Monetary Policy Report Press Conference

Thursday 2 February 2023

Faisal Islam, BBC: Just on that language you just mentioned, if persistent pressures were to materialise, can we conclude from this that the assumption or the presumption could be that rates might have peaked, unless you get worse than expected news?

Andrew Bailey: Well, I think the way I would put that is you'll see from the statement that we've issued that we have changed the language we've used, and we've changed it in two respects. In the previous language we had a presumption that if the economy evolved as the forecast suggested, that's in November, then we expected there to be further rate increase. We also had that word forceful in there. Now, we have changed both of those points and I think that reflects the fact that we've now got a combination of what I would call, we have seen a turning of the corner but it's very early days and the risks are very large, and it's really that that I think shapes where we go from here. So if those risks, emerge and if we continue to get overshoots as we've seen, in particularly wage data and particularly wage settlement data and services inflation, then we will have to respond to that because that will be evidence that these risks are crystallising. If of course the forecast or of course the economy were to evolve very much as the central case in the forecast suggests, then of course we would have to revaluate as we would always do. Ben, did you want to-,

Ben Broadbent: No, I don't think so. I mean, you'll have seen that we, you know, stress that more persistent case, and as the governor said, the risks are still to the upside. So I don't think it's clear, it's not obvious to me looking at this or looking at what we've written that somehow we know we've got to a point where there's a peak, or even that the next move is equally likely in one direction or the other. I think the committee is still very watchful for signs of persistence. We've got a forecast relative to which the risks are very clearly and very significantly skewed to the upside. So, I would put it with that, sort of, edge to it but you're right that increasingly over time, given the degree to which we've already raised interest rates, these data become more prominent and future decisions will become more sensitive to them. I don't know if you want to-.

Ashley Armstrong, The Sun: You mentioned about inflation easing off, and obviously we've seen that on, kind of, commodity prices and obviously shipping, but food inflation which is obviously an essential for all the households is actually at a record high. So wondering how that feeds into your, kind of, estimation of the pain for households. And also do your models also take into account the reduction in government support for businesses coming from April on energy support? Because what we're hearing from a lot of businesses is that they're very nervous about that, and while redundancies have been very low so far, once that help is removed or certainly lessened they might have to take action.

Andrew Bailey: Yes, we do, and you're right. I mean, it is quite a, sort of, complicated picture when you look at the combination of the effects of the quite sharp fall in energy prices, the government's support package that is in place up until April, I think I'm right in saying, and how those things interact month by month. So I think I'm right in saying that of course at the moment the level of household energy prices is really, sort of, fixed by that, sort of, ceiling that's put on. When that ceiling comes off under the current prices, I think there might be a, sort of, one month what I might call gap where prices adjust and then we would expect prices to come down much more according to the Ofgem cap, which will reflect the market curve. I would just go back to something I said quite early on in my remarks, that that is also, you know, an important part of the story, that inflation falls more rapidly in the second half of this year than it does in the first half of this year, the slope. And of course, by the way, a big part of that is that inflation is an annual calculation, so you've got to relate all of this back to what happened last year.

Ben Broadbent: Just very quickly on food, there's a graph in the report, 2.4, which has some of the underlying wholesale commodity prices. We don't forecast the components of inflation beyond the very near term. So I can't tell you what the forecast embodies overall in terms of food prices but you can see that these, sort of, very steep rises in wholesale, these are in dollar terms but same is true in sterling, very steep rises in agricultural commodity prices. You know, 30%, sort of thing, during 2021, and they've, sort of, come back down and levelled out since. So in time I think one would expect these very high rates of food inflation to start dissipating and prices to level off. But you're right, it's a big part of inflation currently, as are more generally these prices of global traded goods.

Andrew Bailey: I mean, I think just to finish it, I mean, if we look at what I call the big three external shocks that we see, first of all the supply chain shock post-COVID, then the energy shock and then the food shock, I would say they're in different phases of their evolution. So I think the global supply chain shock I think is now, sort of, clearly coming off and indeed probably has been for about the last year. Energy we've talked about, I mean, we see it now coming off but it's in a much earlier stage, and food, I think Ben's absolutely right, I mean, we've got this situation where we see at the commodity price level things flattening out but we haven't yet seen it coming through into the consumer price index.

Dave Ramsden: If I can just supplement that. I mean, we have a chart that shows, chart 2.19 shows that food price inflation is contributing more and more to the overall level of inflation. I mean, as a committee we're acutely conscious now particularly for poorer households, the share of their consumption that is food and is energy, these necessities. So we're very conscious of the challenges that are being faced. Your point on redundancies is exactly right in terms of where the data has got to so far. We are forecasting a pickup in unemployment from the current very low levels. One of the drivers for why we have a more-, it's still technically a recession. I think we've got a peak to trough fall in GDP now of just under 1%, so it might meet the technical definition of a recession but it is much milder, as Andrew was saying, than we previously had. A key driver of why it's milder is that we have changed our judgement on how much unemployment is going to rise. So we still have it rising through this year but it now rises by the end of the forecast period to just over 5%, whereas back in November we had it rising to some way over 6%. So things are going to be challenging and touch but the recession that we still have in the data is milder than it was.

Sze Chan, The Telegraph: Governor, you touched in your opening remarks on reasons behind the rise in inactivity in the labour market. You also say in the MPR that so far your agents have identified little sign of people returning to the labour market due to cost of living pressures. Does that suggest that government efforts to get people back into work may prove futile? And what do you suggest is the best way to approach this?

Andrew Bailey: Well, we do not presume to be the experts on what I might call, sort of, more microeconomics of the labour market in that sense. I would also say I think, from the point of view of government policy that of course it's early days. I think this issue has really surfaced in the last months and so in terms of the policies on the labour market, I think there's a clear intention on the government to do some more, but it's early days at this stage. I think what we see, and we get this from talking to a lot of people, is, as I said, first of all-, I mean, there's two things going on here. The population is ageing and so that would have happened irrespective of COVID, for instance, so we have to take obviously that into account, and as I say that would have happened anyway, as it were. The second thing however we observe is, as I've said, in the UK, and this is not the case in other countries, what was a fall in participation in the early part of COVID has not reversed course. That's what makes the UK stand out really. Now, what I would say is that I think the evidence certainly suggests that while there is an increasing part of the population that when asked why it is not returning to the labour market cites long term health conditions. I don't think that's the proximate reason given for leaving the labour force. So there is this, sort of, if you like, time gap in that sense. So it's important, it seems to me, that we know a lot more collectively from a public policy point of view about why this is happening and what could be done to reverse it but, as I said, that's getting beyond our area of expertise after that, I would say.

Ed Conway, Sky News: Earlier on this week, no doubt you'll have seen, there was an IMF forecast for the global economy there was lots of focus on what happened to the UK. The UK seemed in their forecast to be quite an outlier. I just wanted to know, you know, do you or the bank agree with that assessment? Clearly this forecast is about the UK but I just wonder does it feel like we're an outlier? Does it feel like we're doing so much worse than everyone else and also, you know, what are the reasons if so?

Ben Broadbent: I'll come in Ed. I mean, our forecasts for UK growth are weaker this calendar year than the euro area or the US, but I think one needs to be quite careful about just taking a snippet of time and we looked to have grown more strongly than the euro area in 2022 and in 2021, and over those three years as well, '21, '22 and '23 together, in our forecast and the IMF's forecast. So, there's a reasonable amount of volatility over short periods of time and you need to be careful in general about those comparisons. Having said that, I think there are a couple of things that could have contributed to the relative weakness of the UK that are not just pure noise. One, the Governor was talking about a moment ago, which is the fact that participation hasn't come back here in the same way is has elsewhere and, as Andrew said, we don't fully understand why but it's a fact. Another is that the UK is probably more dependent on, in fact in more dependent on gas and there's a huge difference, as you know, between the behaviour of gas prices in Europe and the United States, so that explains a big part of the gap between growth here and in the euro area compared with the US. But we're even more dependent than continental Europe. You think of France with all its nuclear power stations, for example. So I think that's another part of it. It may also be, and this is what they or the IMF chief economist said, faster transmission of monetary policy, all those things, the participation, effect of our gas prices and even the faster transmission of monetary policy, are not things that we'll endure forever. So I don't think, you know, one should expect this to tell you about trends over the next four, five years.

Ed Conway, Sky News: You didn't mention Brexit.

Ben Broadbent: Well, Brexit is, as Andrew said in his opening remarks, has been something that has pulled out potential output in our country and that's been our assessment for many years, as you know. We've not changed our estimate of the long run effects, but we've brought some of them forward. We think probably they're coming in faster than we first expected, even if the long run effect is no different. Again, I'm not sure that's going to help you explain why growth is weaker than the euro zone in 2023, having been stronger in 2022, but over periods of time, yes, it's having some effect on growth. Although ultimately and cumulatively no bigger an effect than we assessed some years ago. But, you're right that based on the numbers for trade and to some degree on the numbers for investment, we think those effects have come through somewhat faster than we initially envisaged.

Andrew Bailey: It's interesting when you look at the profile with the IMF because in our profile I would say we're pretty similar this year, we've both got pretty, small negative numbers. Actually, the difference is what happens thereafter I think, which is that they have growth picking up more rapidly than we do. That's the difference really, that stands out.

Ed Conway, Sky News: So they're more optimistic.

Dave Ramsden: It's both the underlying supply factors that Ben was just describing, and that Andrew talked about in his opening remarks. You know, we've done the supply stocktake, we have got relatively weak supply growth further out, weaker than the averages we saw prior to the pandemic. That's actually largely driven by the lower participation that Andrew was talking about. That's on the supply side. Different forecasters will have different assessments of the pace of the recovery as we come out of the recession, so that's to be expected, given the different judgements we make.

Larry Elliot, The Guardian: Governor, you say that it's too early to claim victory in the war against inflation and I just wondered what things you would require to happen to declare that victory. Would it be moderation in private sector pay claims or a rise in unemployment? And, if so, wouldn't that be a curious, sort of, victory for the people affected by the current cost of living crisis?

Andrew Bailey: Well, that's a good question Larry. So I would, put it into two parts, what I might call it, if you put it into our forecast, sort of, the central case and the risks. So on central case, as I said, I think we do need to see that, these very pronounced, to use the technical term, base effects that are pushing, particularly on energy, that are pushing inflation down, now, they are if you like baked in, unless obviously we get some surprise that I think none of us know about in the world at large. Unfortunately I say that because we've obviously had quite a few of them in recent years, but other things equal. That story is important but I think we put greater confidence on it evolving. So then I think we come to the risks, as you said Larry. Now, I want to be quite clear, I mean, it's not a case or it's certainly not the case of us wanting stronger unemployment for instance, as we've been saying, we've revised the unemployment profile. What I would say is that we have been surprised on the upside by private sector wage settlements so that they are higher than we thought they would be in the November report. That is the case. Now, if you look however at two other things you slightly different story. So that's looking at year on year comparisons. If you re-do those numbers to, sort of, look at the more high frequency, so if you do three months on three months or so on you get a story that it looks as if it's flattening. And then you take the survey evidence, which we obviously look at internally, you see some clear signs in some surveys that the position is weakening. So we will be watching those things very carefully because they are going to have a very important influence. What goes on in the labour market at the moment is going to be a very important determinant, and particularly I would say in pay settlements.

Ben Broadbent: You also, by the way, care about the pricing side.

Andrew Bailey: Yes.

Ben Broadbent: And Andrew showed you a graph earlier with services prices, we choose that one because we care particularly about services, but they tend to be more persistent. It's not simply about wages, and the truth is that when they bid each other up we don't end up better off. You know, what's happened here is that you're faced with this massive real income squeeze, which is a result of war, pandemic, even if the pandemic effects are now fading, the attempt to claw that back, for firms to maintain the real value of their profits, for employers to maintain the real value of their wages, collectively that's not possible. Our real national income is inescapably lower as a result of these shocks, and what happens instead is you get this period of inflation. So it's not that we, you know, intrinsically want lower real wage growth. I don't think we can ultimately do much about the level of real wages. It's that both wages and prices are telling us about the strength of this reaction and therefore the ultimate persistence of overall inflation.

Andrew Bailey: And I would say, just to add, certainly when we get around the country with the agents, and I certainly go round the country with the agents, I would say the story has evolved and I think certainly now we hear more stories from businesses that they are finding more resistance to price setting that certainly I would say we were picking up some months ago.

Arthi Nachiappan, The Times: You've conditioned your forecasts on the reduction in energy price support planned for April that would see prices go up to £3,000 on average. Now, the Chancellor is under pressure to either mitigate or remove that increase due to the lesser subsidies they have to pay out because of the fall in natural gas prices. Now, if there were to be a maintenance of the support at its current level or a smaller increase, that's to say below £3,000, how far would this go to lowering your forecast for the recession or what impact would it have on your forecast for inflation, growth and unemployment?

Andrew Bailey: Well, I should explain what's coming. I mean, I would say this, that there are very-, and you saw it, in the first chart we showed, there are very big energy effects in this forecast. I would be tend to say that the cumulative consequence of any further change is going to be quite a lot smaller than the effects we've already got, because the big ones are in there. Anything you want to.

Ben Broadbent: Remember that the wholesale price has come down so much that the implied retail price, I can't remember exactly when this happened, but at some point, not in the terribly far distant future, when it comes down below the level of the energy price guarantee, assuming the same Ofgem pricing mechanism. So at that point, it doesn't really make any difference. It would do in the near term because currently, what would have been the Ofgem price is a good deal higher than the cap, the cap is definitely binding at the moment, but you know, if you look further ahead, I can't remember exactly-,

Andrew Bailey: I think it's later of spring, early summer, I think, that starts.

Ban Broadbent: Then the wholesale has fallen sufficiently that it doesn't really make that much difference, and so, in terms of the medium term forecast it would make some, but I'm not sure a huge amount.

Chris Giles, Financial Times: Governor, it's pretty unusual for the MPC to put aside its inflation forecast when making rates decisions, even the risk adjusted inflation forecast, and the minority on the committee said that they thought enough had been done, and that would require then bringing forward rate cuts which might be larger than otherwise accepted. Are you comfortable with putting aside the inflation forecast, and is this just one more heave, and you're comfortable with maybe having to cut rates quite soon, more than you otherwise would have to?

Andrew Bailey: Can I, if you don't mind, interpret your phrase 'put to one side the forecast'. I'm giving my view on this, every member of the committee could obviously view this differently, because the forecast is an input to our policy decision, it's not an 'as night follows day' thing. And so my own view on this is as follows, if you ask me the question, which is a relevant question to ask, 'Do I think this forecast is my best judgement of what is likely to happen, better than any other judgement I could make', I would say the answer to that is clearly yes, because we've spent a lot of time on this forecast. Now, the however, and this relevant to your question-, so it's not I set it to one side and decided to do something completely different, it really comes back to what I said in the beginning, which is for my part, I think there is such a high level of uncertainty at the moment around how this is going to evolve that I need to see more evidence that we are going down that route, and particularly with the scale of the risks we have around inflation, and as I said, we've got the largest upside risk on inflation in the history of the MPC. I need to see more evidence that that is going to evolve as the central case of the forecast would indicate. And as I said earlier, if the economy evolves as the central case of the forecast suggests, then of course we will set policy according to that situation and we will respond accordingly, and while we've emphasised, the risks, I'd just come back to the point I said, you know, it is the case that we have changed the language and the monetary policy statement that we've used, and that's quite deliberate.

Ban Broadbent: And I think, Chris, I certainly didn't put the forecast to one side, and the skew is sufficiently big that the mean protection for inflation under the market path of interest rates, which by the way, has another, for what it's worth, it doesn't say anything about what we will do, but that market path is a little bit higher in the near term even if subsequently it comes off. Based on that market profile, the mean forecast for inflation as opposed to the mode is pretty close to target at two years, and I think, it's difficult for people who believe, and I'm not saying I do one way or another, I think they probably are on the committee, that the things we assume in the forecast about, for example, the stability of inflation expectations, the rootedness that pulls us towards the targets we want, themselves depend on what we do-, I'm not sure that I would pitch, but there are people who believe that-, then it's a slightly odd thing. In order to secure that medium term, you know, you may need to act more aggressively than the central forecast tells you. But I completely agree with Andrew, you know, even if that medium term for some is given less weight, certainly in the modal forecast is given less weight, in the event, we'll be guided by what actually happens. I mean, the thrust of your question, perfectly good one because the gap between the mean and the mode, that skew is pretty big at the moment, which gives you some idea of the.

Chris Giles, Financial Times: If you follow it all the way down-

Ban Broadbent: In the modal forecast, yes. Well, the mean, it's just about, it's pretty close at two years. You're right, beyond two years it continues to fall, that's true.

Andrew Bailey: I'm just wondering why one thing I said in the introductory remarks, and that is, yes, we switched a few rounds ago-, actually in November, didn't we, to using the full futures curve for energy prices. Actually, that was necessary because otherwise we would have got a very strange profile of energy prices using the so called random walk assumption that we use, but I did say if you plug the random walk assumption back in, the one we used to use, you get about 1% higher inflation.

Dave Ramsden: It gives you an idea of the risk.

Andrew Bailey: It gives you the sense you need. Dave, sorry.

Dave Ramsden: Yes, well, you've said one of the points I was going to make, but it does go to the more general framing for this set of policy decisions, which for me, we're not putting the forecast to one side but the forecast is a very important input into our decisions, but we've had to deal with these shocks that we've been talking about and the impacts that they have. I mean, if you remember when we were back here in November, we had to put a lot of focus on the conditioning assumptions for our forecasts because, what had happened in September and October last year with the financial market reactions to the then governments' decisions, what was happening with energy prices, these were challenging things for us in terms of setting out our view of the future. And I'm certainly not putting the forecast to one side, but given the uncertainties, as Andrew says, I think I probably have more confidence with the immediate period ahead than I do with where things are going to go two or three years out, given the risks. I mean, one specific thing, and it goes back to

Ed's point, we haven't got the detail of the IMF update but we think that they've assumed more persistence in inflation, which is also what gives them more activity, if you like. They've got, you know, more wage and price pressures, that feeds through, actually, in the way they put their forecast together, to more demand. What we're trying to do is-, another area of uncertainty for us is the supply stock take. I mean, Andrew set out in even more detail in the 'In focus' chapter, this assessment of potential supply, but it is affected by these shocks and it's quite possible the potential supply could turn out to be more positive than we've got it over the next three years, or the shocks could hit even harder, and so we're having-, it's not like it was, say, back pre the global financial crisis where potential supply was pretty steady, it grew, and demand moved around it. We've now got more moving parts, more shocks that we're having to deal with, which prompts quite reasonable questions like yours, but I think you need to bear with us that we're using the forecast but we're having to use it in a rather more nuanced way than, say, we did in the first ten years of the MPC.

Phil Aldrick, **Bloomberg:** Just to your earlier point that inflation pressures need to prove a little bit more persistent than you are currently projecting to require further policy reaction. You also predict, through the agent's report, a 6% increase in pay settlements, a record high this year. Does that imply that 6% pay rises are sustainable with the inflation target over the long term? And just on potential output, we've got a 0.7% trend rate of growth which-, when was the UK long term performance ever as bleak as that?

Andrew Bailey: Well that's something that I'm sure Ben will want to come in on. On pay settlements, it might be useful to just give you a flavour of the-, as I think you may know, at the beginning of every calendar year our agents do a pay survey and we draw on that for the forecast, as we have done this time, and 6% is, in a way, quite similar to numbers they were telling us throughout some parts of last year, but what they did tell us this time is that firms were telling them that they would expect that number to, sort of, come off as the year goes on, somewhat. It's too early for firms to be very precise about that, but that's what they think is, sort of, the direction, if you like, of the overall movement. So I think that's important to bear in mind in terms of, you know, how it might evolve. Ben, do you want to?

Ben Broadbent: The simple answer to your question, 'Is 6% sustainable', the answer is, or consistent with, a 2% inflation target and productivity growth of 1, or something, the answer is obviously no, but then we don't expect the pay growth to stay at that level, and that's why, you know, in the medium term, inflation, including underlying call and stuff like that, that also comes down. Just to show you something that is consistent with what the government has said about the very, the higher frequency news, if you look at 2.23, which is a graph of various indicators of pay growth alongside the official series, which happens to be a light blue colour in this thing, there are some that are coming off, some that we look at, so you know, as I say, a two part answer. No, 6% is not consistent, but then we don't think it's going to stay there.

Phil Aldrick, **Bloomberg:** So 6% this year alone, I don’t mean forever

Ben Broadbent: No, but then look, the forecast has something close to that for the end of this year, and still it has subsequently inflation coming back down to target.

Dave Ramsden: And if I can just come in on the potential supply point, Phil, I mean, we set out on page 75, table 3A, the forecast that you're referring to, I think, for the three years of the forecast we have potential supply averaging just under 1, it's 0.7 in the final year. As I said earlier, and consistent with what Andrew was saying in his opening remarks, the driver of that is actually potential labour supply growth. If you look at the productivity line, its growth is averaging below 1 but then at average 0.5 in the decade from 2010 to 2019.

And if you're looking for-, I mean, we show in the columns here, we have the pre global financial crisis decade, ‘97 to ‘07, when growth was a lot stronger, then we show the period since 2010, I'm hazarding a guess here, but I think potential supply growth was pretty weak in the period from 2007 to 2010 given the credit crunch, given the shocks that were hitting the global economy from the financial crisis. You'd have to, kind of, go back to look at that but that would be my-, whether it would be as weak as we are forecasting is another matter, but the point is, as Andrew was emphasising, what's driving it, potential supply, to look so unusually weak, is labour supply growth rather than productivity, which has actually, sadly, been weak for many, many years.

William Schomberg, Thomson Reuters: Just ties right into the question I was going to ask, the outlook is weak, you know, you've got the economy barely growing this year-, sorry, contracting this year, contracting the next year, barely growing in 2025, you've got this very weak supply-, I mean, potential growth rate. Is labour supply really the key to this? Can you perhaps illustrate what would happen to the growth potential of the economy if we were able to get activity back to the levels before the pandemic? And as a second question, did anybody argue in favour of keeping the word 'forcefully' in this statement?

Andrew Bailey: Well, I'm not going answer the second question, I'm afraid, directly, because we don't give away that level of detail in the discussion because what emerges is the view of the committee, and particularly the view of a majority of the committee, so it's important, I think, that we preserve that in terms of the outcomes, because you see the outcome, as it were, and the outcome is the word 'forceful' does not appear in there, and that's important. I think in terms of the supply side, where I would start from, I think Dave, really, in a sense, has just answered the question, which is the position on labour supply is unusually weak. Now, part of that, as we've been saying, I think we have to accept or recognise, is a long term feature of an ageing population. Going back to what I was saying earlier, I think, it would have happened whether Covid had happened or not, but that is not the only part of it. There is clearly another substantial part of it in terms of inactivity, and that's going to be the importance there, it seems to me, of tacking that labour supply issue-, but as Dave was also saying, I mean, you look at the history of the productivity, it has varied over time, and it's been weak in the last decade or so since the financial crisis.

Dave Ramsden: And I think, just to say, we put some of this in the 'In focus' chapter, what's clearer now is just how weak manufacturing productivity has been on the latest vintage of data. And we posit some potential reasons and hypotheses for why it's been so weak, but compared to, say, five years ago when people were talking about the productivity puzzle a lot, and right that they should continue to do so, it does look more focused on manufacturing now, less on trends in financial services pre and post the global financial crisis, those actually haven't changed as much. It's manufacturing which really seems to be bearing the brunt in terms of the UK productivity story.

Ben Broadbent: Just to emphasise Dave's important distinction between labour supply and productivity. In theory, what matters of real wages is productivity. The aggregate, labour supply matters too. But if we're thinking about, sort of, per capita things and average wages are a per capita concept, it's productivity that matters more, and as Dave pointed out, our forecasts are not much weaker, so in the important respect to the question that Phil asked, the answer is that unfortunately they've been that bleak for a while, in terms of productivity growth, which is what matters more for the growth of real earnings, real wages.

Mehreen Khan, **The Times**: A question about the long term productivity-, the supply projections, can you explain what you mean when you say, Brexit is having a faster impact than you would have suggested, but no overall difference in the overall impact, and also, have you begun to disentangle the Brexit impact on labour supply? So, the bank has consistently said that EU workers are non-fungible in the sense that the migrants coming from outside the UK are not necessarily filling the jobs that we used to have filled by people who were taking benefit of the free movement of people. Did you underestimate that impact, that non-fungibility, and is that also driving parts of the labour supply? And just a general question about the impact of the supply and falling supply, there's an argument that secular stagnation will return as the norm in the next few years, potentially, when interest rates are normalised. Would your projections on the state of the UK's long term trend growth suggest that secular stagnation would also return to the UK?

Andrew Bailey: Well, I'm going to make a couple of points. On Brexit, let me make two points. It is very hard at the moment to separate out, I think, in any sort of precise way, the effects of Brexit, Covid, and the energy prices. We've got these shocks going on together. I mean, it's shocks in the technical sense there. I think, our best judgement at the moment is, and I think you captured it, actually, is that we haven't necessarily changed our view of the long run impact from the one we set out some years ago, but the long run impact seems to have come through more quickly, that seems to be the evidence. Indeed, by the end of the forecast horizon, as things stand, that long run impact would have come through.

Ben Broadbent: Yes, we had an overall estimate of, I can't remember, on productivity.

Dave Ramsden: Three and a quarter.

Ben Broadbent: Three and a quarter, we had it coming through pretty gradually, and we just think we're getting to that number slightly faster, that's all. Given the evidence we see on trade and investment, and the comparisons of those with other countries, that's why. And on the point about, sort of, labour market mismatch, which is the word economists use to represent exactly the thing you say, it's possible that the effects of relative changes in migration from one part of the world to another have affected that, but I don't think we can say definitively that that's been the case.

Jack Barnett, CityAM: We've obviously talked quite a lot about the supply side weakness and mainly its impact on growth. I was just wondering whether or not the committee had a view on the impact of inflation in the long run. You've obviously mentioned that quite a lot of the problem has been we're going into an ageing society now and participation is naturally falling in response to that. Does that mean we're also going into a period of potentially higher inflation?

Ben Broadbent: I don't think so. I mean, in the end, demand will match supply, so I don't think there's any particular reason to think that-, we've seen lots of variations in the rates at which societies age, I can't think off the top of my head there's any particular correlation with inflation. So I don't think that need be the case. It probably has been true in our forecast and our assessment that this early retirement, as opposed to the stuff that's been very long, that's just a result of ageing, may have had an effect on the gap between demand and supply, because when people age-, when people retire, forgive me, their saving rates suddenly fall, and so if suddenly someone brings forward that date, it may have contributed, to some degree, to the current rates of inflation a bit. I mean, nothing like the extent to which energy and food prices have done, and I think you made that point.

Dave Ramsden: Yes, I mean, you can-, some people describe, and probably I have in the past, you know, potential suppliers being some kind of speed limit on the economy, and we would recognise it is the level of output the economy can sustain without adding to inflationary pressures. That may have applied recently, for the reasons Ben says, but I think more generally when you look at our forecast, over the next three years we're opening up spare capacity, as Andrew was saying, i.e. demand is weaker than supply. So, as you move further out in our forecast it's certainly acting as a-, it's not constraining growth, however, your more general, long term point, if you can get potential supply up that means that the economy can grow at a faster rate over the long term, so it's definitely worth any policies that will increase labour supply or will increase productivity, those have been the focus of successive governments ever since I've been working in the public sector, which is over 30 years. So it's not a new idea that you're trying to increase potential supply in the economy, it's just it's very weak at the moment.

John-Paul Ford Rojas, Daily Mail: The MPR talks about the impact of fiscal tightening and tax rises, and specific policies introduced in their November autumn statement, and it suggest that the impact of these will, by the end of the period, reduce the level of GDP by 0.4%. So it seems like you're saying that fiscal policy, tax rises, fiscal tightening, is effectively a handbrake on growth, and is this a frustration for you as you formulate monetary policy, particularly with the outlook for GDP stagnating all the way through to 2026? And a supplementary one is just about market reaction to date on the path of interest rates suggests it's only going to go up to 4.25% later this year, is there any reaction, and comment?

Andrew Bailey: Well, let me say a word on fiscal policy, I mean, Dave I don't know if you want to come in on market rates. I'm going to say two things. One-, and what you see from the chart I think you're referring to is that fiscal policy-, and we always see and condition our views on announced government policy, we don't do anything other than that. And what you see, of course, is that fiscal policy does move from being somewhat supportive to then tightening as time goes by, and that's consistent, I think, with the chancellor's announcement late last year. And that brings me to the second point, which of course, is that it is important that we have sustainable fiscal policy. You know, that's the furthest point I'll make as a central bank governor, but it is important that we have sustainable fiscal policy.

Dave Ramsden: And just on your other point, we took the very unusual step, extremely unusual step in November of commenting on market curves, but I'm afraid, from your perspective, normal services resumed and we're not going to comment at all on market reactions.

Francine Lacqua, Bloomberg: Governor, are you concerned that the tight labour market may mean that inflation doesn't quite fall to 2% for a long time?

Andrew Bailey: Well, let me put the words 'long time' to one side and I'll come back to that. I think we've laid out pretty clearly that one of the risks that we've identified in the profile of inflation comes from the tightness of the labour market, and we see that both in the quantities and the prices. We see that both in terms of the overshoots in pay settlements, and the fact that if you take, something like the vacancy to unemployment ratio, while it has come off somewhat it remains very high by historical standards. So there is tightness in the labour market, and of course, it also goes back to the supply side question that we've been talking about a lot during this conference. So yes, that is a big risk, and we are going to have to watch it very carefully, and I come back to what I said earlier on, which is in terms of watching the data, we watch all the data, but if you ask me which data are going to be particularly significant in the period to come, the labour market would certainly, for me, be well up there. Now, I would sort of, not go to the very long term interpretation of your phrase 'long term' because I think, you know, Ben was saying earlier, there are a lot of other factors come into play there. As Dave was saying, I mean, it's important as we're seeing that public policy and government policy, of course, is increasingly focusing on this question of labour participation, we welcome that, it's important. So I think that's the caveat I would have to your 'long term' point.

Ben Broadbent: Over long term we will set policy to ensure inflation is at the target.

Eshe Nelson, New York Times: Yesterday the Federal Reserve said, you know, a few more rate increases and then they were going to reevaluate. The ECB just said, one more and then reevaluate. You just said, you know, we're turning a corner here. Do you have any concern that, globally, financial markets might decide to declare victory for you earlier than you're ready for, and start loosening conditions that make it harder to restrain, kind of, the restrictions you need to ensure that inflation goes down over that medium term period?

Andrew Bailey: Well, I mean, the message for everybody, financial markets included, I think, is this. There is a very clear path downwards in inflation, and as I said it Chris, if you ask me, 'Is that your most likely path?', I would say yes, but there is a lot of uncertainty around it. There's uncertainty both around, actually, the degree of risk, and the timing as well. And the message I would give to financial markets is that I think we all have to watch this very carefully, and we will set policy to reflect, you know, how the economy evolves and how those risks evolve.

Ben Broadbent: Just one point of clarification, you've said-, I mean, I'm not going to comment on what they actually said, but you made some comments about what the other central banks have said about their own policy rate, and then you said that we've said we've turned a corner. The 'turned a corner' was with respect to headline inflation, it wasn't a remark about bank rate, just to be clear. So they're not quite like for like, those comparisons. The only other thing I'd say is, probably, we think the role of equity prices in particular, and therefore these overall financial conditions indices, the effects of those on growth are probably bigger in the United States than they are here, so there's a lot of emphasis on the FCI stuff. We look at them, certainly, but I don't think they necessarily capture what we believe the whole stance of policy on the economy, and ultimately on inflation.