Katie Martin

Hi, everybody. Thank you for being here. Welcome to the May Monetary Policy Report Press Conference with us today are Clare Lombardelli, Deputy Governor for Monetary Policy, Dave Ramsden, Deputy Governor for Markets and Banking, and the Governor, Andrew Bailey.

Andrew we'll begin with opening remarks, and then we'll turn to questions. Andrew.

Andrew Bailey

Well, thank you, Katie, and good afternoon.

The disinflation process in the UK economy has continued. UK inflation was 2.6% in the latest data for March. That's above our 2% target, but it's a little bit lower than expected. So with the progress we have made, we can take another step in making monetary policy less restrictive. So today we've cut Bank Rate by 0.25 percentage points to 4.25%.

As the past few weeks demonstrate, the global economic environment remains an uncertain one. Interest rates are not on autopilot. They cannot be. Instead, the MPC must continue to respond carefully to the evolving economic circumstances and the outlook for inflation in the UK. Whatever happens, the MPC will continue to set Bank Rate to ensure that inflation returns sustainably to the 2% target in the medium term.

I'll return to the global economy shortly, but I will start with and spend most of my time on what is happening in the UK economy. That is ultimately what matters for UK inflation and monetary policy. And I will have four key messages reflecting our four key judgements on the outlook, before concluding with the uncertainties we face and the implications for monetary policy, and a few words on the prospects we see for a trade agreement.

0:01:55

Analysis of Inflation Dynamics

My first key message is that disinflation and domestic price and wage pressures is continuing, while headline inflation is expected to rise in the near term. We do not expect that to persist.

Chart one, which has just come up, shows the development of 12-month consumer price inflation since 2021. That's the white line along with its components. As the chart shows, headline inflation has been around the 2% target over the past year, albeit slightly above on average in the shaded area. The chart shows how we expect headline inflation to rise to 3.5% in the coming months. That's a little less than we projected in February, and we expect that increase to be temporary.

Now chart two illustrates why that's the case. It shows that the expected increase in inflation is driven mostly by energy prices. Now in yellow, on that chart that is, and besides that by increases in regulated water bills, that's the purple bars. Index bills for services such as broadband and mobile phones, that's the orange bars. And higher National Insurance contributions, they're shown in light blue.

These price increases are not directly linked to the underlying cost pressures in the UK economy, we should not expect them to persist.

Meanwhile, other services prices, that's the darker blue bars, those that are more closely linked to activity and cost pressures are on course to pull down on inflation in the coming months as the effects of volatile energy prices and index and regulatory regulated price changes pass through. It's not least the path for these other services prices that will determine headline inflation. And the path for services, inflation points to a continued gradual easing of inflationary pressure in the UK economy. And this is shown in chart three.

While their levels remain elevated measures of underlying services price inflation have continued to diminish. This has happened as pressures from non-labour input costs have faded. So persistence in wage growth is now the main driver of continued high levels of services price inflation.

0:04:13

Economic Slack and Growth Projections

My second key message is that a small margin of slack has opened up in the UK economy, and we expect it to widen over the next couple of years. Heightened uncertainty, weak productivity growth and the continued restrictive stance of monetary policy have all been weighing on GDP growth recently. Businesses have been cautious about investing, that's the message we're getting.

And while real household incomes have risen quite strongly, consumption has not followed suit. This weakness in demand has coincided with continued weakness in the potential supply capacity of the UK economy. Productivity growth has been weak. Nevertheless, labour market developments, survey indicators of capacity utilisation and statistical estimates all suggest that weaker demand has led to a small margin of economic slack opening up.

Looking through data volatility, we expect underlying GDP growth to remain subdued in the near term before economic activity starts to pick up later this year, as household spending and business investment recover, supported by a downward path for interest rates.

We expect housing investment to strengthen too. Assuming potential productivity recovers some of its recent weakness, that pickup in GDP growth will still probably go hand in hand with a wider margin of slack.

This takes me to the third key message. An emerging market margin of slack in the UK economy should act against any remaining persistence in domestic wage and price setting to return inflation to the 2% target sustainably. A normalisation in wage growth is particularly important to ensure that services price inflation continues to fall back to levels, consistent with the 2% target for headline consumer price inflation. Now, this process is still some way to go. Annual private sector regular average weekly earnings growth was 5.9% in the three months to February, having risen in the second half of last year.

Now, that level was in February was slightly lower than we'd expected in the last monetary policy report. However, as chart four shows, underlying measures estimated by the bank's staff have been more stable and point to a slightly lower rate of wage growth. And as we look ahead over the course of this year, we expect wage growth to moderate with a loosening in labour market conditions. This is supported by forward-looking indicators. The bank's latest Decision Maker Panel survey suggests that wage growth will be about 4% for the year ahead. That's the yellow diamond on this chart. And the bank's agents point to average pay rises for 2025 between 3.5% and 4%, that's the purple diamond.

With the continued easing in labour as well as non-labor costs, further declines in services price inflation will support a gradual return of headline inflation to the target as we look beyond the near-term increase.

Now, as shown in chart five here in our baseline projection, conditional on the market implied path for Bank Rates, inflation gradually falls from later this year to reach around the 2% target within two years' time.

0:07:41

Global Economic Influences and Trade Policy

My fourth key message is about the global economy.

New tariffs and elevated trade policy uncertainty weigh on global activity. We expect global trade prices to be materially weaker, particularly in China. The US administration has made a series of announcements with significant changes to tariff policies. Some of its trade partners have responded. Volatility in financial markets has accompanied these announcements.

Slower growth in the global economy is likely to reduce the demand for our exports and impact economic activity here in the UK. That reduction in external demand will also work to reduce inflationary pressures in the economy. But while the impact of what we have seen so far is likely to push inflation down somewhat, the overall impact on inflation remains uncertain.

On the one hand, lower US demand for global exports, particularly from China, could lead to lower global export prices and hence lower prices in the UK, reducing inflationary pressure further. On the other hand, higher costs in the global supply chain as intermediate inputs are subjected to tariffs or because of disruptions, could push up on prices.

And while sterling has appreciated in recent weeks easing inflationary pressures, global exchange rates can shift in response to trades, policy news and the evolution of global risk sentiment. Although they understandably dominate the headlines, it's important to remember that global trade policies and how they affect the UK economy is only one source of risk to the outlook for inflation in the UK.

Let me say just a word about the news. Obviously, that has been coming out in the last few hours about the prospects of a US-Uk trade agreement. We obviously follow this very closely. We haven't been briefed. So I'm speaking without knowing the content of the agreement, just to just to make that clear. That's as I would expect. But we do now have news that suggests there will be an announcement. And we welcome that news. I very much welcome it and I think it's very well done to those involved.

And the reason for saying that is that it will help to reduce uncertainty and that's important, as you will see in the context of what we've said today.

The UK is though, is a very open economy. So, the UK is also affected by the way in which trade policy and tariffs affect obviously other economies. That is, in other words, the tariff measures that have been taken in respect of other economies.

So, I say that because I hope the UK agreement, if it is indeed announced this afternoon, will be the first of many. This will be good news all round, including for the UK economy, but it is excellent if it is indeed the case this afternoon that the UK is leading the way and I do congratulate both those in the UK who are involved and those in the US too.

So, the MPC is alert to a range of risks in both directions. Domestic inflationary pressures could persist for longer than we expect despite the progress we've made. Or they could ease more quickly as the margin of slack widens the balance between supply and demand in the UK economy and how it will develop over the forecast horizon also remains very highly uncertain.

We need to watch very carefully for any signs that the near-term increase in inflation could lead to additional second round effects on wage and price setting, although that's not our central assumption. But also for any further weakening in demand, which would reduce inflationary pressure.

Now, with this in mind, in the Monetary Policy report, we present two scenarios in addition to a baseline projection for activity and inflation to illustrate some of these risks. In one scenario, there could be a weaker supply and more persistence in domestic wages and prices, including from second round effects related to the near-term increase in headline inflation.

In the other scenario, inflationary pressures could ease more quickly owing to greater or longer lasting weakness and demand relative to supply. In part reflecting uncertainties globally and domestically.

Considering all these risks, we will continue to monitor closely the accumulation of evidence on the outlook for inflation over the medium term and set Bank Rate accordingly to meet the 2% target.

So, to conclude, our restrictive stance of monetary policy has reduced inflationary pressures in the UK economy. With the progress we've made, we've been able to take another step in making monetary policy a little less restrictive. Today, a gradual and careful approach to the further withdrawal of monetary policy restraint remains appropriate.

So, with that, Claire, Dave and I will be happy to take your questions. Thank you.

0:12:28

Audience Questions and Responses

Katie Martin

Great.

Let's start with Ed and then Sam, please.

Ed's right behind you.

Ed Conway

Thank you.

Ed Conway from Sky news.

Governor, could you say a little bit more about what impact you feel that tariffs have are likely to have on the UK economy. And to the extent, I mean, you pointed out that we're affected by what goes on globally to the extent that there could be a deal in the UK. How much of that 0.3% or so of, of impact might you hope for this to eliminate?

Andrew Bailey

Well, we've set out. Let me just explain a bit about how we approach this question in the round, and particularly in creating the Monetary Policy Report. And the staff proposed to us sort of two ways to sort of, in a sense, take that into account. The first one is you say it is the tariffs, the impact of tariffs themselves.

And then the second one is the impact of what we've called trade policy uncertainty. And that's obviously particularly relevant because we had to face the question. We always condition our forecasts on announced policies. Obviously, you have to stop the music at some point and take the policies as they are. And that's obviously quite a challenge in the current environment because obviously we expect the policies to change.

And of course, the policies also have changed during the course of doing this, doing this round and doing this forecast. And so that's why I think that bringing in the uncertainty element is very important. So, it's a good question, “how do you think a trade agreement is going to change that”?

And I'll just come back to what I said a few minutes ago and take it in two parts. There's a direct effect in the UK. Now, as I say, I don't know what's like in what we expect to be this agreement. So, we'll have to wait and see how that that comes through.

We, have the rough metrics for, for UK trade, you know, UK goods trade and of course, UK goods are a smaller part of UK trade than is often the case for other countries because we have a very big trade in services in this country.

But I just emphasise the point that I made earlier, which is that the UK is a very open economy and therefore what we also have to do in obviously in thinking about this forecast, and we'll have to do in thinking about the next question, as you say, is say, well, what is the effect of the impact on other countries trade as it will then pass through to the UK?

And as I hope, what will be the effect of other trade agreements that come to pass? And we'll have to factor that in because it is important that is that is important for an open economy like the UK.

Katie Martin

Sam right there.

Sam Fleming

Thanks.

Sam Fleming from the Financial Times just following on the same theme. Obviously in these forecasts, the impact from trade to growth and inflation is extremely modest actually at 0.3% hit to GDP in three years' time, 0.2% off inflation in a couple of years' time. Could you talk a bit about why you're so sanguine about the impact of trade and sorry. And can we take it, therefore, as a corollary, that you expect any upside from this trade deal? Potential trade is being very modest?

Andrew Bailey

I would just make one very, very simple point at the beginning, which is that I think it's important not just to look at the trade impact, but also to, of course, to look at the way financial markets have moved in response to the news on trade and that impact.

I'll hand over to Clare.

Clare Lombardelli

You've taken my punch line, Andrew. No, you're right. The overall numbers look quite may appear, appear quite small. And that's because there's sort of three channels that are going on and have impacted the forecast here.

So, the first, as Andrew said, is the actual direct tariffs themselves and the impact that those will have on the goods traded and their effect. So, you've got the tariffs at the time at which the forecasts stopped. And those will feed through onto growth and onto inflation directly.

You've then got the effect of the trade policy uncertainty. And you can see in the charts that we've published just how high actually that's been. We've got these metrics that we can use there, you can see the size of that.

And of course that feeds through in multiple ways through the economy, but obviously will feed through to investment, particularly for those firms who are uncertain about what that means in terms of investment going forward. It will feed through into consumers as well and might be affecting some of the behaviours there. So, you've got this trade policy uncertainty component that is, you know, large and larger.

And then on the other side as well, what you've got is some quite large changes in various financial markets that we've seen responding to these things, whether that is through interest rates or exchange rates, and to some extent the effects have been offsetting, as you would expect. And that's why in net, when you look at the numbers, they're not huge.

I would say this is not the case, that we're not sort of focused on, looking a lot at doing a lot of analysis of these numbers. But really, it's these, these effects and to some extent they've been offsetting in these, in these data.

I should also say, of course, there's a lot of uncertainty around this. And this is a sort of central view. All of these factors could change, will change or could be quite different going forward.

Dave Ramsden

And just I mean, we talk a lot about uncertainty and we and not just at this press conference, but it's been a prevailing feature. There is also, and we emphasise this, there is also now unpredictability. And that has also fed into markets. So you've seen quite a lot of volatility. Obviously you know we've conditioned on the assumptions that we set out as Andrew and Claire have emphasised. But at the beginning of April, for example, we saw a lot of volatility reflecting just the news flow.

Katie Martin

You go Szu and then Faisal.

Szu Chan

Hi, Szu Chan from the Telegraph. Just on that theme of uncertainty. Looking at your scenarios, would more trade uncertainty as outlined in that scenario lead to faster rate cuts? Given the amount of slack you say will open up under that scenario?

Clare Lombardelli

Yeah.

Let me talk a bit about the scenario. You're right in that.

So, what we've done here basically is think about, well, look, what if the economy evolves slightly differently in a couple of key, a couple of key ways. And the scenario that you point to there is one of weaker demand and that could be driven by higher trade policy uncertainty.

There's something else going on in that scenario which we've also said, well, what would happen if that was to change the relationship between the amount of slack in the economy, the kind of pressure on resources and pricing. So, you've got both of those effects going on in there now.

I mean, what we've said is actually if you make some assumptions about how big those changes could be, you know, sort of plausible ones. What does that do? And we feed that through to inflation and to activity. And what it shows you in that world is obviously you would see lower levels of activity, lower levels of inflation, and that would change the sort of monetary policy reaction there. And so you would expect policy makers to respond to that.

If we were to see those sorts of things playing out. Like I say, it's very much a scenario, but you could motivate it by weaker, weaker trade. So, more trade policy uncertainty could be the driver.

And it does, it would suggest that yes, monetary policy makers would respond to those things as you'd expect and that would mean by loosening policy.

Andrew Bailey

I would only caution because I refer to this in my opening remarks that, of course, if you that that that process led to some more substantial breaking or disrupting of supply chains, then we would have to look at the other side of the coin, if you like, and say to what extent, as Clare rightly says, demand is disruptive, but to what extent is the supply capacity of the world economy disrupted as well?

Because obviously the impact on inflation then is different.

Clare Lombardelli

I mean, that's why throughout we've said that actually on inflation, it's not clear that it would necessarily be the case that these trade, what we've seen on trade policy would lead to would be deflationary. It might and that is our central treatment that we've taken in the forecast and that's perfectly reasonable.

But actually if you look at the recent experience that all economies around the world have seen over the last few years, actually, it's really shown us the importance of supply chains, how complicated they are and what that can mean. So, it's not necessarily the case that this should all be interpreted as an issue around demand and not necessarily around supply. And it's the balance, you'll see both and it's the balance of those two effects that matter.

Dave Ramsden

And modelling those supply chains is another level of difficulty as well as economists and economies throughout the world have been dealing with the Covid pandemic. Supply chains were a key driver there of the changes that we saw.

Katie Martin

Faisal.

Faisal Islam

Faisal Islam, BBC news. Sorry. Same sort of issue. Can you just go through how this filtered through to the MPC decision making? Was the trade uncertainty? It was a tight vote in a way. Five four. Did that affect was that a sort of marginal impact on the vote? Did it contribute to the fact that rates were cut or cut by 0.25%?

Andrew Bailey

Yeah. Thanks, Faisal. I mean, the big point I would make is, with due respect, this is not a point of criticism. Don't get me wrong. I mean, obviously, much of the coverage in recent weeks has been on this point about tariffs and trade uncertainty.

As you may have detected from A the way we've sort of produced the materials and B in my opening remarks, we actually really have come at it the other way around and said, look, we've got to go back to the fundamental sort of situation of the UK economy to start with. And what is the sort of, in a sense, the starting position there and the position we've inherited.

And the question big questions around inflation, persistence, big questions around this mix of supply and demand, big questions about what's happening in the labour market and how those moved on.

And then we brought into that, if you like, a best way to think about it, how is the trade policy and the tariff situation then been layered onto that and of course affected those situations.

So that's the way we did it.

Katie Martin

Phil and then Ashley.

Phil Aldrick

Thank you.

I just want to switch to the vote split briefly. The three members of the of the panel here today were among the committee members who voted to cut rates by 25 basis points, but within that group of five, there were three who were hesitant about that and were only persuaded By, well, it appears to be only persuaded by the by the by trade moves, the tariff effects. I just wondered if you could each tell us where you sat within that group of five and what were the key briefly, what were the key domestic factors influencing that those decisions?

Andrew Bailey

Can I slightly rephrase the question? If you don't mind, we'll put it into context, because if you read, I don't always get laughs in this press conference. We'll go out feeling happy now. Laughs of irony I don't know.

We spent hours poring over language, as you may sort of expect. And the reason I say that is that the voting paragraph in that you're referring to in the minutes is actually uses the you all put in the context of had. I think when I learned Latin rather badly at school, it's the pluperfect tense, but if I'm wrong, then you can, well, I don't think you can blame my Latin teacher, you can blame me.

The reason is, so sorry, the reason, the substances is.

You're what you're in a sense playing back Phil is, is where I think we each started from, if you like, sort of coming out of the last round. So, some of us were in different positions as to where we sort of contemplated our next decision would be.

And that that I think certainly I'll speak for myself now, is based more on the sort of question of sort of where going back to the point about sort of fundamentals of the UK situation were. So I think the reason we phrase the paragraph as we did is I think if you were in the position of saying, well, I was actually more confident in the view of the disinflation path of the UK economy, then the trade news is important, but it's not necessarily, you know, actually the thing that shifts me because I was more of the view that we were going to go there anyway.

And for some of us. And look, I'll answer your question by putting myself into this camp, I was very undecided, frankly, as to where we were going to be this time at that point in time.

And then, you know, I've taken all the news into consideration and all the news, by the way, critically, includes how the UK situation has moved on, where I do think there are some more bits of evidence that give me confidence, particularly in this question that I spent a bit of time on in the opening remarks about where the labour market is going to and where there's critical question about, you know, is pay our pay awards going to come down to where we thought and where our agents survey thought they were going to come down to.

As this year goes on and bear in mind that, you know, the spring and particularly April is the critical period for pay settlements in this country and I'm a bit more confident of that, having gone over the evidence, also having gone around the country and talked to quite a few firms, I'm a bit I'm more confident about that.

And then the trade news gets layered onto that.

I'm sure, Mike.

Phil Aldrick

Where you were at the start of the process.

Andrew Bailey

Well, sorry, I thought I said I was I was in the unfairly undecided camp. Actually,I wasn't particularly decided one way or the other.

Katie Martin

Ashley.

And then John.

Ashely Armstrong

Thank you Governor. Yes. Your undecided nature and possibly the split kind of seems to just add to the unpredictability and uncertainty that we're all kind of facing, so now we have to guess a little bit more about what you're going to do. But in terms of NICs as well, I just wanted to note in your statement, it says that actually you think that that's only had a very marginal impact in terms of kind of the labour market and, and inflation to come.

I just wondered if you might be underestimating that or how you feel, because it feels like there is that one line saying that it's a small impact and yet it keeps being referred to in the statement as actually our Bank agents are telling us this our kind of we know that actually it's contributing to kind of inflationary cuts and input costs rising.

So I just wanted to ask about that.

Andrew Bailey

No. Well it's interesting isn't it. So it's a fair question actually, because in one sense NICs were the question.

If you don't want to say NICs were the story that everybody was writing the articles about a few months ago, and now it's trade. Our view is, look, the NICS story hasn't gone away. Actually, as we set out in the materials, I don't think we've had a lot of news on the NICs story. We haven't changed our view on how the NICs development is going to pass through.

And just to recap that, as you may remember, we set out a menu of sort of channels through which NICs can come through when we talk to firms. And again, I've spent quite a bit of time since we last were in here talking to firms. They tend to sort of tick all boxes, and that's reasonable, by the way. It's not because I think they're sort of, in some sense, hedging their bets. It's because actually, of course, you can use most of the channels in combination.

I think the one thing I would say, which we do point out, and this is not a change, but I just emphasise the point is that there is, unsurprisingly, the mix of the channels will change over time because some of the channels take longer, longer to put into effect than others. So, if you're improving productivity or if you're changing your workforce and whenever your next pay settlement comes around.

And so, the point of that is, as we saw in the materials, is that the effect on margins is, is the first one, if you like to come through, because that's what happens if you don't do anything. If you do nothing, then that's the one where it comes through.

And I don't say, I don't think we've changed our view, but I think we've reiterated that that's what firms tell us, that in the first instance, they'll probably see more of it coming through there. But obviously they will then be wishing to take actions that offset that.

Dave Ramsden

Just add on that, because I think it is. Although we say that the near-term impact of the rise in employer NICs on wages is expected to be relatively small on average, that to Andrew's point, that is itself news, because back in the autumn there was a lot of focus that this is going to be inflationary.

But, actually contacts of the bank's agents, the ones who are talking about it, saying they're going to be reducing pay rates, they offer by around 1 to 2 percentage points in response to the rise. So that, you know, in the autumn, when we were talking about this, there was lots of discussion, "this is going to be inflationary", there still will be some element, it will be passed through that margin, but what our agents are telling us is actually it's going to be pushing down on wages relative to what they would have been.

And also our agents and other contacts are emphasising that the National Living Wage is going to be a factor. So, we have to take account of all of these factors.

Andrew Bailey

Yeah.

The National Living Wage point, by the way, is why I said you can't always use all channels, because if you've got more of your staff are on the National living wage, obviously the wage channel isn't open. And the way that it is, it is if they're not.

Ashley Armstrong

With you that actually.

The increase to national living wage and the employment exchanges will actually result in lower wages for workers.

Andrew Bailey

No, the national living wage, actually. What my point is, if one of the channels or one of the channels to adjusting to the next effect is to, is to actually have a pay settlement that is lower than it would otherwise have been if your if your staff are at the National Living Wage, that channel is not open to you because the National Living Wage determines that the at least the floor of the pay settlement. Yeah.

Katie Martin

Joel.

Joel Hills

Joel Hills from ITV news. Can we talk about what are businesses telling you about US trade? Governor diverting to the UK. To what degree is that happening? To what degree are they reporting that they're seeing that affect prices domestically? And how big a factor was that in your forecast also, you say that you think tariffs will probably lower UK GDP by 0.3% in three years' time.

What will the impact of NICs be on UK GDP please?

Clare Lombardelli

Sure. I mean look it's quite early for us to see in any of the hard data, any of the, the impacts. As I said earlier, the sort of dominating impact we've seen in these metrics around uncertainty. We're not seeing big changes in trade patterns yet. You wouldn't expect to. Right, because it's just too soon and quite.

And also, while you know the policies themselves are uncertain, you wouldn't expect large numbers of businesses to be making long-term decisions until some of that has resolved. Which is why, you know, good news, if we're if we're seeing that happening. So, you're not seeing it strongly in the data, the most direct effect that you have seen that you'll see, and we would expect, and we have seen is obviously through the exchange rate and what that does to pricing basically.

Katie Martin

Heather. And then we'll go. Geoff.

Heather Stewart

Lester from The Guardian, I just wondered if you could talk us through. You talked about the sort of downside for growth scenario. I wondered if you could talk us through the other one. I know that none of you were in that camp necessarily, but you've talked about the margin of slack that's opened up and that you expect to widen.

You've talked about the fact that continued restrictiveness of monetary policy is weighing on growth. You've talked about NICs potentially pushing down on wages. I just wonder how does that upside scenario in which you get these second-round effects play out? It seems a little bit hard to square with your sort of central expectations.

Clare Lombardelli

Yeah, actually I'm glad you asked it. It gives me an opportunity we'll all enjoy for me to talk a bit about scenarios. I think, I would caution against seeing them. As you know, this is a picture of the world and everyone's in one of these places. That's not at all what we're trying to do here, what we're trying to do, because it's more useful to us as, as policymakers is to say, well, look, what if some of the specific economic mechanisms, the ways in which things change in the economy were a bit different to in our central forecast? What would that do to the wider economy?

So, you could, for example, believe parts of the upside. Well, the scenario with higher inflation and parts of the downside. So, the way we've motivated that, that scenario, the way the staff have put it together is it assumes two things.

It assumes both that you have more persistence in inflation expectations, perhaps because we know that we expect or anticipate that inflation is going to go up a bit this year, particularly for the more salient items energy, food, the things that people notice.

So, what would happen if people's expectations were a bit more persistent around inflation? And also, we didn't see the recovery in productivity growth that we assume in our central forecast. So, imagine a world like that. If you were in that world, what would then happen to inflation to output?

Now it's not the case that this represents a particular member’s view, or that we'd all sit there and be able to put a probability on this. In fact, you might believe, for example, that productivity may not recover as quickly as we have it in the central forecast. But also there is a risk of weakness to demand, which is the other side.

So it's really about teasing out actually what is the economics, how could things be a bit different, And what does that mean for inflation and for policy making?

So it's not if you like there's a there's a scale here from one end to the other and people are somewhere or other where and necessarily the people that voted in a particular way believe in the downside scenario or those that have decided to voted to hold rates, believe in the upside.

It's actually, as policymakers, we talked about and went through, what would the world look like in those situations? What does that mean for policy? If you believe parts of those sorts of stories, what does that tell you? It's really about helping us think around uncertainties.

What are the things and being a bit more specific about what are the things we're uncertain about? What would those mean and what would be the sort of implications of those and factoring that in. So, you know, I appreciate it's a bit more complicated than basically saying, look, I'm 20% there and, you know, 60% here.

And therefore, my vote next time will be that's not how we're using it. We're basically saying, look, how can they help us understand the economy differently and how it might be different. And what would that mean for how we want to think about the policy that we're setting now?

Dave Ramsden

If I can just add to that, because we recognise that using scenarios to reflect uncertainty is absolutely the right thing to do. But on a committee where there are nine of us where we're personally accountable for our votes, then what you just did of trying, Heather, of trying to map it across to which scenario are you in? Completely understand.

But, that that isn't the way it works in practice because we're looking at mechanisms. So, I'm kind of voting with the majority, but I am worried that we're not going to see that recovery in productivity and supply, which is which is a kind of fundamental judgement to our baseline forecast.

So, and if that on its own happens, that would tend to push inflation up relative to the baseline forecast. So, ithe challenge we have, I think as we move more and more into this world of using scenarios, is explaining how we're using them and how you know and what they're not.

Katie Martin

Geoff.

And then Helia.

Geoffrey Smith

Thanks for taking the question. Just a couple of points here. What about your first point? What makes you so confident that there aren't going to be more and repeated increases in administered prices for the rest of this Parliament? I mean, I appreciate you can only act on the basis of declared fiscal policy. That's your constant line. But I mean, the demographic pressures, the long term pressures on the government on public purse aren't going away. So, when you say we should not expect these pressures to persist, where's the confidence coming from there?

And secondly, have you was the committee able at all to talk about the impact of the trade deal with India and what the effects are of the, was the committee able to consider at all the effects of the trade deal with India, and what effect that might have on labour supply over the next few years?

Andrew Bailey

Well, I'll take administered prices.

Do you want to? Yeah.

Clare Lombardelli

I mean, look on the India deal. We didn't have the details of it for the for the discussion, you know.

Andrew Bailey

On administer prices, Geoff, can I just sort of break it down a bit? So, half of that sort of hump in inflation is actually energy. Now of course the administered element of that is the UK's method for setting the price cap, the Ofgem mechanism. What we can say there is that actually during the period of doing the forecast and since, since the last Ofgem observation window, that energy prices have come down.

So, one of the reasons that we've got a sort of slightly lower profile of inflation than we had back in February is energy prices now. As we know, things can change, this is highly volatile, but at the moment I mean we've obviously got that that benefit coming through. So that's about half the story.

And the other half is a collection of other things. The point we made about persistence is a slightly different one to the point you make. It's actually about the, you know, will this set of administered price increases cause second round inflation effects?

You make a reasonable point. You know, will there be further administrative price increases? I think you were saying, will this just be the first of a.

Geoffrey Smith

[Inaudible]

Andrew Bailey

Yeah. So we condition on unannounced policies so we don't sort of predict, are they going to be further administered price increases of a more sort of policy driven variety?

I think the only other thing I'd say is that the third sort of bucket in that category, which I did mention in my opening remarks, is those prices which are administered in the sense that they're indexed. So, you see some of that in the services, some sort of mobile phone bills, for instance.

I mean, they're actually that that you might say is not quite true to the sort of description we put, because I would hope they are open to competition, which would obviously reflect sort of balance of supply and demand. I hope in inverted commas.

Katie Martin

Clear up at the top there. Yeah.

Helia Ebrahimi

Helia Ebrahimi, channel four news. Uncertainty seems to be the key issue for the bank's forecast, but for businesses and households. What's your message to people at home should they take today's rate cut as good news for them? Or is it a sign of the UK economy being in trouble?

And just on today's trade deal, if today's trade deal is just a sectoral carve out and leaves 10% in place, can you just clarify would that have any impact on the downgrade in growth?

Andrew Bailey

Well, let's wait and see what it is. I say I don't I don't we genuinely don't know what's in the. We've not been involved in the process. We don't know the content of it. So, I'm going to sort of say let's, let's wait and see on that front. And then we can factor it into our projections going forwards. On the uncertainty question and how to how to sort of treat this or how to regard it.

But the one thing I would say, and it comes back, I think, to one of the one of the very early questions, if not the first one, there's plenty of people sort of been writing, I've seen, that the bank is going to slash its growth forecasts, and we haven't actually is the answer to that. We've made some revisions both ways. If you look at the growth profile.

So, the very front end of the growth profile is slightly up. That's got really nothing to do with trade. It's got to do with sort of data that's come out and how we've treated that.

The growth profile for the sort of the middle part of the forecast. So, think about next year really is a little bit is a bit lower, but it's not hugely, lower frankly, it's a bit lower.

And then actually for the outer end it's pretty much the same. So, we haven't actually know this is not a sort of doom and gloom I would say at all in that sense. So, if you were going to write an article saying we've slashed our growth forecast, we really haven't actually is the answer.

So, I hope people regard that. Obviously, I'd like them to regard the rate cut as the appropriate response to the, you know, the circumstances in which we find ourselves in, unfortunately, to reiterate the point we've all made, yes, we are living in a world of very high uncertainty.

Dave Ramsden

If you wanted to illustrate that, we put a lot of detail on the on the baseline forecast on page 22, and you only need to look on the line there for business investment, which we know is the component of GDP most affected by uncertainty. And you know that averaged 3% in the decade up to 2007, 4.25% in the decade up to 2019. And we're forecast, we've had to revise down our forecasts again. So we've got 1.5% growth for this year, 1% for next year.

And if you had a reduction in uncertainty you would imagine other things equal that would support growth. And then the bottom line of that table shows the household saving ratio, which has gone up to 10% last year. And we've got it at 10.5% this year.

Again, imagine some of that is precautionary. Our surveys show that. So other things equal. If there was less uncertainty you could imagine consumers and businesses would feel a bit more confident then it does come back to issues like on the supply side, is there the capacity for the economy to grow? But that's why I say that other things equal it would be it would be supportive of growth if there was less uncertainty.

Andrew Bailey

Investment story is a big part of the productivity story in that sense. I mean, I made a speech a few weeks ago and emphasising this point that I think raising the level of productivity growth is critical to the question of the supply side. And of course, it matters to us here in terms of the supply demand balance.

Katie Martin

Eshe and then John Paul.

Eshe Nelson

Eshe Nelson from The New York Times.

So, you've talked about uncertainty a lot and also unpredictability. Can you just clarify what you think it would take to feel a meaningful reduction in that uncertainty? I'm assuming that today's UK, US trade deal is not enough for that kind of across the board feeling of uncertainty reduce.

Do you would you be looking for the outcome of China talks, EU deals, you know all of those reciprocal tariffs to go away.

And then just to go back before we've talked about that correlation between UK assets and US assets have been increasing in the past, and particularly at the beginning of the year, we saw a lot of volatility in gilt markets that kind of seemed to be generated from US Treasury markets.

Is there anything that is I mean, can you just update us on that, whether you think that's increased, if there's anything that could be done from a financial stability perspective to ensure that UK markets aren't as kind of beholden to what happens in the US? Thank you.

Andrew Bailey

Sure. Well, some of the uncertainty points I mean, you're right.

And that's why I said in my opening remarks that while I very much welcome, if it turns out to be the case that we're going to get the announcement of a US UK trade deal today, I very much hope it's the first of many because it will obviously, the point that will address your question of uncertainty is actually we need, many trade deals actually because this addresses is trade across the whole world economy.

So, UK, as you rightly say, is only a part of that. So that's what we need. And I think that would be a big part of reducing the level of uncertainty around trade policy going forwards. I think we also need to look this is a deeper question of how trade policy is made and greater confidence in the multilateral process. But that's a much deeper and bigger question going forwards. On the question of markets and financial stability, we've obviously had very volatile market conditions.

What I would say is this. And I'm going to say so far touch wood and so on. Actually the financial system has come through robustly in a sense that the structural elements of the financial system have stood up.

If you were at our press conference, you know, back at the end of last year, we were talking about the System Wide Exploratory Scenario that we did last year. Some elements of which do obviously have quite a striking resemblance to some of the things we've seen. So that was, for us, a very helpful guide to understanding the resilience of the system and how it might be affected.

And, you know, I will take the opportunity to make this point because it is fundamental, you know, on this whole question about where regulation goes going forwards. I don't for a moment as a regulator, because we are a regulator, obviously, in any sense suggest that every regulation we have is perfect because they're not actually. However, there isn't a trade off between financial stability and growth. This is absolutely critical point.

We've learned that lesson the hard way in the past and recent weeks to me have underlined why it's so important. We would have been facing a much more difficult situation, if we had been as well as dealing with, turbulent markets, volatile markets. We'd had parts of the financial system which were in trouble in the sense of failing, and we haven't had that situation.

Katie Martin

John-Paul.

John-Paul Ford

John-Paul Ford from the Daily Mail, thanks for taking my question. A couple of things. First, do you agree with the IMF that the main reasons for the sluggish growth in the UK are domestic rather than, as a Chancellor suggests, to do with the changing world? And in relation to that, is it actually only the prospect of falling rates, or mainly the prospect of falling rates that are boosting the are boosting growth prospects in the future rather than anything the government is doing?

And just quickly on unpredictability, is this, in fact the most unpredictable scenario perhaps you're having to deal with compared to previous ones, given that you're dealing with someone who changes his mind almost every day.

Andrew Bailey

Clare coming in, but let me start on the first part of your question. I refer you back to the speech I gave in Leicester a few weeks ago. Because, you know, this question about growth is critical. Dave made the point earlier, quite rightly, that we had a higher rate of potential growth. If you go back sort of pre-financial crisis actually, certainly most countries actually. So the UK is not unusual in this respect by the way.

And we've had a lower rate of potential growth for the last 15 years or more than 15 years now. And as I made as I said in the speech, the predominantly that is about productivity. It's not actually a story about labour supply so much. It's a story about productivity.

And as Dave rightly said, you can link that story on productivity to investment in the economy. So, addressing those questions now, I speculated in the speech about what are the determinants of that? I think there's more than one. I think the question about ensuring, for instance, investment in the real economy, so the pension fund question is important, but there's a much longer term and international question about waves. I made the point about what we tend to call general purpose technology innovation. There are waves of innovation which do raise productivity and investment in the economy. And I address the question, is AI the next wave? Or maybe it is.

I do take the view that we've got to be set up all round to take advantage of that, because that is if you look at history, that is that is the thing that will actually raise productivity growth.

Clare Lombardelli

I mean, I couldn't agree more on the importance of productivity and its role in the sort of short, medium and long term in terms of activity. And we've talked before about the importance of, appreciating that activity is driven by both demand and supply. And you shouldn't just see it from a demand lens.

I mean, the other thing I would say is in the near term as well, there are other reasons that we expect growth to strengthen. We do expect real wages to rise in the coming period, that will lead to stronger consumer demand. We have, as Dave says, a very high savings ratio at the moment that could that could come down, obviously, in reducing interest rates or reducing the amount of monetary restriction in the economy. So there's also reasons to expect the near term picture to improve as well.

Dave Ramsden

Just to although we're dealing with unpredictability in trade policy. And One has to kind of keep perspective because the reason we've been talking about uncertainty so much over the years is because the world economy has had to deal with a lot of different shocks. So, we did see in early April that the VIX, for example, in terms of equity market implied volatility that rose to its highest level since 2020, but that's since 2020 it wasn't off the scale. And actually in the last couple of weeks and again Andrew was touching wood, markets have been calmer, although they still remain quite volatile. And that that's more just a kind of feature of markets because partly they're responding to fundamentals. And then you may and you expect market pricing to change then. And then there will be things that adjustments that have to be made.

I mean, Andrew emphasised how our System Wide Exploratory Scenario pointed out the adjustments that may have to be made. So in early April we did see some deleveraging, but when that deleveraging happened people were selling, but there were also people buying. So, markets found, settled in a new place. And you know we tracked that volatility very carefully as did other jurisdictions. But the overall system has been resilient as Andrew emphasised, which is crucially important in terms of financial stability.

Katie Martin

Let's go to Mehreen and then David.

Mehreen Khan

Mehreen Khan from The Times. Two questions, if I may.

Given that the UK is more exposed to the indirect impact of tariffs, is it fair to say that whatever trade deal is signed today, the sort of game changer in this relationship is actually between the US and China? And it's only if we get a major de-escalation on that front.

Given that China is subject to 145% tariffs and they go both ways, that that is going to be the key relationship, which will maybe lead to a material change in your outlook on what tariffs mean for the UK rather than what's going to happen this afternoon.

And just on the inflation persistence beyond the creep up in household inflation expectations, what other evidence do you have that this temporary spike could lead to more second round effects beyond what you're seeing in survey data? Do we know anything else beyond what we knew in March or February about the risks of more persistence through the second round?

Andrew Bailey

I'll start off with China. I think you're right Mehreen, China is the is obviously a very important part of the trade story. And obviously the tariff action taken on both sides in the China case is much more substantial.

So, I think, whatever in a sense transpires between the US and China will be an important part of this story. I'd also go back to just to emphasise a point I made earlier, actually, I think there's obviously it's very important for us to where the US and China get to in whatever discussions they're going to have.

I think it's also important to come back to this point about what I might call the more fundamental points about the way the world trade system works and the way the way, the way the multilateral system works and the way the World Trade Organisation works. Because although, I would take issue with the idea that every trade balance must be in balance, because that's not the way trade works.

It is important to have us have a much clearer sense of what are the long run, if you like, unsustainable imbalances in the system and what we should do about them, and how the multilateral system can assist in that respect.

I've said it once or twice, I do think that, there is an imbalance there. I think China, China's household domestic demand is weak. And that's accepting the fact that China is a developed has developed and of course, that's to be expected. It has had weak household domestic demand over a long period of time.

But obviously in the way the trading system works, there's the other side of that coin is somewhere else. So, I think we know that the other side of that story. So, I think the question about how the international system, which we're all involved in, can assist in identifying those more persistent issues as opposed to the sort of the issues that aren't issues because they're just the transient nature of the way trade balances work is critical.

Clare Lombardelli

Let me talk a bit about inflation expectations and the risks about that. I mean, as you anticipate, we spend a lot of time looking at monitoring, thinking about inflation expectations for households as well as for firms and in financial markets. And you're right, they've household expectations in particular have ticked up and so we're thinking a lot about that and why. And we do we do a lot of analysis as to what might be driving that and those sorts of things.

I would reiterate in our, our expectation is that these that the increase in inflation we're going to see later on this year will not be persistent. And it will come back down. And it won't lead to second round effects through people's expectations. That said, we do and have done a lot of analysis of things like what is the relationship between expectations and people's perceptions of inflation? How do people respond to inflation for different goods and services, and what are the things that sort of drive people's awareness of inflation? And we've published some good analysis in that space that shows basically some items are much more salient than others and affect people's views of inflation more than others. We've done lots of work looking at are there particular sort of trigger points for inflation at which, you know, people notice some levels more than others, those sorts of things.

I would say, we're expecting this increase in inflation later on this year for particularly, you know, driven in large part by some of the items that Andrew's talked about. You know, we're not at all complacent about that. And we also recognise that will be incredibly painful for people, particularly where this is around energy food. Very difficult. It isn't, however, anything like the sorts of numbers that we did see a few years ago.

We're talking about peaks. Our estimated peak is around 3.7% later this year. Obviously, that's far less than it was. But of course, difficult, difficult for people. And of course, different people have very different experiences of that.

Mehreen Khan

But pricing power?

Clare Lombardelli

No, we're not seeing evidence of that and actually in some of the areas where, we have seen changes in in inflation. If you take, for example, where at the moment we're seeing slightly higher levels of food inflation than say, say, pre-COVID. Actually, our agents tell us that we might have reason to expect more competition coming for some of those items.

So, it obviously varies by product, by sector, and we're monitoring it carefully. Our agents are out there talking to and gathering that intelligence. So, we've got it as much as we can, as fast as we can and as comprehensively as we can, which we put alongside this, this sort of research that we do on some of these other factors.

So, we're not sort of seeing evidence of it. And actually in some areas quite the contrary, particularly as I say on, for example, food, which we know is incredibly important to people and drives a big part of people's experience of inflation as they see it.

Katie Martin

I think we have time for two more really quick ones, David and then Anna.

David Milliken

Thank you. David Milliken from Reuters.

So, a first question sort of really sort of how concerned are you that we're likely to see sort of larger sort of multinational companies decide to sort of put up prices in the UK as part of essentially a global pattern of price rises.

And secondly, just a more technical thing, given some of the volatility that we've seen in bond markets and particularly sort of 30 year gilts, whether that's sort of causing the Bank of England to sort of think that when it comes to planning sort of QT for the sort of next 12 month period, sort of starting in September, whether you might re-approach rethink sort of how you approach this and the sort of balance of gilts that you sell.

Andrew Bailey

Well, I'll take the first one, Dave will do QT.

I think it's an interesting question about global multinational companies. David, you ask a very interesting question, one that we've got to, I think, keep a very careful eye on because we've distinguished in our analysis the way in which tariffs will have a different pricing effect between sort of countries on either end of them, as it were, whether you're whether you're in the country, that sort of in a sense setting tariffs or the country that sort of on the other end, receiving them.

Now, your question sort of in a sense, quite rightly says, well, hang on a minute. Is there something else that cuts across that which is global companies that don't make that distinction and just say, we're going to impose a pricing solution which goes right across the world irrespective of those differences.

Now, I think we have to watch. I think we do have to watch that carefully. I think it's too early, really, to reach a conclusion on evidence. I don't think we've seen a lot of evidence yet, 1 or 2 bits maybe, but we haven't seen a lot of evidence yet. But I think you're right to pose the question because it would cut across that rather sort of conventional trade approach model, which would say, no, there's a difference between these two things.

Dave Ramsden

Just on QT I think it's important to emphasise that through this period, the MPC hasn't changed the size or pace of the. Envelope and the way that the bank is then delivering it for the MPC. So, we've got that 100 billion reduction that, as you were saying, takes us up from last October to this September.

And with the process will get going soon. It's an established process now for the MPC to consider what it wants to do for the next year, and I'm certainly not going to anticipate that here. I think it is then worth just within that context, making very clear that it was the it was the bank's executive.

We made a decision back earlier in April to switch the ordering of our operations in the context of the market volatility. So, we swapped out the one long auction we had and went ahead with an additional short auction instead.

That made sense given market conditions. But that, that was very separate. The MPC as we flag in the minutes was informed of that, but that was that was a bank executive decision.

Katie Martin

Great. Anna.

Anna Wise

Thanks. Yeah, Anna Wise from Press Association. Thanks for taking my question.

Mortgage rates have been slow to come down, but at the same time, savings rates are dropping at a much faster rate. Are you really. Are you conscious of this? Really? And, do you think people have confidence that your decisions are feeding through to the market?

Andrew Bailey

Well, that's a good question. Mortgage rates nowadays are priced because the large majority of mortgages are now fixed rate mortgages over typically sort of, 5 or 7 years some are 2 years, but 5 or 7 years, they're priced off the swap curve. So, they're priced at rates which are set in the market. Obviously, they bear they bear a relationship to our decisions on the Bank Rate, which is how obviously monetary policy transmission works.

But of course, markets move, markets anticipate what we're going to do. So, those rates have already moved around in anticipation of the announcement we made today. For instance, I think broadly, the movement of mortgage rates and the swap curve broadly reflects the movements in rates. So, I'm not particularly surprised.

I think there's been, as we've been saying throughout this conference, there has been, of course, more market volatility. Some of that has come through into rates. There's a question about how much term premium effects are coming through, which would change that relationship.

But still broadly the relationship now on deposit rates, as I said before, I would draw the distinction between what I call site deposits payable on demand and term deposits. Term deposit rates have moved much more in line with what term deposits over a period of time, that is, have moved much more in line with our rate decisions.

Site deposits have not moved as much as in line, and I've said at the Treasury Select Committee once or twice when asked this question, I'm not surprised by that, because one of the things that has really changed in the last decade is that post-financial crisis. We now have a we now have a bank liquidity framework.

In other words, a framework for banks maintaining their liquidity buffers. The consequence of that is that the value of term deposits is a lot more to the banks than site deposits, because they obviously don't run as fast. That's the simple fact. So, I'm not surprised that term deposits are more responsive to pricing those sorts of pricing signals than side deposits.

Katie Martin

Great.

That's all we have time for. Thanks, everyone.

Andrew Bailey

Thank you very much.