little higher, it's better to have people in work. Obviously, every household situation is different. It will be a more challenging time over the course of this year, but it is a time where we continue to see, and argue, job creation and the prospect of wages picking up, and this higher inflation is temporary. It is temporary, so I would put some store on that, but I wouldn't diminish the issues that some people would be facing.

Holly Williams, PA: Holly Williams, Press Association. Looking at the pound, given its recent rebound since the snap election was called, do you think that this means the worst is over for the pound in terms of the falls that we saw, and, also, this recent rebound, how much has this limited the surge in inflation in the inflation report today?

MC: In terms of the second aspect of that impact of sterling on the-

BB: Well, it was not 3% since February, so it will have had, at the margin, some depressive effect on inflation towards the end of the forecast. It's still the case, as the Governor pointed out at the beginning, that the reason for the overshoot relative to target, essentially, is still that import prices, even

at that stage and even after sterling's rise, import prices are rising faster than usual and pushing up on inflation at that horizon, but, yes, it will have been slightly less marked than was the case three months ago, that effect.

Harry Daniels Livesquawk: Good afternoon, Governor, Harry Daniels, Livesquawk News. The tone today seemed to be a bit more upbeat and optimistic from the MPC statement on the state of the UK economy. With that in mind, one part I question is, have the markets fallen behind the curve in terms of rate expectations? Also, from the MPC's perspective is loose for longer a less risky option than a premature withdrawal of stimulus?

MC: Well, first Harry, from the MPC's perspective, at least in the judgement of seven of the eight members of MPC, the current monetary policy stance is appropriate to achieve our remit. The second thing though, is that the committee, as you would expect, we're going to set the appropriate stance of monetary policy to balance our remit under exceptional circumstances. I think one thing to, sort of, dispel, the article 50 process, the negotiation process, it is that process and that end state that, of course, has an influence on the economy and inflation, and we have to take that into account, and set monetary policy appropriately. That's what we're doing and we're explaining it the best we can, but it does not tie the hands of the MPC. The MPC will take the necessary monetary decisions at the appropriate time in order to get that balance right. Now, what we said, and just by one way of illustration with this forecast, is that we have, in our best judgement, if we followed a path consistent with the market curve at the time we made the forecast, I know that's a mouthful, but-, which basically was 125 basis point rate increase over the next three years. The judgement of the MPC is that inflation would not be returning sustainably to target. In other words, it would have come down and it would have picked up, and domestic costs would be building, and for that reason, we would expect, if the economy were on that path in broad terms, that we would withdraw some more stimulus over the course of that time. Of course, over that period, two thirds of that period is still during the article 50 process, as defined in the treaty. So, I guess I've just used your question as an opportunity to make that, which I think is a pretty basic point, and a point that most, and you asked the question from a market perspective, most of the market would appreciate.

Mathijs Schiffers Dutch Financial Times: Hi, my name is Mathijs Schiffers from the Dutch Financial Times. Theresa May wants to reduce immigration to below 100,000, that might make the

labour market even tighter than you expect now. At the same time, it may dampen growth. Do you take lower immigration into account, and to what extent?

MC: Well, the first thing is that, what we do for our forecast is we take the estimates of the ONS for net migration into the country, and you know, they're the experts. They make the estimates, we take them, we report them in, we use those, and so we don't make an independent judgement about either future government policy, or the effect of future government policy. The second thing is that in-, I get my dates wrong, but I believe it was November 2015. It was in 2015, in a similar report, we did an analysis of the effect of change in labour supply on wages, and you go up and down by-, I think we used 100,000 as a normalisation. We can get you the background. The point is the effect of labour supply on inflation, which in the end is what we ultimately have to worry about, and changes in the overall level of labour, whether they come from domestically more people coming into the labour market, or net migration. Most migrants, you know, the labour market outcomes of migration are similar to domestic workers, they're a little higher actually. It's a relatively modest impact on inflation around ten basis points, order of magnitude. The reason is that you supply more labour, it has a dampening effect in the labour market, but then there's more demand, and that has a tightening effect on prices and wages, ultimately, it cycles through the economy. So, that's all.

I can understand, maybe in the Netherlands, you didn't follow this as closely. That's all, sort of, old news, so we just take a specific forecast of somebody else about net migration, and just use that. Then separately, in terms of the overall shifts and the impact on what we care about, what we're mandated to care about, obviously, we care about labour market outcomes ultimately, our ultimate remit, it's a relatively small effect. The last thing I'll say, obviously for certain sectors and areas, it can be incredibly important, but there's a process which others run for those areas to make their views known to the government.

Jill Ward, Bloomberg: The inflation report mentions that certain measures of domestically generated inflation are starting to pick up. How much weight do you put on those at the moment? Does that make the overall issue of inflation harder to tolerate? Also, could you elaborate on how they're expected to pick up, as the inflation report says, near the end of the forecast period? Thank you.

MC: Okay. So, we look at a range of DGI, Domestically Generated Inflation measures, and I think we list some in the summary in the report, as you know. The first thing to say is that it's actually hard to get a pure, pure domestic measure, which is part of the reason why you look at a range. When you look at them as a whole, they have been relatively subdued. They picked up in recent quarters. If you use, for example, a principle component, which is a way of extracting the core message from a series of indicators, a statistical technique. If you look at the principle component of those DGIs, they are still below levels that are consistent with inflation being a target. So, but why's inflation above target? Because of the exchange rate, etc., that's what I've been saying. We do expect them to pick up, as you know, over the course of the forecast horizon, so the drag that they're exerting on the rate of inflation diminishes over the forecast horizon. It doesn't fully extinguish by the end of the forecast horizon. There's still a very modest amount by the end of the forecast horizon, but virtually, you can see that we would expect them to be consistent with target as a whole.

Yes, it comes back to this judgement on wages, essentially, and I think that's what's necessary, and in the forecast at least, you know, the key measure of domestic costs that drives that unit labour costs, requires that wage growth pick up. In particular, that it moves above the rate of productivity.

Maybe I'll just make a general point, which is that if you like the look of the forecast, and we're not marketing it, but if you like the look of growth. The rate of growth and the employment performance of the forecast, we're going to see a period where we're starting to see domestic costs pick up, wages pick up, labour costs pick up, other domestic measures pick up, when inflation is still above target. It's still above target again because of the exchange rate. That's a good outcome, that is a good outcome. That's what we want to see, is that we start to get that domestic traction, reflation, if you will, domestically, as the external side is starting to come off. Obviously, we have to collaborate monetary policy appropriately during that period, but those are positive developments for the sustainability of this expansion.

Yvonne Esterhazy, German Business Week: Yvonne Esterhazy from German Business Week. You said that your forecasts were based on the assumption of a smooth Brexit, including transition period, and so on. I was just wondering if this assessment is a bit optimistic, given that Mrs. May seems to be heading for a hard Brexit, and we've had various statements from the European Union, and also reports

about this infamous dinner at number ten recently. And, what would it take for you to, you know, change your assumption, to adjust it?

MC: Yes. Well, I think the first thing is that the stated objective of the UK government and the prime minister is a bold, comprehensive trade agreement, between the UK and the European Union. Furthermore, that there is an appropriate period of implementation to go from where we are today to that agreement being in place, and the stated view of President Tusk, on behalf of the European Council, is that it's in everybody's interest to avoid a disruptive or disorderly process. There are negotiated mandates, well-known, public negotiated mandates for Mr. Barnier, and for the other principles, that are consistent with a process that will lead to an agreement, so that is the objectives of both side. It's not our place to call those into question. There is also, as I think we all know, between now and 26th March 2019, for these negotiations to get underway, and it's very early days in the whole process.

Jasper Jolly. City AM: Jasper Jolly from City A.M. With volatility on markets around the world at historical, well, pre-financial crisis lows, and markets at record highs, do you think there are risks around your forecasts if markets pull back from some of these highs and volatility arises?

MC: Well, the first thing to say is, volatility is, as you rightly pointed out, quite low across a range of financial markets. In sterling land, actually, particularly in sterling, volatility is probably closest to its historic average, its five-year average, than any other currency pair, with maybe the exception of the Canadian and Australian dollar, that's maybe up there as well. Now, there are a variety of potential reasons why volatility would have been reduced, and those range from the phase in the economic cycle we are, where it's a broad based acceleration in the global economy at a time, when not seeing the inflationary pressures there. The range from that, to improvements in the resilience of the core of the financial system, to potentially, volatility strategies, or yield-enhancing strategies of real money investors, selling a lot of volatility. That's more a market-technical thing, but we would not say that we would have a complete explanation for why volatility is where it is, nor would we make a specific prediction about when it would necessarily adjust, but yes. I mean, the world hasn't become dramatically less uncertain, and certainly, you can see some potential triggers for increasing volatility at some point.

MC: Now, how will that affect the UK? One of the things we do at a different part of the institution is to make sure that actually, the core of the financial system is managing its risk for a much higher level of volatility, credit spreads, actual credit losses. We do that through stress testing, so that's been called (ph 01.05.58) a stress testing approach, and we feel reasonably confident that they're in a good position for that, so that's one way to mitigate it.

JS: We're out of time, I'm afraid. Thank you very much for coming, everyone.