Press Questions and Official Responses

Mehreen Kahn , The Times

I think this is probably a question for Clare because you voted to hold rates. So, what is your threshold for cutting rates again this year?

Do you need to see material evidence of more disinflation beyond what's in this forecast to argue for another rate cut?

And given that food price inflation is very important in this forecast because it has surprised you, is it not a danger that by keeping rates restrictive, again, maybe to Clare, that you're just worsening the cost-of-living pressures that British households are already facing with higher energy, utility and food prices?

Clare Lombardelli

Sure. Thanks. I mean, today we're talking about the policy decision taken by the whole of the committee. And the information that we're putting out today, there is a paragraph in the minutes that sets out my view and the views of the others who preferred to hold rates constant.

I'll also be setting out my view in a lot more detail. Later I'll be before the Treasury Select Committee the first week of September, and I'd be very surprised if this isn't a subject of discussion then.

So I'll talk a bit more about that.

Richard Partington, Guardian

How much of an impact is government policy having on this higher inflation position and the reach to 4%? You're talking a lot about food prices, and how there is a contribution there from the employment tax increases and packaging changes. But there's also an impact on unemployment. I mean, does it now appear there's more pass through on prices, than the impact on jobs.

And then the Chancellor has said today that, government policy has returned stability to the economy and made it possible for the bank to be cutting rates.

I mean, but are you not saying today that the government has made things harder if it is adding to inflationary pressures?

Andrew Bailey

Well, I think I would say, Richard, to that is that as the report sets out and as you'll see in the box that we've included on food prices, which goes into food prices at some length, there are quite a lot of contributions to this. So, there's a lot of small, smallish contributions to this that make it up.

Some of those are global energy, for instance, is predominantly being affected, obviously, by global developments, of which there have been a lot, a good part of the food price story is to do with commodity prices.

And a good part of that is commodities which are not produced in this country. So, coffee and cocoa would be cocoa beans would be an obvious case in point.

There is an element of, as we've said, of administered domestically administered. That is price effects in here. So, water bills, vehicle excise duty, packaging tax and the food industry which we again would do describe in the box.

Now it's obviously a little bit hazardous to try to sort of pass those out. Exactly. But I think it's a little bit under half in each of those two probably.

Clare, would you like to come into that?

Clare Lombardelli

Let me talk a bit about food and also picks up Mehreen's point as well. I mean, look on food prices. So, food price inflation went up 4.5% in June. There was some news in that for us. We did expect it to go up. We didn't expect it to go up quite as much as it did. I mean, that's obviously considerably higher than the sort of pre-COVID average of one and a half. Now, a lot of that is driven by global factors. And you can see we've shown how this food prices in the UK compared to in the EU. And you can see it's the same sort of pattern.

A lot of that is about commodity prices, agricultural goods. As Andrew said, we've seen particular pressures around things like beef, butter. A lot of that is about feed. Some of this is driven by weather events, you know, extra rainfall, or droughts or, particularly dry periods, so, a real mix of things, that are going on there. We're also seeing changing in the pattern of demand globally as well. So, it's not just it's not just that. So that's sort of the majority of the change that we've seen in food prices. There is an element that is some of the other factors packaging, labor costs and all that.

we expect food prices are going to carry on rising, actually, sort of we've got in our short term forecast, 5.5% this side of Christmas before falling back. And we would expect them to fall back as these cost pressures fade, global wholesale factors fade.

I mean, the reason we look at this carefully and this picks up the previous question, is sort of twofold. One it's just a large part of the basket you saw in Andrew's charts, this is 11% of the CPI basket, it's obviously more than that for people on lower incomes, and comes after the sort of cost of living pressures that we've seen. It's also particularly, has a particularly salient role in inflation expectations. We know that people notice it more alongside energy, food is the most salient part of inflation that people notice, and therefore it affects their experience of inflation, but also their expectations of inflation. So, it's something that we're focused on. And as Andrew said, we've put a box in the MPR talking a lot more detail about this.

Faisal Islam, BBC

In your statement, you said that interest rates are still on a downward path. Are they definitely still on a downward path?

Andrew Bailey

Yes. What I would say, Faisal, on that is that I do think the path continues to be downward.

There are all sorts of I mean, we've included a box on Restrictiveness. There are all sorts of views on where the neutral rate might be. I'm in the camp of people who sort of thinks that's rather too uncertain to speculate on, but I think it's very important to sort of talk about, you know, the whole idea of restrictiveness. And we've put a lot in there about how we assess it.

And I do think policy is still restrictive, even when we say we're past the peak, of course, that's a comment on, if you like, on the level, as it were, not the direction might be sort of be less restrictive, but the level can still be and is still restrictive.

So,I do think that what I will say and you saw it in my opening remarks, I hope I've heard it, is that, there is, however, genuine uncertainty now about the course of that direction of rates.

I'll be honest with you and the point I was making is that I think that the path has become more uncertain because of what we're seeing. You know, we're telling a story here, really, that we've got an upside risk, which is which is really a sort of, you know, can be more directly mapped into inflation. It goes to the previous two questions, actually, but we've got a downside risk, which of course gets to inflation via, you know, weaker activity weaker labour market story. And we are balancing those two risks now I think the path has become more uncertain. But I don't think, you know, I certainly have not changed my view on the overall sort of if you like, direction of the of the path. It's a question of, you know, how uncertain it is and therefore, you know, over what course of period of time it takes.

Gurpreet Narwan, Sky

I noticed from the minutes that one member of the committee said that they were worried about an increased risk of recession. Is that a concern that's shared by other members of the Monetary Policy Committee?

Andrew Bailey

It's not actually something that we spent time discussing explicitly. You can see that we've got a chart in the report which shows, in a sense, a band around the activity outlook. So, I would say, you know, I can only speak for myself really at this point, having voted for a 25 basis point cut, my vote was not, I should say, motivated by my concerns about a risk of recession. The other thing I would say is that actually and this does come out in the report, you know, our actual view on the on the path of activity going forward has changed really very little since May. If you actually compare what's in the report today with what was in the May report, actually, on the activity front, we've really changed our view very little actually. It's other things.

Clare Lombardelli

Just on that if anything it's actually slightly stronger. I mean, very slight. So we've got. I mean look UK economic growth is weak right, it's weak in these numbers we've got I think one and a quarter is the forecast for this year that is slightly higher than last year, slightly higher than in our last forecast, but it's not something that you'd hugely celebrate, but it's, you know, it is we are seeing growth. And we do actually expect it to increase further out in the forecast again, not particularly high rates, but we are expecting growth in that sense. I mean, the other point that I would make around weak activity is it really matters for inflation what is driving that weak activity, and what is the balance between these being issues around the level of demand in the economy and the level of supply in the economy? And I suspect, you know, it will be a balance of both. But that balance really matters for the decision around inflation and rates.

Dave Ramsden

If I can just supplement what Claire said, we've got 1.25% growth that we're forecasting to the current quarter. Then we see growth over the next year, another 1.25%. And then we've got growth picking up to 1.5%. So, you know these are modest growth rates by historical standards, but they're positive.

Obviously, there are risks around those. And as Andrew's emphasized the risk around inflation. The upside risk around inflation has increased since May. You know, the downside risk around activity is also more apparent. But our baseline forecast, which has not really changed actually, since February, we've had quite a lot of stability in our growth and inflation forecasts is for modest but continued growth.

Joel Hills, ITV

Governor, the government's borrowing costs have actually gone up, even as you have cut interest rates. Why do you think it is that markets are charging a premium to the UK? Is it possible that investors doubt your commitment to tackling inflation? Do you think its concerns about the government's spending plans?

Andrew Bailey

I don't think so. I mean, I think first of all, Joel, I would say if you look across this year, this calendar year, that is, and you compare the UK with, actually other major countries, the moves in curves have been quite similar in some ways, so, the steepening of curves that we've seen, which I think is probably what you're alluding to, that we've seen across this year, is actually a phenomenon that we've seen across major government bond markets. So, there isn't, I think, in that part of the part of it, I don't think is a particularly UK story going on.

Joel Hills, ITV

The OBR said that the UK was actually a bit of an outlier.

Dave Ramsden

Can I come in on this, Andrew?, We set out in detail on page 49 of the report that this trend upwards, we've seen at the long end is absolutely common across countries. So you've seen the spread between the 30 year and the ten year government bond yield since January. It's risen by 35 basis points in the UK, 40 basis points in the US and over 50 basis points in in Japan. So there is this global focus and this may be common to what the OBR are saying on long term fiscal sustainability. But it is a global focus. And we also know at the long end of the curve that for different reasons in different countries in the UK, more to do with the decline in defined benefit schemes, there's less of a natural buyer and demand for long term government bonds.

You see similar factors happening in the Netherlands. Slightly different factors in Japan and the US, but all jurisdictions, particularly at the long end of the curve, are having to deal with the changed environment.

Andrew Bailey

I think I would also add is that the UK historically has been in a somewhat different position because the UK has raised more government debt at longer maturities. Now, actually, that's a good policy. I mean, there's much to be recommended with that policy over the over the long term. But it does mean that the UK has somewhat more of the UK debt stock, has somewhat more of a focus on the long end of the curve.

Anna Wise, Press Association

Firms are saying that higher employer taxes are weighing on growth and trade uncertainty has dragged on investment. It seems like a fairly gloomy picture here, but you've raised your, projections for GDP. so, can you just explain a bit more about your reasoning here?

Andrew Bailey

Oh well that really is on data releases that we've had since the last report. I think as Clare and I were both saying earlier, and actually Dave was saying as well, if you look back to in the February report, as you were saying, Dave, you really don't see much of a change in our overall GDP profile.

So the change in the outlook for this year on that front is really just to capture data news that we've had since the last report. It's not actually a change of view. We have not sat down and sort of said we've got a different, different view really. We're just we're just incorporating releases which are not very big changes.

Clare Lombardelli

It's very similar. The other thing is further out, obviously the changes in asset prices and all that have played a small role. But these changes are it's a very small change in the forecast compared to the previous one that we did.

Chris Giles, Financial Times

The inflation forecasts in this report are almost sort of priced to perfection. Within two years. You get down to a central forecast mean mode, median and mode of 2%. And then it just stays there all the way to three years and into the future. Does this then, is this the time you are actually validating the forward curve, which has interest rates coming down to 3.5% and is 3.5% now, currently it can change, but is it currently your view of where interest rates might settle?

Andrew Bailey

Well, let me I mean, I'm sure Claire wants to come in. Let me start, Chris, by saying, putting it into a slightly broader context, of course, that we are, and this is really part of the Bernanke changes that we are, as he recommended, while we're still committed to producing the forecasts and, you know, it is a committee forecast which does distinguish us from quite a few other central banks, the centrality of that, we are building around it. You know, from what we've said and what Ben Bernanke said, we're building around it, you know, a broader range of analysis. We use the scenarios in May, and we've rolled them over and we're drawing on them again this time.

So, you're right in your description of the forecast, by the way. I mean, that's a that's a fair description of it, price to perfection obviously sets the bar quite high for achieving it.

But I would just say I mean, I'll just come back to what I said in my opening remarks, if you don't mind about the risks, because there are real risks. The risks are quite real and very apparent around that, frankly. And as I said in the opening remarks, the risk go both ways. You know, there has been I think there is slightly more now inflation upside, inflation risk, but there is also a I use the word direct to describe that. But there is also slightly more downside risk coming through activity. But obviously then it would come through to inflation. So, I would sort of temper what you said about price to perfection with that view on risks, that there are very real risks on both sides of this.

Clare Lombardelli

That's right. I mean, I don't have a lot to add. As you know, we're moving away from the forecast being the central input into the process as being one of a number of inputs. It obviously remains an important part of what we do, we spend time thinking about it and it's a very good baseline for the discussion alongside some of the other material that we consider around risks, around scenarios, around different models and interpretations of what could be going on, so, it would be an overinterpretation of the forecast to try and read something into what's going on at the back end of it, with respect to the inflation forecast and the market curve, I would say that the changes are not huge since last time and they reflect different, you know, the changes that we've seen in conditioning assumptions and data.

Dave Ramsden

This is a point that comes up every year when we update our assessment of restrictiveness. But in box A on restrictiveness, we've put in updated estimates that you get from the different methodologies that you can use to try and work out some, measure of the neutral or terminal rate and the range of those estimates on my interpretation I s, as Claire said, it was a year ago when we had this similar discussion. It's in a range of 2 to 4%. Within that, MPC members, have a range of views.

Some MPC members have been explicit about their views of where they think this notion of R star or, you know, what markets tend to call the terminal rate in terms of how they're interpreting things might be. But, I wouldn't draw the conclusion that you have based on that range. I mean, you know, it's a broad range. And there are, different MPC members have views, but we don't have a collective position on that.

Szu Chan, Telegraph

Could you please explain why you've downgraded your real post-tax labour income forecast to zero? Would you say that working people are under pressure. And why do you expect those pressures to intensify later this year and into next year?

Clare Lombardelli

Look. We have. Sorry. Ask it again.

The post tax?

Szu Chan

Why did you downgrade your post tax labor income to zero? Would you say that working people are under pressure? And what are the factors driving the downgrade. You know that starts this year and into next.

Clare Lombardelli

We are anticipating falling, the increase in in wages will, you know, come down if you like, and you can see that in our, numbers. We are, as you know, obviously we have higher inflation in this forecast going forward. So, in that sense, it is a constellation that is challenging for people.

Andrew Bailey

I mean, in a way you can. You can look at it. I think Claire is absolutely right. You can look at it as the balance of the two risks we're talking about. So, on the one hand, you've got slightly higher inflation. On the other hand, you've got a slightly weaker activity profile. And by the way, you know, we've said a number of times that there isn't a huge amount of news since May.

Well, the one thing that is apparent since May is that pay has come in lower than we thought it would be. So the AWE has come in lower than we thought it would be.

That has enabled us, and I've covered this in my introduction, to say that, you know, we think the path of pay increases that we've actually had since the beginning of this year, going back to the agent survey that we did at the start of the year, is sort of solid in terms of the profile.

Now you put those two things together, you put those two risks together. You put how they translate in the past together. You sort of get the outcome you just described.

Dave Ramsden

And it is worth putting in context that in 2024, real post-tax labor income grew by 4.25%, and we expect it to grow by 1.5% this year. We have revised down 2026, but it's for exactly the reason that Clare has said inflation is slightly higher with our forecast for the end of this year for wages is 3.75% still, but as Andrew says, it's the recent data has actually come in a bit lower. But for the year as a whole, we think wages are going to be 3.75%. But with inflation a little bit up wages similar, you just get that mechanical effect. So, I don't think you should draw any conclusions from that other than that's you know, that's how the forecast works.

Ritika Gupta, CNBC

Do you think rate cuts are having a big enough impact on growth. So, we tend to think that policy takes a year to 18 months to have an impact, but we're a year after the first rate cut. We've had five since then. I'm thinking of some areas like the mortgage market, for instance. Do you think that we're actually continuing to see the impacts of tightening even as policy is easing?

Andrew Bailey

Well, a couple of things on that. That's a good question. So of course, to make that judgment, you'd have to sort of form a view on what the, what the path of growth would have been had we obviously not changed interest rates, to assess how much. But the second thing I'd say is I think there are two areas to look at which and there are obviously two very central areas actually, to this question, to in a sense describe the answer to your question, and that's consumption and investment.

So, start with consumption. I mean it is the case. And we describe it in the report, and I refer to it in my remarks that the saving rate has been higher now for longer than we expected it to be. And of course, the consequence of that is given real incomes, given, Szu's question, is, we've got we've got consumption path is weaker than we thought it would be. Which obviously feeds through to growth., to your point. So, this question about why the savings rate remains higher than we thought it would be, we do expect it to we continue to expect it to, in a sense, come back to more normal levels. But it has remained higher. We've offered some views in the report as to why it may be that this is drawing on survey evidence.

Turning to investment, business investment. I mean, again, I think there I would actually, in a sense draw on the world situation more because one of the very clear messages we get and we get it when I get it, when I go around the country talking to businesses, is that there is, of course, a higher level of uncertainty at the moment. It may not be quite as high as it was in May, but there is still an elevated relative to normal levels.

And of course that tends to map through into businesses responding to greater uncertainty by delaying investment decisions. That's a reasonably well-established feature, and I certainly picked that up. When I go around the country, people saying, look, there is there is much higher level of uncertainty at the moment, given that many investment decisions are irreversible once you take them, the value of waiting therefore goes up and that is what is happening.

So, I think both of those things, in a sense, are stories that contribute to helping to explain what's going on that you described in your question.

Clare Lombardelli

But as you said, we know there are lags in the system. You can see in the data, though some of the impacts. So, you know, mortgage rates have come down and they've come down quite a lot. Similarly, if you look at and we spend a lot of time looking at why are people saving the proportion of people saving because of high interest rates is also, come, come down. So you are seeing these effects.

Francine Lacqua, Bloomberg

Thank you so much, governor. Given the closeness of UK and US markets, how worried are you about the constant attack from President Trump on Jay Powell, but also the firing of the jobs number person?

Andrew Bailey

Well, Francine, I obviously don't comment on events in the US, and the policies of the US administration because that is really for, for the US. I've said in interviews I've given actually in the US, as you know, Jay Powell is a friend of mine. Obviously, we are very close. We work very closely together, and I'll say this again, he is a man of the utmost integrity. I know him very well. He's a man of the utmost integrity. So, I'm really not going to comment on what's going on in the US other than to comment on somebody who obviously I do know very well and I respect very much.

Eshe Nelson, New York Times

You've often talked about the UK being an open economy, and that leaves it a little vulnerable to external shocks, but at the moment, do you feel like the challenges to growth, the questions around the path of inflation are being primarily driven by domestic factors entirely?

And just to tag on to the end of that. Today we've got the implementation of lots of tariffs from President Trump. The last time we spoke about this, you said obviously it was good that the UK and the US had a deal, but what mattered for the UK was the global trade environment. Now we have quite a lot more information about what that looks like. How is that changing your perspective on what it means for the British economy? Thank you.

Andrew Bailey

Yes, actually, interestingly, you've almost answered the question. It is interesting because, obviously there is an enormous amount of news coming from the world economy in the broadest sense of the term, and uncertainty, as assessed is high. It's not probably not quite as high as it was in May, but it's elevated by any normal level. Obviously, you know, we've got tariff levels that are, it's not over, obviously, as we know from even what's been happening in the last 24 hours, but I mean, they are they are settling, if we can use that phrase at all, at higher levels than, in certainly in for a long time in history.

But you're right that and this is a little bit of the, of the repeat of what we had in May, but it's possibly more so, actually, that having spent a lot of time, obviously, in the committee deliberating both on the world and the UK. I think I certainly speak for myself, but I think I can speak for probably all of us at this point. In the end, it's UK domestic developments that are shaping inflation and the outlook for inflation more than the world.

Now the world is a very uncertain place. So don't get me wrong. The level of uncertainty is up there, things can happen. We've obviously been through several years now of very big world economy shocks going on around us. So, our vigilance to what is going on in the world is undiminished in that sense. But it is true that you put it well in your question that it's actually UK. It's the UK situation that is more the driver, we think.

Tom Rees, Bloomberg

You made it very clear in the MPR that signs of strain in the gilt market could be worsened by QT if you're not careful. Would a 100 billion run off next year and a 50/50 split between sales and redemptions? Would that be too much for gilt markets to absorb?

And also, would you consider having an unequal split between the maturity buckets for the sales, you know, skew more towards the shorter end?

Dave Ramsden

I'm afraid this is going to be one of those answers that, I give versions of every year. But that's because we, since we started on the process of QT back in 2022, we have had a very clear set of staging posts.

So, what you've got today is, I think it's called box B in the report, but it's an eight page box, which will probably have a relatively small but very engaged readership. That will genuinely want to understand what we tend to put out at this stage. And what we put out is explaining our, principles for doing, how we go about QT, those principles haven't changed over, over that three year period.

First, bank rate is the active tool for the MPC when adjusting the stance of monetary policy, second, sales are going to be conducted so as not to disrupt the functioning of financial markets and only an appropriate market conditions. And third, to achieve that, sales have been conducted in a relatively gradual and predictable manner over a period of time. So those principles have served us well.

What we've also put in the box is our latest analysis of the impact of QT a year on from the last time. So, we think the cumulative effect on term premia of the QT to date is now 15 to 25 basis points. So that's up a little bit from a year ago when it was 10 to 20. That's still a modest impact. And it's obviously consistent with the principles. It's an impact that then the MPC in using it's active tool which is bank rate as we have used it again today can take account of.

But I think, back to the answers that Andrew and I gave earlier. We are very cognizant of, developments in gilt markets, particularly at the long end. We've seen that spread between 30 year and ten year, widen in the, in the UK market. It's a global feature, as I emphasized. And as we set out in the box, we are looking, as we always do, we're monitoring market functioning.

But, to just finish the processes that we put out our analysis now and then we make a decision on what will be, if you like, the total reduction in the stock of asset purchases for the next QT year, which will run from October to next September, that decision will be made in September.

So, we've set the scene with the box today, quite a lot of detail, quite a lot of new analysis in there. And then the decision will be made in September.

Mauricio Alencar, City AM

The monetary policy report says the government's fiscal policy is dampening growth. So, would a decision to raise taxes further in the autumn, as is widely expected in the city, risk sending the UK economy into a doom loop and even further dampen growth?

And just to add, the banks obviously had accusations of groupthink in the past. Is this sort of unprecedented vote today, or double vote? What does that say about the MPC as it is right now?

Andrew Bailey

Sure. So two very different questions. I'll take them completely separately.

So obviously, as you know, we condition our, view forward on announced fiscal policy. Obviously, the announced fiscal policy that we are conditioning on at the moment is essentially the budget and the spring statement, that's where we are. And I'm not going to speculate on whatever the government may or may not do in the period to come, that is obviously for the government. We will obviously take it into account, when it's announced and not before. So that's a very, very standard operating procedure and rule that we have. And that's how we will do it.

Turning to the vote. You're right. I mean, this is the first time that we had two votes. Just to be very clear on this, because it's set out in the minutes quite, I think, very clearly the distribution was four members in the first vote. The distribution was four members, preferring to hold it at 4.25, four members preferring a 25 basis point cut and one member preferring a cut of 50 basis points.

Now, I'll just explain. Obviously there is a provision in the legislation for a casting vote. My view on that and view, I said very clearly to the committee, is that I think that provision and it has been used at least once, is a provision that is there when the committee, for whatever reason, doesn't have nine members, it has an even number of members. And so it is possible in that situation, of course, to have a tie.

That's not the case here. I mean, it's clear that with that distribution of votes that the balance of the distribution was to cut rather than to hold. And so I thought it was appropriate, therefore, that we had a second vote. And we discussed this, by the way, we had a second vote, which of course was a constrained vote in that sense. And saying to the committee, look, we can see where the balance is. We can see where the distribution is, so I think it's appropriate now to have a second vote, because it's critical that obviously we reach a decision.

We're in we're here to reach decisions and to implement them. But from that, I think it's clear that the sensible second vote is to choose between two, the two obviously most popular in the first-round outcomes to hold or to cut by 25. That's what we did. And that's where you got the second the very the clear outcome of the second vote.

Now I think that's a sensible interpretation of the legislation and the MPC procedures. And I know, but what I want to emphasize is that even though we had two votes, just to emphasize what really matters is the decision and the outcome, and that's clear.

Tim Wallace, Daily Telegraph

We've heard quite a lot about the impact of the National Insurance increase, the living wage changes. What's your assessment so far of the impact of the employment rights bill on businesses and workers, on inflation and so on? The path of monetary policy?

Clare Lombardelli

I mean, very little because we don't know the detail of it, and businesses don't, and so it, we haven't got an impact of it. It doesn't feature in our, in our, forecast. We will obviously as we find out what, you know, what's confirmed, we will talk to and use our agency network to find out how businesses are responding to it. But until we know what it is, we can't factor it.

Andrew Bailey

It really hasn't featured in our discussions.

Delphine Strauss, Financial Times

So, as you set out in the report, the UK seems to be looking both at a bigger near-term rise in inflation than other countries, partly due to the tax increases from April that are still feeding through, but also a longer lasting period of high inflation, which has obviously been a feature for quite some time. What is it you think is unusual about the UK? Is it it something about fiscal policy? Is it something about the labour market or is it that inflation expectations have drifted?

Andrew Bailey

I think, Delphine, you have to look at both the sort of what I might call the demand side and the supply side here. Because, one of the important questions, obviously, is the sort of the, you know, the constraints coming from the supply side in, particularly in the labour market. So, we have seen a fall in participation over the last well, since Covid really actually. In terms of labour market participation. Now, of course, there's all sorts of uncertainty around this given the issues with the LFS. So, we have to look carefully at all of this. And unfortunately, participation is one area where we almost solely dependent on the LFS. It's the one area where you can't easily substitute with other things.

But we have seen that tightening. We do also describe in the report and Clare may want to talk about the we've changed, not because we've taken a judgment. It's just that the ONS uh has come out with new profiles. We've changed the population profile as well. So that's a backdrop to it really in terms of the labour market I would say.

Clare Lombardelli

Yeah, , I would supplement that. It's very hard to judge the level of supply in the economy. And that is clearly part of what is going on here. As Andrew said, there's a set of questions about the labor market, particularly around participation and, what structural changes we may have seen, as well as what's going on cyclically there.

We have in this report, as we've taken on the latest, the updated figures from the ONS about population. so, they've estimated a lower working age population, we've taken on that in this, in this report, so that reduces the labour force by 0.7% in terms of the level at the end of the forecast. That has an impact as well through this. But I mean, it's not a huge change, but it's in there.

So, you know, in understanding what's going on with the UK, you do have to think about these questions about both supply and demand. And it's not it's not a totally straightforward picture.

Andrew Bailey

It's quite complicated because you look at it in the back data has been revised and the profile, the forward-looking profile has been revised as well. So, it's quite complicated to pass these things out.

Dave Ramsden

But I think the question is a really important one?

I mean, from my perspective, just over a year ago, I was thinking that in inflation terms, we look more like a laggard than an outlier. But, the nature of the persistence of inflation, I mean, it surprised me and I think it has it, it does lead you into these questions that that Andrew and Claire that we're all grappling with, how much is there a difference in terms of the UK's supply side? The way, we've responded to a set of global shocks? And how particularly that manifestation of both increased persistence compared to what our conventional models would suggest.

We have this we have this suite of wage models, and wages have stayed above the swathe that you'd get from that suite of models. You know, what does that tell you about changes in the wage setting but also the price setting behaviour. And it does it does tend to come back to these supply side factors because most of the demand factors will be common across economies. Whereas for us it's more we've been hit by the shocks and then how has the economy responded to those.

So we clearly see that that's a kind of, it's not just a challenge for monetary policy maker, its obviously is a particular challenge for us because our job is to get inflation back to target.

But I think it is also something the OBR are grappling with, something that understandably, the government is grappling with when it, with its growth agenda because it wants to move out of this period of very subdued growth, very subdued supply side growth, which, if you like, is the speed limit on the UK economy at the moment.

Andrew Bailey

I would though, just say I'd just remind against this sort of point, which we've all said, which is genuine questions around sort of the structural side of the labour supply story. Just to remind, as I said earlier, if I had to sort of pick out a piece of news in the data since May, it's that pay has come in lower than we thought it would be.

So, this is a tension.

Philip Inman, Guardian

Given everything you've just said, Dave, would it not be the case that the British public would be rather confused that you're cutting rates today with the persistence of inflation that you've just outlined, regardless of all the underlying crosscurrents that you also describe?

Surely, they would be expecting you to hold rates today. They want you to tackle inflation. And aren't you going to just collectively encourage wage rises now? Aren't those workers now going to think, well, we've got inflation going through to next year. It's not going to be below 3% next year.

We need to go and get higher wages, not lower.

Dave Ramsden

I'm sure others will want to come in, but if I can start I think it's really, I take you back to a couple of things that Andrew said in his opening remarks. One is that the underlying disinflation process is continuing. We've been talking about this persistence in inflation for the best part of a couple of years. Our judgments on that persistence haven't changed, but that persistence certainly compared to my expectations 18 months ago have, it is it has continued to manifest itself.

But we are still seeing the underlying disinflation process continue. Andrew's just talked about wages actually coming in slightly below our expectations. He also had a chart that showed services, once you services inflation once you strip out administered prices. Still on a declining trend.

The other thing to bear in mind is that we've reduced bank rate today, but we think that policy is still restrictive. And that's about past policy. We had we only started cutting rates a year ago. Before that we had policy at 5.25% for a year.

So policy remains restrictive, both in terms of past, tighteness of policy feeding through. And also when you take account of, what's priced into the yield curve in the sense of, bank rate is now at 4%, it's not like bank. If you look at where official rates are in the euro area, you know, they're much, much lower. So, it's a question about how you what I was trying to talk about is a kind of ongoing puzzle, but you then have to put that in the context of how we've been grappling with, those challenging issues in the economy over the last couple of years.

Dave Robinson, Market News

Just a quick question on Bernanke and the progress or lack of it. In May, we had at least some illustrative. 2 scenarios with illustrations. You've got a reference to the upside one again here, and you do reference it, but we haven't come up with another alternative downside scenario, if I understand it rightly. I mean, that one had trade uncertainty in there. You seem to de-emphasize that.

And there's also a hot debate last time about whether alternative scenarios need alternative rate paths. Are these still subjects of internal debate. Do you actually know where you're going on this? And is it just a case of taking time to get there, or is it still all up in the air? Thank you.

Clare Lombardelli

Thanks for the question. We're continuing to progress the work on implementing our changes in response to Bernanke. We did as you say, we had two scenarios in May we used them again this time around in our policy discussions, in our debates. And as we've said, the upside scenario for that time, which was a higher inflation, higher inflation persistence scenario, you know, felt pretty relevant, and actually, was an important part of the discussion and helping us sort of tease out what could that look like and what would the implications be. So we've done that.

We also continue to do lots of other things that are going on in the background and actually are a really critical part of delivering this. So I could talk for hours about delivering major IT reforms. But, you know, we are building a new data platform that we are implementing from the middle of next year, we hope to be moving some of the big parts of our infrastructure onto it, the forecasts scenarios that will allow us to do an awful lot of more nimble analysis, automate more analysis, those sorts of things.

Now, it's not exciting press conference type stuff. It's really important, it's pretty methodical work to change IT systems, for example. So, you know, all of that is going on in the background.

We've also done a lot of some other things that you will have seen publicly publishing some more and research papers on our models, for example, we've had a couple of conferences, those sorts of things.

So, you know, the work is ongoing on it. We said it was going to take some time, and we are thinking actively about actually how we should change our comms as well as part of that. So it's ongoing. We never said it would be super quick.

The scenarios we have built, we are using and they are changing the way in which I mean, you won't see it, but the policy debate and discussion is one that now has a much richer and more varied series of inputs going into it, and much more discussion of differences in policy across the committee, which, as you can see from the from the vote, there are lots of differences of views about many of the things that you've raised in this press conference and beyond and on those sorts of things, having a wider range of inputs that allows us to explore some of these in a bit more detail is proving useful but we are learning as we go.

Ryan Sabey, The Sun

The government regularly talks about driving up living standards, but with low growth and productivity issues of more widely. Do you feel like they're on track, or what has actually led you to see that living standards may rise?

Andrew Bailey

Well, I said before, I strongly support, by the way, both this government and previous government actually for the emphasis on growth and on productivity. I think it's critically important for all sorts of reasons, actually, it's important for monetary policy, but it goes much, obviously much beyond that and I think your question was phrased in those terms. And you're right in that respect. So, I strongly support that.

I think, the government's got a number of reform proposals in its policy agenda there, which I think are all very sensible things, and I would just strongly say that we need to be very focused on reforms and changes that will raise the potential growth rate of the economy, and that is really about raising productivity growth.

This is critical because, , I've said it before and I'll say it again, if you look over history, what moves the dial on growth is tends to be big, big shifts in productivity growth, which don't happen frequently because they usually require some form of sort of quite, you know, big breakthrough on sort of technology and so on.

But obviously capturing that and making sure it's implemented in the economy and therefore benefits living standards is absolutely critical.

So, strongly support the government, as I say, as I did the previous government. Actually, I think this is this is not a political point at all. It's critically important.

Suban Abdulla, Thomson Reuters

Governor, do you think that the Low Pay Commission's new recommendation for a 4.1% pay, minimum pay rise in a minimum wage in 2026 will make it harder to get inflation back to target.

Andrew Bailey

Well, we always say we take into account announced policies. So, by the way, that's obviously not an announced policy yet. I mean, the process is ongoing and underway. And we will take it into account when it comes out.

I don't think it's appropriate for us to offer any judgment on what that should be because frankly, it's a public policy decision which takes on board many things, many aspects I will, of course, say that I think it's important that the inflation, price stability, actually, and the benefits of that for the cost of living feature in the set of issues that are that are taken into account in considering that judgment.

But that's as far as I will go, because I think that's as far as it's appropriate for the for the Bank of England to go in that respect, to just remind that price stability is important. But there are many other considerations, I fully recognize that.