Monetary Policy Report Press Conference

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Faisal Islam, BBC: Do you still think inflation is transitory? It would appear not from this report. And can you give us some clarity in the coming months, it could mean 2 or 3 months, it could mean 10 or 11 months. Can you give us some guidance on that?

Andrew Bailey: Well, let me take them in reverse order. In the coming months, I think we must be clear that we have, you know, meetings at six-weekly intervals. There will be several meetings in the coming months, so I'm not going to speculate beyond that, which meeting, of course, may or may not cause anything to happen. But I hope you take it from that, that in the coming months means, you know, time from now onwards. On the question about inflation being transitory, it's a really interesting question. I've been asked a number of times, actually, in recent weeks, what is the definition of transitory? And with the, sort of, thrust of the question being, you know, tell me the fixed point of length of time, a unit of length of time, if you like, that transitory means. And the answer I would give to that is that there is no fixed unit of time that is transitory. For me, at least, it's a behavioural thing. Particularly in the context in which we're operating. Which is, the longer, in a sense, that rise in inflation goes on, the more there is a risk that it gets translated into inflation expectations, particularly medium-term inflation expectations. Can get translated, obviously, into wage bargaining.

So, it's far more of a behavioural thing. I think the evidence, we would say, is clear, and history helps to judge this, that things like energy prices go up and go down again. They don't tend to stay higher. Certainly not, sort of, permanently at very high levels. The question is, and this is one that I think we have to judge every time we meet, as it were, to deliberate monetary policy, is when we look at the sort of projected length of that temporary or transitory period, does it start to cause concerns about, you know, whether that will become embedded in expectations and what follows from what. I don't know, Ben, do you want to-,

Ben Broadbent: Yes. Thanks, Andrew. I mean, it's a, you know, very good question. An important one. Andrew's right, that as far as the primary driver of this is concerned, I think the likelihood is that it will be transitory. And by transitory, one doesn't necessarily mean it's here this month and gone the next. The critical distinction for me is, is it still pushing up on inflation at the time, looking forward, that a monetary policy decision taken today would have material effect? So, if, for example, and this is an entirely orthodox account of what happens, if you get a jump in the price of oil, the normal response for the monetary authority would say, 'Well, that's going to be in the price in the rate of inflation. The annual rate of inflation for twelve months.' It will, therefore, go away or dissipate before we could do anything about aggregate inflation and, therefore, we won't respond to it. That's the classic transitory shock.

And, in a sense, what we've got here, not just in energy prices, but in global traded goods prices in general, is a huge shock, qualitatively, of that sort. Quantitatively, it's much bigger,

but, qualitatively, that's what it looks like. Now, it's not the only thing that's gone on. We've got signs of strains in the domestic labour market as well, and those looking at the medium-term may be more significant. But, numerically, by far the biggest contribution to this inflation is, sort of, global goods prices, not just energy prices, but others. And I think there is good reason to think that that impulse, at least, will have transitory effects, in the sense that looking forward 18, 24 months, they're not going to be pushing up on inflation to anything like the same extent. Indeed, they could actually be pulling down on inflation, giving the, kind of, correction in prices that Andrew is talking about. So, that's what we mean by transitory.

Joel Hills, ITV: The British economy, the UK economy is being hit by two shocks, isn't it, really, essentially? The pandemic and Brexit. Does that explain why the Bank of England appears to be limbering up to raise interest rates rather sooner than the Federal Reserve in the United States or the European Central Bank?

Andrew Bailey: No. And, by the way, Joel, I mean, I think there may be rather more stories behind some of the things that are going on globally as well. In energy markets, for instance. No doubt, there's a Covid story, but there may be rather more to that than just those shocks. We are being hit by global shocks, no question about that, as you rightly say. In terms of the timing of moves, I mean, I think the best way to frame it probably, particularly because of the FOMC announcement yesterday, I think we've said in past discussions, because we've used QE differently to some other central banks, including the Federal Reserve, because we've used fixed amounts of QE rather than so-called open-ended QE, that means that we don't talk about tapering in quite the same way. In fact, we don't use the tapering word generally, because our QE isn't fixed in known amounts.

Whereas, obviously, if you're doing open-ended QE, then the decision on the flow and the taper actually is the key decision, because that will obviously determine the end point ultimately. But if I could break down that convention for a moment, and use the tapering language, of course, we've been tapering QE now for quite some while. I mean, during the Covid period. And it tapers out next month. I mean, it's over next month. So, in many ways, I mean, if you look at the sequence of moving, I would start there rather than go into the question of rates, actually, in our case. I think the other thing that I would note, and it's a point I know Ben has made a number of times, is it is important also to look at the relative difference of the two economies. UK is a much more open economy. That's an important point. And one way I think that gets reflected is that if you look at the last ten years or so, certainly post-financial crisis, UK inflation has been pretty near to the target. Whereas, in the US, that's not been the case. Ben, do you want to add anything?

Ben Broadbent: No. I think that is an important difference. The relatively recent or history of US inflation and of US inflation expectations over the last few years was what prompted the FED to change its regime slightly last year. So, there is a difference in the, kind of, near-term inflation rate we're aiming for, as a result of that. But I would also say that, whatever those differences, just to emphasise again, as I did to Faisal, how much of this is common

globally. So, there may be UK specific things as well, but overwhelmingly, when you look at the, numbers, what comes across is how similar this experience is. And if you look at, for example, pages nineteen and twenty in the report, you have quite a lot on common measures. For example, in manufacturing surveys of input and output prices. They track each other almost exactly. You've seen very similar rises in consumer price inflation in US, in Europe, as you've seen here.

So, there are domestic factors, probably, at play. And, as I said, we look very closely at our own domestic labour market, which maybe more relevant or increasingly relevant for the medium term prospects of inflation. But as far as inflation right now is concerned, it's pretty much entirely a global story. I mean, one illustration of that, and there's a chart somewhere later, I think, on page 31, that illustrates this, is just look at the component breakdown of CPI inflation. So, we think that, regrettably, it's going to be 4-4.5% during the course of the fourth quarter of this year. In its entirety, that overshoot is in goods price inflation, and goods are basically far more tradeable than services. Services price inflation is bang in line with its historical and you see exactly the same pattern in other countries. So, yes, there may be some UK specific things at play, but, numerically, as far as the current inflation is concerned, it really is a global story.

Larry Elliott, The Guardian: A specific question and a more general question. The specific question is this, you say you want more time to assess what's going on in the labour market, how much more time do you need to assess what's happening post-furlough and what are you particularly looking for as indicators that will be relevant to your decision? The more general question is this, the markets were clearly expecting you to raise rates at this meeting and you didn't, is that a failure of communications on your part? And is there a risk that you are going to become unreliable boyfriend number two?

Andrew Bailey: It's not compulsory for the governor of the Bank of England to be an unreliable boyfriend, I think. Let me start on the-, I'll do your questions in order, Larry, on the labour market data. I mean, the fact is, but let me caution-, I'm going to say this and then caution it by saying, but please don't assume that we're therefore relying on one data release, because we're not. But the fact of the matter is, we actually have not had an official labour market data release yet, which post-dates the end of the furlough scheme. And that's important. There will actually, as a matter of fact, be two official labour market data releases between now and our next meeting, but, again, let me caution that by, please do not therefore assume that I'm giving you a strong clue about anything, other than observing that there are two data releases, official labour market data releases, between now and our next meeting, in about six weeks time.

On the market question, I mean, let me say this. First of all, I will say, to be clear, what I said was a conditional statement, and it was an important conditional statement because it made the point that, of course, if we saw inflation pressures which translated into medium-term inflation expectations particularly, and you may observe that's why I said quite a bit about medium-term inflation expectations in the remarks I just made. It was deliberate, in that

sense. Then, of course, we would have to act, because then it goes back to Faisal's question. That would be the point at which we would see the pressure from inflation translating into things that were not merely transient, necessarily, and would cause, potentially, a pass through into wages and a much longer-term and more serious inflation problem. Frankly, if it helps, I'll say that again today, because it remains, of course, obviously true. Now, what I would say about this meeting is that I think no member of the committee, me included, has ever, and we wouldn't, of course, make any statement about-, and, therefore, at the next meeting, you can expect us to do the following. We don't make those sorts of remarks.

I would also make one other observation, which I think is very interesting. Partly why I think the coverage has been very good in this respect. It was, as many of you have written, in advance of this, of today, it was a very close call. Many of you wrote articles saying it's a close call and I think it is a close call. You know, we spent many hours, we always spend many hours, but we seemed to spend even more hours this time over it, as we should. And we are in a situation where, you know, the calls are close, they're quite hard, but that's just a reflection of the position we're in. So, you know, I would cast it in that light, Larry, if you don't mind me saying so. It's not unreliable boyfriend, we didn't say we were going to act at any particular meeting, but the framework that I set out, deliberately set out, remains true today. And will go on. In a sense, I was stating it, as one of my colleagues said, to be a truism. I don't know whether he said that in a flattering way or not, but there we are.

Eshe Nelson, NY Times: As you said, the markets were pricing in a rate hike today and it didn't happen, but are you otherwise endorsing that market implied rate, which looks at 1% by the end of 2022, which came up many times in the policy report? And the second question, you say that the supply bottlenecks will continue to weigh on the global and British economy until the end of 2022, but is there anything about Brexit that could cause the UK to have a slightly slower response on winding some of those bottlenecks?

Andrew Bailey: Dave, did you want to come in on the market implied rate point, and then we'll come back to bottlenecks?

Dave Ramsden: I mean, again, it's a feature of the committee, but we never attempt to validate, or otherwise, the curve. We obviously have a conditioning assumption, which is what we've highlighted in the monetary policy report, which showed the curve getting up to about 1%, but what we did want to draw attention to was that, also, you know, beyond the period of the conditioning assumption, the curve had risen a bit further more recently. That in itself would be sufficient to have brought inflation further below target at the end of the forecast period, so we were just really observing that about the latest data and the conditioning assumption. But as Andrew stressed already on the conditioning assumption, inflation is marginally below target at the end of the forecast period, and some excess supply has opened up. We've got a negative output gap, as you can see in the summary table, which suggests that inflation might have fallen further beyond the forecast period.

Andrew Bailey: On the bottlenecks and Brexit question, I mean, I think the important thing to say is that, of course, a lot of these bottlenecks are global. So, I mean, to abstract from Brexit for the moment, you can look at the US case and, obviously, you can see bottlenecks there. Something like the semiconductor chip question clearly is global, it's not specific to any region of the world. So, that's important. I mean, the second thing to say is, I'll say a few things, it is very hard, I think impossible at the moment, to separate the effects of Covid and Brexit, because they both have, broadly, similar effects, in terms of restricting movement and restricting trade. I suppose the one thing, if you look at trade data, it is interesting to observe that there, currently at least, is a bigger shortfall in imports to the UK from the EU relative to the non-EU. That's in the data. I think, interpreting that, you know, will require some time, but it's in the data.

Chris Giles, Financial Times: Two very specific questions, if I may, Governor. If the committee takes the same view as it's taken today, that inflation is temporary and, therefore, doesn't raise rates, it says the forecast is that inflation will be well above target, all the way through to the middle of this decade. Is that price stability? And, secondly, do you feel, personally, a need to vote with the majority on the committee?

Andrew Bailey: The answer to the second question is no, actually, because each of us comes into the room-, we are nine members of the committee, each of whom comes into the room, you know, to contribute our individual contributions, and to make our decisions and then to vote at the end of it. So, I think the answer is no. I mean, you can obviously look back at the history. I mean, you've got the history of this committee. And there was certainly one point in time when the governor didn't vote with the majority, as I'm sure you know. So, I would say that. On your middle of the decade question, I mean, as I said to Faisal, I mean, there is no definition of a time period for inflation being above target, which the word 'temporary', 'transient', 'transitory', whatever word you want to use, would come to play. But what I would say is, as I said to Faisal, I mean, the longer it goes on, the more concerning it becomes, in that respect. By choosing the middle of the decade, you're choosing a period quite a long way from here, from where we are today.

Ben Broadbent: On this point, I mean, middle of the decade, it's three years ahead, as we say, in the forecast. A couple of points on that, and I want to emphasise here quite how important the path of energy price is. If that's true, if we assume, as we do in the central forecast, that they go in line with the forward for the next six months and then they get stuck at this very, very high level, and then, at the three year point, you have excess supply in the economy and you have inflation-, I mean, you say middle of the decade, that actually fractionally falls below target by that point, and will probably carry on falling. If, on the other hand, the energy prices go in-line with the foreword, three years ahead inflation is 1.7, and it actually gets back to target within the next eighteen months or so, falls below target.

So, it is a really key assumption, what happens to this. It's one of the things that makes the decision difficult, because it's so important to the outlook for inflation. Not only that, but it's a classic trade-off inducing shock. So, in the case where the energy prices stay high, you've got

inflation above target, until, as you say, three years out, but you've got an economy in excess supply. If, on the other hand, gas prices fall, we're going to have inflation below target, with the economy in excess demand. My answer to the question, is that price stability, is yes. After a shock as big and as large as this, yes, it is. Average inflation has been pretty much around target. We have had a couple of episodes like this, notably after the financial crisis and the big fall in sterling when inflation got to 5, and it was transitory then and I would expect it to be transitory now.

Andrew Bailey: One more point, Chris, which has been, sort of, somewhat picked up on, but I was going to add is, that just to-, my final point on your, sort of, middle of the decade point. I mean, obviously, inflation is an annual measure, so I think the other thing to bear in mind is, the, sort of, what I'd call the direction of travel of inflation is also important in judging that question. So, I would qualify your question by saying, if you had a profile where inflation was stuck, let's say, above target and wasn't showing any signs of coming down towards it, that would be different from a profile, particularly because of the annual effect, where you could observe that inflation is coming down towards target.

Chris Giles: On your constant rate assumption, it is stuck.

Andrew Bailey: Yes, it is.

Ben Broadbent: Yes, indeed. That's why rates are unlikely to be constant.

Andrew Bailey: Yes, exactly. Which helps to explain why I said what I said in my opening remarks about rates. I mean, exactly. It's interesting that you picked up on this point, Chris, because we've given, I would say, somewhat more attention and focus to the constant rate assumption in this round than we have done, probably, in recent rounds. Of course, if you go a long way back in time, at the MPC it used to be the published forecast. But, precisely because there is a larger gap between the two, and precisely for the point you make, that if you were to take the constant rate forecast as your view of life, as it were, then you've got inflation stuck at around 2.6%. You know, you're right, in that sense.

Helia Ebrahimi, Channel 4: Governor, I wonder if you could explain to households at home, people at home, businesses, why monetary policy has no impact on inflation, given the forecast is at a ten-year high. Does that mean the Bank of England is powerless and does it mean the squeeze on household incomes, people just have to accept it and just hope it passes?

Andrew Bailey: Well, can I say, we didn't say monetary policy has no impact on inflation, but I think the key point we're making is that you have to judge the causes of inflation and what we can then do about them. So, we're in a situation now where inflation is not being caused by the classic increase in activity in the economy and the pressure of demand on supply capacity of the economy in the same way. We've got quite a bit of it being caused by a set of supply side shocks, supply side bottlenecks. And I've said a number of times that the point is, I'm afraid monetary policy can't increase the supply of gas, it can't increase the supply of semiconductor chips. I was saying a few weeks ago, but fortunately this has come

to an end, it can't increase the wind speed. Those are the things it can't do. And it comes back to, you know, a number of the other questions, about what we expect to be temporary and transient nature of those shocks. But I think we have to be clear that it can't tackle those things. And more than that, because of the impact of monetary policy, because we classically use monetary policy to cool down demand in the economy, if the only thing we were facing were these supply shocks and the temporary nature of them, then to cool down the economy in the face of shocks, you know, and frankly to cause a negative impact on household incomes, that would probably cause unemployment to rise, would be the wrong thing to do. It wouldn't just be the impotent, it would be the wrong thing to do.

Helia Ebrahimi, Channel 4: So, households just have to sit it out?

Andrew Bailey: Well, obviously, I think there are a whole set of other things that I hope can be done, which are not in the power of the Bank of England, I'm afraid, and which many of which, as Ben was saying, are global, to tackle the causes of these supply shocks. I mean, I think that is critically important. And, by the way, as I've said a number of other times, if you don't mind me saying this too, I think it's also critically important that we learn from these experiences, as we've had to learn painfully with the financial sector, how you build resilience in these supply chains going forwards. Because these, sort of, shocks are painful, no question about that. You're right to say they're painful.

Ed Conway, Sky News: The past, kind of, eighteen months have been a roller-coaster for the economy and, actually, one of the striking things is the bank's forecast, is those early forecasts turned out to be pretty good on GDP, surprisingly good given the scale of what we're talking about.

Andrew Bailey: Surprising.

Ed Conway, Sky News: Sorry. There's a slightly barbed question, I'm afraid, coming up though, which is, you know, when your growth forecasts did surprisingly well, it feels like your inflation forecasts have done surprisingly badly. And I wondered why? You know, why is it that you, and not just this central bank, but most economists, just didn't see this supply shock coming? Is there something that we just have misunderstood about the way that the global economy fits together, that we need to think about?

Ben Broadbent: Good question. I gave a talk right at the beginning of the year saying this hasn't been as disinflationary as in our early forecast. Now, it was a bit. It was a bit. So, inflation fell. But it wasn't as much. And I can only say what I think I've learned. And I should say, first of all, there are some particular things, which I just don't think were forecast-able, restricted supply of gas, particular supply problems in energy markets that one couldn't have foreseen, and it wasn't just central banks, financial markets, no one did. And I would emphasise quite how enormous these increases have been, and that's a big part of it. But I think a couple of things, for me at any rate, drawn from this experience. One was that we didn't anticipate the extent to which the pandemic would cause this big shift of spending from

services to goods. Two, we certainly didn't know quite the scale of the fiscal expansion. Not just here, but elsewhere.

And to give you an example of what the combined effects of that have been, in the Spring of this year, I can't remember exactly when, spending by US consumers on durables was over a third higher than it had been prior to the pandemic. I mean, just a huge increase. And maybe we could have anticipated that shift, but for my part I only, sort of, started to understand it as it came through in the numbers. Nor did we foresee some of the very specific supply problems in goods. What would happen in Asia with Covid outbreaks and the effects and the production there, or shipping or so forth. So, you're right. We didn't foresee the scale of some of these things. It's very often the case that shocks to energy prices are a surprise, by their nature. The other areas, I know, from my part, I've just had to observe them as they were happening.

Ed Conway, Sky News: Is it just a series of unfortunate events, or is there a lesson that's deeper, about destruction of the global economy and supply chains?

Andrew Bailey: Well, just going back to the answer to Helia's question. I mean, I do think that there is a message in there about the fragility of some of the supply chains. And it's why I made the point about, you know, I'm very careful to put this into context. We learnt the hard way, in the financial crisis, about the fragility of the banking system, and we've done a lot of things over the last decade or so. You know, stress testing, capital, contingency planning, all that stuff. And, you know, I, fingers crossed, will say that it's actually stood us in pretty good stead during the Covid crisis, but we had to learn some really hard lessons about resilience. So, I do think there are some messages in there. Let me say the second point, which is, I think it's important, however, not to interpret those messages as being that we think the economy-, you know, we should move away from an open world economy. I think that would be a very bad outcome. So, it's about how you get, in a sense, a combination of resilience and openness, I think. And there are important messages. I said yesterday, in the remarks I made in Glasgow, that, if you don't mind me saying so-, I mean, one of other things I think we've got to make sure is, as we transition towards a renewables economy, with different sorts of dependencies from the ones that we've had traditionally, say, in the hydra-carbons world, that these things are resilient. I mean, you know, it would be a disaster if we built an economy which tackled the issue we really want to tackle, of climate change, but in doing so it was less resilient. So, we've got to do this.

Soumaya Keynes, The Economist: You've been clear about your vigilance in case medium-term inflation expectations were to become unanchored, what would anchored inflation expectations look like?

Andrew Bailey: Well, we've included a box in the report on this because it's not as-, I mean, it's a really good question which doesn't have a straightforward answer, in the sense that there isn't a single thing that, you know, suddenly the lightbulb comes on and you say they're anchored. And, by the way, of course, the other point to obviously make is that we don't want

to wait for them to de-anchor to act. So, there's a whole range of things we look at. Obviously, we look at as wide a range as possible, of different measures of inflation expectations, drawing in markets, households, businesses. You know, surveys for the latter two groups, market intelligence and market pricing information for the first. And then, of course, we try to distil it all together. And we've also, you know, as we've set out in the report, used some new techniques as well, which have been developed in the academic literature, to try to crunch all of this stuff down. To say, you know, can you reach an overall conclusion? And, by the way, not just looking at what you might call the mean path of expectations, but also looking at the, sort of, distribution of that path of expectations, because there's information in that as well. So, I mean, unfortunately, there isn't a single, sort of, light bulb moment in that sense, but there's no question, and that's why we've put the box in, that you have to bring all your tools to bear on it.

Dave Ramsden: I mean, we've spent a lot of time looking at this, and I've given speeches in the past that have, sort of, said, yes, we particularly focus on financial market expectations from swap markets, you know, five-year, five-year forwards. But, actually, as Andrew has just said, and what we tried to put in the box, is that you've got to look at a much richer range of indicators, I think. I mean, particularly, you know, we see that in some of even those-, because, normally, you would think you can look beyond the short-term, at the medium-term measure, like the five-year, five-year forward, because that should be getting beyond anything cyclical happening in the economy, but even those in the moment, at the UK, you know, they're taken from-, our inflation markets are RPI-based. There's going to be the change in the RPI in 2030. That actually influences the measure. So, we're trying to deal with that box, and say, 'You've got to look right across the piece at financial market measures. You've also got to look at these surveys.' I guess, also, I mean, the key thing is you look back at the labour market, and this comes back to, you know, do you look at settlements? Do you look at wage settlements? You know, is there any pressure that suggests that those are no longer being anchored by, for example, the CPI inflation target? That those are beginning to move up, you know, in what's historically known as a, kind of, wage-price spiral. Obviously, as Andrew says, you want to be seeing that coming, so you're looking at all the evidence that you can, but particularly, at the moment, you know, it will be very important to make sure that, within the labour market, inflation expectations are anchored, and that's feeding through into wage-bargaining.

Phil Aldrick, Bloomberg: Hi, Governor, Phil Aldrick at Bloomberg. First of all, it's nice to be bank at the bank doing this. On the outlook, you mention that the spare capacity opens up at the end of the forecast but we've had the OBR saying that there's a 4% permanent shock from Brexit, a 2% permanent shock from COVID. So, why are you so pessimistic about the demand side of the economy? With interest rates, you seem to be implying interest rates are going to get up close to 1%. What does that mean for households? What does that mean for house prices, household incomes and house prices?

Andrew Bailey: Ben, do you want to come in on the first question and we'll come back to the second one?

Ben Broadbent: Yes. I mean, we set out some time ago, I can't remember exactly when, a central view of this very gradual drag on productivity from Brexit, maybe ours is slightly bigger, I think. We have a smaller effect overall, in fact, from the combined effects of Brexit and COVID, very difficult to distinguish the two. The general point I'd make about those is, to a significant extent, particular the longer you go on, changes in supply affect demand automatically. They reduce people's incomes and they reduce people's spending. You don't need some additional hit to demand. They would tend to drag down incomes and spending as they occur, even if they do so imperceptibly. So, I don't think it's a sort of puzzle. I mean, really, the spare capacity comes about for two significant reasons, (1) as you said, is conditioned on the market curve in which interest rates go up to the extent they do, and (2) if energy prices stay as high as we assume, by convention that they do in this forecast, that is an unavoidable hit to real incomes. I mean, we're seeing that the moment. You know, it relates to the earlier question, those are the things that help to depress demand relative to supply. The supply shocks themselves, wherever they emanate from, don't have any, sort of, real overall bearing on the degree of slack in the economy on that horizon.

Phil Aldrick: Could you quantify the household income shock?

Ben Broadbent: From?

Phil Aldrick: From both the interest rate, and market curve,

Ben Broadbent: No, but, I mean, the overall effect on GDP, you know, the share of household income won't vary that much, so it'll be something similar to that. I mean, the only point I'd make on household income, on interest rates, is not to get too alarmed about the scale of this. Remember, we're starting from a position where the share of mortgage interest payments relative to household income is pretty much at an all-time low. I mean, it's barely half the number it's been, on average, even under inflation targeting. You'd need a really material rise in interest rates, bigger than the one in this yield curve, even to get back to that average level, and furthermore, because there are fewer floating-rate mortgages around and more fixed-rate mortgages, that effect also takes longer to come through than it otherwise would. That's all I'll say about the rate part.

Andrew Bailey: Can I add one other point, which was just to, sort of, cast us into a slightly longer perspective? I mean, I think it's important in this debate about, you know, where interest rates may go to, to add the fact that I don't think we've seen anything yet that causes us to, sort of, change the view on what we might call the equilibrium interest rates, sort of, the era of, you know, low equilibrium interest rates will remain in place for the foreseeable future. So, I think, in having this conversation about where bank rate may go to, I think it's important to put it into that perspective, and say this debate doesn't actually change what you might call, sort of, the framework of where we've got to with the longer-term drivers of interest rates, which, you know, to borrow the phrase, the 'low for longer', if you like, overall framework, I don't think we see, in a sense, an unstitching of that from what we're talking about here. I think that's an important contextual point to always have in mind.

Lucy White, Daily Mail: I just wanted to ask on, you know, the issue of guidance and what the market took from members of the MPC have been saying in recent weeks, I mean, we've already seen several banks pulling their best mortgage rates and that kind of thing. I mean, how are households who are already, sort of, facing this spectre of rising inflation supposed to plan their finances, and what message would you give to them? Then just a quick question as well. I think your unemployment forecast had unemployment climbing again, sort of, after dropping, in 2023. What's the reasoning behind that?

Andrew Bailey: Right, I'll get Ben to come in on the second one, I'll come in on the first one. I mean, I'll start on the question of inflation. This is a very serious issue for households because, as the forecast shows, it has an effect on household income, but as we've discussed in a number of other questions, you know, the particular causes of much of this are not ones that can be directly tackled with monetary policy. Indeed, as Helia's question, you know, if you used monetary policy aggressively in the wrong context here, you would actually make things worse for households, and that would obviously be an outcome that none of us would want to see. The other thing I'll just say on mortgages, I mean, I think it's important to just look at the context of the last couple of years on mortgages. So, you know, we've had, sort of, offers being off the table, banks taking their rates off the table, that was certainly what was being done throughout last year into the, sort of, earlier part of this year. Then we had quite a lot of change around in that, and I think you were writing stories on this quite regularly, and rightly so, that, you know, the mortgage offers were actually going a long way the other way in terms of record low rates often. There's been some pull-back on that, as you rightly say, in the last few weeks, but, I mean, in a sense, there is quite a short-run cycle in terms of mortgage offers and propositions. Dave, do you want to come in on that?

Dave Ramsden: Yes, I mean, just to reinforce that point and, you know, this is in chart 2.8 of the report, but actually, the two year fixed rate 90% LTV is 150 basis points lower than it was at the start of the year. So, yes, in very recent weeks we've seen quite a few offers taken off the table and we may have also seen what offers there are, what product there are at higher rates but, I mean, that change through this year has been really striking.

Andrew Bailey: It's worth saying that the activity in the housing market remains very strong. Ben?

Ben Broadbent: Yes, very quickly on the unemployment, it's pretty much the same answer I was giving to Phil. I mean, that is the spare capacity emerging is the slight rise in unemployment and it's a function, a bit of the extent of the bank rate rise, on which we condition the forecast, but also this very high level at which energy prices get stuck in the main forecast. If, on the other hand, the energy prices-, and I'm sorry to bang on about it, but it matters a great deal, if they fall in line with the forward curve, the opposite happens. inflation is lower, real incomes are higher and unemployment doesn't go up as much, so that's the source of it.

Guy Faulconbridge, Thomson Reuters: I just wanted to come back to the communication, given the market reaction today has been quite strong. I mean, sterling down a percent, gilt yields down quite significantly. I just wondered, do you think that you really did communicate as clearly as possible or did the market rather misinterpret your words? I just wonder if you could give us a little bit insight in how you feel things went.

Andrew Bailey: No, I mean, look, it was a very clear, you know, warning and statement, but a conditional one, as I said earlier, on what we will have to do in that conditional world. Now, of course, markets have to turn conditional statements into unconditional views, and, you know, that's a matter for them to do, but I want to be clear, I mean, none of ever said, I never said, none of my colleagues ever said, you know, 'Rates will go up in November.' By the way, I mean, it is interesting, looking at a number of the surveys that, you know, you and others do, as well as the commentary, that actually opinion on today was pretty evenly split as to what would happen, which I think was why quite a few of you were writing articles, 'It's on a knife-edge.' You know, actual opinion on today was pretty evenly split, and as I said earlier, I don't think that's an unreasonable sort of position to have taken coming into this meeting. It's a close call, there's no question about that.

Russell Lynch, The Telegraph: Governor, you talked about a 1% fall in the supply capacity of the economy today. Just so I'm comparing apples with apples, is that directly comparable to the OBR's 2% scarring that we heard last week? Can you-, if that subtly changes-, and also what does that do to the inflation outlook?

Andrew Bailey: Yes, I'll get Ben to come in. I mean, there are some important things we have to sort of-, it's not quite, I think, an apples to apples comparison at all. So, Ben, did you want to-,

Ben Broadbent: No, very quickly, I don't think that's the case. I'm not entirely sure whether the OBR one is purely about COVID or whether it's about Brexit, we don't distinguish them. Certainly, we've seen lower demographic trends and growth in the active workforce and growth in the population. That's largely the source of this. The underlying productivity forecasts and productivity growth forecasts, we haven't change materially today. So, I'm not sure they're directly comparable.

Russell Lynch, The Telegraph: Is there a reason why you have a different estimate of scarring than the OBR?

Dave Ramsden: The OBR were even more pessimistic before. I mean, if you remember, they were at 3%. They've come into 2%, because it's so difficult to disentangle what's going on with the supply capacity of the economy, and, you know, we've got a whole in-focus section, about eight to ten pages of analysis on this, we're now moving to look at this overall estimate, that supply is about, you know, we think, at the end of the forecast, around about 2% lower. That's got demographics in it, as Ben says, it's got participation and average hours effects. It's also got what we were previously calling scarring linked to COVID but, you know, there is a lot going on, I mean, globally in economies, as we've been discussing. For

the UK, we've now got this more catch-all 2% but what we were previously saying was that around 1% was scarring from COVID, and I don't think that has changed that much. You know, from doing a really in-depth analysis, we just think there's more going on, particularly, as I say, with these, kind of, labour market trends and demographic trends.

Andrew Bailey: I think that's right. I mean, I think the message, as Dave has said there, is that we're certainly moving away, I would say, from talking about scarring in a narrowly COVID context because there are just other things going on as well.

Ben Martin, The Times: Governor, I just wondered, do you think now that market expectations for, sort of, the forthcoming path of rate increases are more appropriate following today's announcement?

Andrew Bailey: None of us are going to endorse a market curve at any point in time. I mean, it's a good question, let me refer back to what I said in my opening remarks very deliberately, right at the end of the opening remarks, I made a point and said, 'Look, you know, if the forecast that we have, based on a market curve, is showing inflation a bit below target and probably heading further below target because of the way the output gap is heading at that point, I think you have to, sort of, ask a question about that profile, as being not the one you want to see,' put it that way. Now, obviously, you know, we'll be doing it again with a different profile of market rates. I would also say, just to reiterate a point a number of us have-, all three of us have made at one point or another, just going back to energy prices, I mean, they are moving around in a very volatile fashion at the moment, which obviously makes pinning these curves down, the energy curve here, much harder, which is, by the way, why we produced the bots, why we had the variant. We said, 'Look, you can just take a different assumption and come up with, you know, a different profile.' Particularly going to back to Faisal's original question, you can answer the transient question differently. You can come to different views on transience by looking at different curves, but just to reiterate, I mean, you know, on average, this week, since we finished the forecast, the gas price is down, I think, 18%.

Dave Ramsden: If I can just add to that, I mean, what we get from the, kind of, sense of the question, and I know that's not how you meant it, but markets are only reacting to our communications, they're also trying to make sense of these factors that are taking place in the global economy and the UK economy. So, the extent to which inflation is transitory, what should they make of these big changes in energy prices in particular? You know, we do really systematic engagement through my bit of the bank with market contacts, and they tell us that, you know, yes, they're looking at what is going on in terms of, 'What do these developments mean for the inflation in the short and medium term?' Then, you know, the other thing they say is, 'Yes, we are then trying to work out how central banks,' not just us, 'Are reacting to those. I mean, just to finish, as Andrew was emphasising earlier as well, you know, it's a very finely-balanced decision. It did end up being a split vote, so, you know, that, again, shows you that there's a degree of uncertainty that they're also having to try and make sense of as to the outcome will be. You know, we all go into the room with an individual vote to make in

the UK model, and that's what, you know, we've done this time and that's what we'll again do in December, when we regroup.

Holly Williams, PA News Agency: Governor, you have said, yourself, that there's a lot of uncertainty about the energy outlook, also, obviously, the labour market and growth is slowing in the near term. I'm just wondering how concerned you are over the threat of stagflation.

Andrew Bailey: Stagflation, well, one of my fellow governors says that it's a terrible word that we should never use. I then found, and I have to say I did not know this, that it's possibly originally sourced to a former Chancellor of the Exchequer in this country quite a long time ago, So, I have to plead guilty. It's said to have been used in the 1960s by Ian Macleod, I didn't know that, I have to say, but there we are. I must say, I don't think it's a very useful work and it's a word I, sort of, remember from my times as an undergraduate in the late 1970s, it was used. So, I have to say, it's not a word we use. I mean, I think it conveys, let me put it this way, an overly simplistic message about what is going on. As you can probably see from what we've been saying today, you know, there's a lot more to analysing an economy and to analysing the path of inflation and the path of activity than, I think, a rather, sort of, simple, 'We're stuck in stagflation.' So, I have to say, I do not use it, other than to discuss its inner meaning.

Ben Broadbent: I mean, we can say, and we've been emphasising through this, that what we're going through, I wouldn't use that word but I would use a classic 'trade-off inducing shock'. When we get a big rise in trade of goods prices, in energy, we import that, that pushes up inflation and it tends to depress growth. That is an unavoidable fact, and, you know, to come back to Helia's question earlier, for example, that's why we have to make this difficult choice, in order to suppress the inflation, even assuming we could have foreseen this big rise in gas prices, say, or in other prices eighteen months ago, we would have had to have put up interest rates significantly in the midst of the first wave of the pandemic, given the lags. That would have been the way to suppress the current inflation. That would mean more unemployment now, lower wage growth and so forth. So, that is why this is called a 'trade-off inducing shock', and I would use that terminology rather than that particular word.