

Faisal Islam

Faisal Islam from BBC News

Can you just clarify in scenario A or B, so essentially that the oil price falls from here on in.

I get the uncertainty underlying the geopolitics.

But that it may not necessarily require a rate rise.

Is that what you just said?

Andrew Bailey

Yeah, so obviously the thing about using policy rules is that there are a whole range of policy rules and you can get a whole range of answers. But as a chart, I showed a few minutes ago. Illustrates and bearing in mind this point that there was a 55 basis points of cuts assumed before as this set of events started, the conclusion from that analysis is that there is a good deal of room to accommodate the type of the type of tightening that would be needed in A or B within that range of 55 basis points. And of course, the curve has moved to reflect that. So I can't give you a cast iron assurance that therefore there will be no increase in any scenario or any of those scenarios. Sorry. But what I can say to you is that there is a good a good deal of space was available to accommodate that.

Katie Martin

Mehreen and then Paul.

Mehreen Khan

Mehreen Khan from the Times.

Just on the flip side, it looks like this week. Scenario C, which is your most extreme scenario. Severe scenario looks much closer to where we might be at. There has been a huge swing in oil prices, but we hit the 126 mark today. If in June, we are in a world where 126 doesn't look so extreme, do you then have to go into what you say is forceful action? And does that include putting a 50 basis point rate hike on the table?

Andrew Bailey

Can I make three points on that? Mehreen, and Clare might want to come in. And the three points are these.

First of all, scenario C, as I mentioned earlier, is a very persistent scenario, so the oil price remains above \$100 a barrel through to the end of next year. So that's a key part of scenario C. It's not just where the price is today. That's the first part. Point. Second point is that gas prices don't respond as much as oil prices. The third is just to reiterate what I said, slightly adlibbing a few moments ago.

This morning, if we'd had this discussion at 9:00 this morning, we were looking at a Brent price well over \$120 a barrel. Well, I don't know what it is now but when I walked into the room, it was over. Excuse me. Over \$10 a barrel lower than that.

So that illustrates a the volatility of prices. B as the MPC, we just cannot stop the music at a particular point in time and say that's it for all time, because it is so volatile. Clare?

Clare Lombardelli

I mean, the only thing I'd add is just to make explicit that point that we've set out. Three illustrative scenarios. They're not exhaustive. They're there to explain basically and show how the economy may evolve and how policy might need to react to those. But it's quite likely that the world won't be like in any of those precisely. And so this is to give a sense of how it will flow through the economy, potentially. And our reaction function.

Katie Martin

Paul and then Sue

Paul Kelso

Paul Kelso, Sky News. A question about scenario C, we might call the worst case scenario you've set out today. Consumers will see potential inflation at 6.2%, interest rates at above 5% again. And they have very recent memories of what that feels like. We've had extraordinarily high inflation, from which many households haven't recovered. So was the question many will have is what they're looking for is a sense of how likely is that to come to pass?

Andrew Bailey

Well, going back to the point I made in response to question the sheer volatility of what we're looking at makes it very hard to put probabilities on things. This is the problem one of the problems we're dealing with. So yeah, we've been very careful not to put probabilities on these scenarios because it moves around too much. I think the point I would make, though, and I think something I said earlier is that important, the longer this general state goes on, the more difficult it becomes. I'm afraid that's that is something we can fairly easily deduce.

So through the volatility, the longer this this problem goes on and the longer the disruption to energy supplies goes on, if things other things equal, it's likely that therefore, energy prices will stay higher. And the more difficult the scenario, the scenario we're in.

Clare Lombardelli

But the one thing I would add is the numbers that in that scenario show what happens under the market path.

So assume the market path. If we were in a scenario where we saw much higher inflationary pressures like that, we would of course have to take policy action to lean against them. And so that would bring inflation down.

Katie Martin

Sue in the middle. And then Joel at the top there.

Szu Chan

Thank you. Sue Chan from the Telegraph

just following on from what Mehreen asked if we are in a situation where oil prices remain persistently high, what does forceful look like? Are we back in, you know, 2022 situation where we saw 50, 75 basis point rate hikes? And given your comments just now, when will you have enough info to help you decide that rate hikes might be needed?

Andrew Bailey

Well, I'm not going to put numbers on what forceful looks like other than, say, I think the point was made very deliberately to say that if we see that type of very difficult scenario emerging, then it's important that we obviously do respond quickly to it. But I don't think it's wise to put numbers on it. Your question is a very good question. When will we see it? And it goes back to something I said in my opening remarks.

The challenge for us, and this is the second round effect point, because judging the second round is crucial here. Now, of course, the problem is that the second round effects emerge much more slowly, and that's in the nature of it really, because they're the sort of the follow on, if you like. And it would be a mistake to wait to see the second round effects before acting, because that would be too late.

So, it's by way of saying it's a judgement that we will have to make at every meeting. And this is why I stressed right at the end of my remarks, that we will be looking at a very broad range of evidence. Some of which will be quantitative, some of which will be qualitative based on what our agents are telling us. As to how it is affecting the economy.

And I would say from, my visits around the country, and I'll be out and about tomorrow. Yeah, we do start in a position where firms very typically say to me, they have been experiencing difficulty in passing costs on into prices, but obviously as this, this shock is a new feature, then. That was the sort of the, the ex-ante state, if you like. Obviously they're now faced with an abrupt energy price shock. And so we will have to then judge carefully how they both can and do respond to it.

Dave Ramsden

And just on that, if I can just add in terms of one way of thinking of the scenarios, there are two dimensions to them.

One, as Andrew's been emphasising, is the persistence of energy prices and the second dimension is the strength of second round effects, the persistence of energy prices will obviously, that will be more and more apparent as time goes past. The extent of second round effects will be much more of a judgement as the evidence emerges over time.

Katie Martin

Joel at the back there and then Sam.

Joel Hills

John Hills from ITV news.

Given that a key judgment is on higher prices and how they feed through and create second round effects, what exactly will you be watching over the weeks ahead to form that judgement?

And with people feeling worse off, isn't it natural that they'll ask for higher pay?

Andrew Bailey

Well, in two parts on the first part what I did was set out very deliberately, sort of in a sense, a sequence of things that you look for. So you start obviously with the first round effects, which are energy prices themselves. Then we talked about indirect effects, which is how it passes through in the into the cost of production of other things. And I did put quite an emphasis on food because I think one of the things we learned four years ago was what a considerable share of the cost of food is energy. Processed food is energy. So that's important. And I also analyse food because energy and food are the two most salient things in the basket of consumption basket for people, because they're the things we, we buy most often and most, and we can compare prices more easily from time to time. Therefore. And then we get the second round effect. So in terms of what will we be watching, those will be the things we'll be watching on wage setting. I mean, wages are set in labour markets. Let me make an important point to labour markets at the moment are functioning efficiently.

There's no reason in any of the very considerable analysis that our staff do on the labour markets to think that otherwise anything other than the pay is being set efficiently. Now it will, I should say, be some time before we really do get a read on pay.

And the reason is, is the seasonal cycle of pay setting, because most pay settlements, the large part of the settlements are done in spring. So we've actually passed through that period for this year. You're probably meeting and compare that back to things I said four years ago. And I would just make the following point that coming out of Covid, the labour market was much less efficient.

It was it was not functioning as well. A lot of work our staff did on, on job matching was showing there have been a real increase in the inefficiency of labour market in that sense, but we're not in that place today. Wages.

Wages will be set in markets.

Katie Martin

Sam. Right there and Josia, thanks very much.

Sam Fleming

Governor, you put in your statement some weight on scenario B, I think. In terms of the inflation forecast, based on the market curve going into the meeting, that puts inflation on target at 2% along the inflation horizon. But that implied that market curve at least a couple of rate increases. That was the curve at the time which generated that forecast. So is it reasonable, therefore, to expect some tightening from here under scenario B? And the minutes themselves put a lot of weight on higher, tighter market conditions, taking some insurance out in terms of adverse inflation outcomes. But at what point do you need to actually validate the tightening in the financial markets by raising interest rates? Thanks.

Andrew Bailey

Well, I want Clare to come in as well on the final point. Let me start on scenario B. One of the reasons that I think there's one element of scenario B that is more plausible than scenario A, and that's the energy price profile, and particularly probably the gas price profile, because the market curve, which is scenario A, I think does assume that, let's say, let's be very optimistic for a moment and say the conflict is over tomorrow. So it assumes there's quite a rapid return to pre-existing supply conditions. Now, that's not really consistent with what we hear, and I'm sure you hear, from people who have looked at the damage, for instance, that was done to the gas production infrastructure in Qatar, for instance, where I think the view that we hear is, look, it is going to take a while to repair that. There's some pretty key parts for damage.

So scenario B, in part, is motivated by building that into the assumption. Now, on the point you raised about interest rates, look, the right decision today is to hold, but it's an active hold in that sense. It's not a passive wait-and-see hold. It's a deliberately active hold, because as I said earlier, in response to the earlier question, there's a range of scenarios, in our view, where the headroom we'd got, because, let's say, it's quite clear that the prospect of cuts, which we were, after all, talking about at this conference, the press conference three months ago, it's not on the table now, that that headroom can take it up. But we can't give you any assurance on that front.

Clare Lombardelli

Only to add, I mean, as we've mentioned, we haven't put probabilities on these scenarios. You couldn't, for obvious reasons. So different members will think differently about how they want to weigh the risks of a higher inflation more persistent scenario, and whether or not, they want to adjust policy in response to it.

Katie Martin

Josia, who's right in the middle there.

Yeah, and then Subban.

Joasia E. Popowicz

Yeah, Joasia E. Popowicz, Central Banking. I just wanted to ask about Alan Taylor's comment that giving neutral at 3%, it makes sense to hold. I just wanted to ask where that figure comes from. Is that a current staff assessment or a hypothetical, and what are the governors?

Dave Ramsden

I think that's Alan's estimate of neutral. I mean, it's in his paragraph, so it's his estimate of neutral. In the past, we've published a range of estimates. Clare and I have talked about them extensively at these press conferences, but on different models, different approaches, you can get anything from 2% to 4%. He's been very clear and consistent that he sees neutral as being around 3%, so that's very much his estimate.

Andrew Bailey

I think we've said before, some members of the MPC are more confident in their estimates of the neutral rates, and some of the rest of us, I include myself in this, are less confident about precise estimates. And that's fine. Reasonable people can disagree on that.

Katie Martin

And Subban is right behind you.

Thank you.

Subban Abdulla

Governor, what evidence would you need to see to vote for a rate hike? And are you close to voting for one? You said you put some weight on Scenario C, even if not as much on Scenario B. What would you need to see that pushes you to Scenario C, and is that evidence likely to come before the next MPC meeting?

Andrew Bailey

What would push us to Scenario C? Yeah, and is that evidence? We'll get a greater weight to Scenario C, I think. Well, look, I think a lot of it does hang on what happens in the Gulf, because Scenario C is, in the first instance, motivated by more persistent first-round effects.

It also has a stronger second-round effect, but as I was saying earlier, I think to Sue's question, they take longer to appear on the scene, as it were. So in the first instance, there's

a difficult judgment in there about how long is this going to go on for? And that's important, because persistence is an important element of Scenario C. And what I would emphasize, though, the reason this persistence point is important is that if you look back to four years ago, energy prices went up, and particularly gas prices four years ago actually went up, but they came down quite quickly, actually. Scenario C doesn't look like that. It's actually a different shape to the profile. It's got a much longer downslope on it.

Katie Martin

Heather, and then John Paul.

Heather Stewart

Heather Stewart from The Guardian. Governor, you were at the Prime Minister's Cobra meeting, I think, earlier this week about managing the impact of the crisis. I just wonder what the role of the bank is in that. Are you advising about the inflationary impact of potential policies, for example, or should we infer that there's concerns about financial stability impact of what's going on? What's your role there?

Andrew Bailey

Well, my role, and obviously I have to be quite careful about my role, given it's an interest rate setting week, is to really, as I think there was a very short record or note of the meeting issued, it was merely to sort of, in a sense, outline the macroeconomic framework, and it really was framework. So, by the way, the meeting was confidential, so I'm not going to talk in any detail, but you won't probably be surprised to know that I sort of laid out first-round effects, indirect effects, and second-round effects in terms of the sort of how it works in principle.

Katie Martin

John Paul?

John Paul Ford

Hello, John Paul Ford from the Daily Mail.

Can you hear me all right? Yeah.

A couple of scenarios. Scenario A, which you've just sort of implied, is rather unlikely, given the energy profile, seems to be the only one under which it's likely that interest rates may not need to rise. Therefore, does it look almost certain? Should people take it, who are watching and listening to this, is get ready for rate hikes, is the message. And, sorry, one further thing in relation to that. Scenario C, at 5.25%, the report suggests that that would raise the risk of a recession. Is a recession a price that people have to pay?

Andrew Bailey

The answer to your first question is no. Scenario A, you're right. I, for my own part, think that the market curve on energy prices, particularly on gas, is too optimistic in terms of the time it would take to restore supply. But Scenario A has other features to it, and particularly the question of this question about the second round effects. And the second round effects are to do, obviously, with the length and duration and impact of the energy price shock. So the shorter this whole thing, the less we would expect the second round effects to be. So, Scenario A is not there for sort of decoration. It's very much a part of the scene in that sense. And as I said earlier, then, also, parts of scenario, a good part of Scenario B would be accommodated by, a lot of Scenario B would be accommodated by the headroom that we already had. So I would very much, give the message, no, it is not the case that we're sort of giving some sort of slightly clandestine message that interest rates are going to go up, notwithstanding what we've decided today. As I said earlier today, it's an active hold in that sense.

Dave Ramsden

And the only other factor I'd add on Scenario A, and the likelihood of second round effects, and obviously different members of the committee will have different views on this, but this, you know, we have really drawn attention, and Andrew has consistently in recent weeks, to the continued looseness of the labour market. Yeah. and that that is a very different position for the labour market than we were in in 2022. Oh, recession. So what I would say is, when you look at the analysis we presented using market curves, Scenario C does not deliver a recession. Now, as I said earlier, there's a whole range of policy rules you can attach to these things, and you can get a whole array of results, and, you know, there are some policy rules which will deliver you some short periods of negative growth. But the basic, however, that's not most of them, actually. Most of them don't do that. So the basic message is, this actually delivers a profile of slower growth.

Katie Martin

Tom and then Dearbail

Tom Rees

Tom Rees from Bloomberg News. As you've suggested, what we've seen in the first two months of this conflict is actually just a lot of volatility in prices, crude going from, \$80 a barrel to \$126. If that extreme volatility lasts much longer, do any of these scenarios capture something where prices just, fluctuate quite a lot? And I was just also wondering, how much has your thinking changed in the last week? Have things, has the outlook got a lot worse over the last week from what we've seen in energy markets?

Andrew Bailey

Well, two things there. Thanks, Tom. First of all, of course, volatility is hard, or sorcery is hard

when you're taking decisions. But you've also got to think about how volatility feeds through into people's expectations. This is, this is a more problematic element to it, in a sense, because obviously people are quite, saying, well, I don't know what, the first starting point is, what is the price today? Because I said earlier, if you checked into the Brent oil price at some point, this morning, you would get very different numbers, depending on what time you checked in now. So that's, that's a further complication as to how people form their expectations. On your point about the last week or so you look at the oil price curve, you had a, obviously it went up, then you had a period when it was, it was coming back down again, and now it's gone back up again. All of that hangs off, frankly, what's going on in the Gulf, and what's being said about what's, even more so, actually, sometimes, what's being said about what's going on in the Gulf. So, I think, certainly for myself, I think we have to be quite careful here, in terms of, I don't sort of pin my reading of the world on one particular period of time, because frankly, we've seen such, such changes over the period since this whole conflict began.

Katie Martin

Dearbail and then Mauricio.

Dearbail Jordan

Hello, can you hear me? Yes. Sorry, you never usually can. I just wanted to raise a point in the minutes. It talks about the indirect effects of high energy prices on production costs, likely to affect food prices particularly. Yes. How much do you think that is going to affect food prices? And it says inflation is expected to rise somewhat further in Q4. So, does that mean that Christmas dinner is going to be more expensive?

Andrew Bailey

Well, unfortunately, a lot can happen between now and Christmas. just to go back, as I said, go back four years. Obviously, you can't generalise because obviously different, different foods get made in different ways. But, it wasn't, when we looked at it four years ago, there are quite a few processed foods where 30% of the, of the cost is energy. So, obviously, that's, that's significant. But, then let's consider that, as I said, the pass through. the question, of course, in the current conditions, current conditions for demand, current, current conditions in, in the labour market, and what firms are telling us about their ability to pass costs on into prices, which has definitely become more difficult. There's no question about that. We get that all around the country. I think it, it remains an open question there for what the impact on, on final food prices is going to be. That remains to be seen. And I would just re-emphasize also the point I did allude to in the opening remarks about the other effect on food, which is the impact of the problem in fertiliser supply, which, again, will, of course, come through over time. Although, I know farmers are already telling us that they're having to make decisions on what they think fertiliser availability is going to be as to what they plant.

Dave Ramsden

We, we put a bit more detail than in the minutes in the, in the monetary policy report on food prices. So if you look in page 14, you'll see that we say that our short-term forecast out to September 26 takes them up to 4.6%. But then the reports that our agents are getting suggest that they might go up further to a range of 6 to 7% by the end of the year. But that's based on reports as of now late April. And as Andrew says, a lot can happen.

Katie Martin

Mauricio here and then Ritika up the back.

Mauricio Alencar

Mauricio Alencar from City AM.

Governor, after the last meeting, you said that markets were getting ahead of themselves. Yes. And then now you're sort of saying it's an active hold and I think the minutes report also say that tight and financial markets have become an insurance to sort of inflation. Do you risk sort of actually confusing, the traders out there in the city about what the bank's next move is? And I suppose what's your sort of response?

Andrew Bailey

Let me, a totally fair question. Let me get a little, little bit of sort of how we, how we got through the last meeting to here. I think that's helpful. We obviously saw quite a move in markets at the time of our last announcement. And I think it comes back to earlier questions, actually. We were very conscious. I was very conscious that we were expected to cut rates this year. And indeed, look, it wasn't, I go back to the last press conference. I said it, I've said it a number of times. I thought that was my central expectation. And, effectively in the last meeting and the last minutes of the last meeting, we took that off the table. And I think, that we had to do that because frankly, as you'll see from the material we've presented this time, it's just not realistic, sadly, but it's not realistic. Now, we know that markets, and this is totally understandable, were pretty substantially positioned based on what we had been saying. That's understandable, totally understandable. And the consequence of taking those cuts off the table was quite a sharp move in the curve. We were, I was not surprised by that because I say that, that in a sense was sadly a factor that followed on the, the outbreak of the conflict. We did get to a point, I remember when the four or five increases were being, were being priced in for, for this year, I think. And I did make this point. I think you're getting ahead of yourselves at this point. And, I would stick to that point. And what you see, look, what you see in the much larger amount of material we've presented today is, I think is a, it's a very broad analysis. As I've said, we've all said a number of times in response to questions, the scenarios show you that there are, paths through this where we don't get any more increase.

we don't have to increase rates in the scenarios. I'm afraid where we do have to increase rates. And that's where we are today. So, because I think we've said, and I've said in things I've said today, it's an active hold today. Do I think therefore that the interest rate curve is in the wrong place? No, I don't because there are risks around this.

Katie Martin

Ritika up at the back and then Francine.

Ritika Gupta

Ritika Gupta at CNBC. So there's questions about if you wait for the hard data, whether that means you're going to be behind the curve. So if you did go ahead with an interest rate hike, but then you wanted to reverse that, say there was a quicker resolution to the wall than you anticipated, how would you then communicate that to the public? Would you see that as a high cost to reverse that decision?

Andrew Bailey

Well, it's a good question. First of all, we are in such an uncertain world that, you're right to say, oh, but you don't want to be the people who increase interest rates. Then the next week, this whole thing gets settled and everything goes back to normal. And you end up sort of thinking, why did we do that? Well, unfortunately that, that's the world we're in. It's a very volatile world. So we have to recognize that could happen. I don't think any of us can predict that. But it's, it's a world we could be in. And I think the important thing is that, we have to take this decision, at every meeting, we have to weigh up everything. I think, I make this distinction, I'll make it again, between what I call an active hold and a wait and see. Wait and see would be sort of speaking to your point, really, saying, well, things could happen.

Let's hang on. As opposed to taking the active decision and saying, well, this is our assessment of where we are at the moment. There's a range of possible outcomes. We've tried to capture that in scenarios. What's our best judgment of what we do today? And then we have to stick to it. we have to face the consequences of it. I think, all I can say is, I think they'd be reasonably easy to explain if that happened. If peace broke out a week later, I think it wouldn't be too difficult to explain.

Katie Martin

Francine, and then the gentleman next to Francine, sorry, I don't know your name.

Francine Lacqua

Hello, Francine from Bloomberg.

Governor, I mean, looking at the scenarios, do you think by the summer we'll have a better idea of what we're looking at in terms of, direction of travel? Because it is quite volatile. Are you expecting things to settle down in one direction or the other?

Andrew Bailey`

Unfortunately, I don't think, well, look, obviously, to state the blindingly obvious, we will know more. So, that's a particularly, obviously not particularly useful thing to say, but it's just worth saying to start with. Will we be in a position where we can say with certainty that we'll know which scenario we know? I'm afraid we won't, because, particularly going back to the point we've made about scenario C, which is it's a lot of what drives scenario C is persistence. It's got stronger second round effects than it. We won't know with certainty the answer to that.

Clare Lombardelli

Yeah, we'll obviously know more about what's happened to energy prices. We'll just have more time. So, we'll have seen the conflict and how that's progressed. And so, we'll have a better sense of the persistence of that. On the second round effects, as the governor says, we'll know more about them from tracking certain things. we will be looking at inflation expectations. We will be looking at wages. We will be looking at pricing power. We will be looking at actually how households respond.

Are they smoothing incomes? Are they not? We will be looking at what all of these groups are saying about their intentions. So, we'll have some more information, but, will there be a moment where you can clearly say, second round effects, the inflation persistence is taking hold? There won't be a sort of moment like that, but of course, we'll have a lot more information. And we'll be doing a lot of analysis, including, as the governor says, talking a lot to our agents, who are out and about around the country, now, and will continue to be talking to firms about what their intentions are.

Harrison Moore

Harrison Moore, Market News.

You've noted that tighter financial conditions are already working in your favour, already somewhat constraining a potential rise in inflation. Are you able to quantify in monetary policy terms how much effective tightening there already is, and what data are you looking at in that space?

Andrew Bailey

Dave, do you want to?

Dave Ramsden

In terms of how we've sort of framed things for the outlook and the three scenarios, and therefore the policy decision, we've, as Andrew has emphasised as we've set out, we've conditioned, the big tightening has come from the consequences of what's happened to energy markets, onto rates markets. So we've, the curve that the three scenarios are conditioned on is significantly different than the one we had in February, when I think we

were, when the curve then pointed to about 40 or so, it was, I think if you look at the difference between the February curve and then where we are now, you've got minus 40 plus 55 or so over the three years. So you've had a very significant tightening in rates markets. But then the exchange rate has been relatively, sorry, that's short-term rates markets. We've obviously also seen longer-term rates, gilt rates increase.

So the whole curve has moved up. Exchange rates have been relatively stable. There's been less movement in risky, much less movement in risky assets. But I think the key thing in terms of the kind of quantification you're talking about is, we set out very clearly, here would be the consequence of these different rate paths, I'm sorry, these different, the same market rate assumption, and then with different energy price assumptions, and then what are the consequences for inflation? So I'm not going to, I'm not going to give you a precise quantification, but you can very clearly see the direction in terms of, well, what would happen to inflation under A, under B, under C, and, and then draw you draw conclusions about what that might mean for policy, which is actually how we've gone about setting policy.

Katie Martin

Ryan, and then Jack. Thank you.

Ryan Sabey

Ryan Sabey from The Sun. There is a planned fuel duty hike from September. Now, with higher fuel prices adding to inflation, would this 5p increase be particularly ill-advised under any of these scenarios?

Andrew Bailey

Well, I think those, those are decisions for the Chancellor, not for us. We take fiscal policy, as we say many times, as, as red as it were, we base it on announced policies. That policy has been announced. And I think that's, that's a matter because obviously the Chancellor has to look at the overall stance of fiscal policy. And so that's a matter for Chancellor.

Katie Martin

Jack, and then Anna.

Jack Barnett

Jack Barnett from The Times.

There's quite an extensive discussion about inflation expectations in the forecast, obviously creeping higher off the back of sport inflation going up. But the same thing happened in 2022. And, you guys raised and just raised aggressively, but weren't able to actually get inflation back down to the 2% target. Are you concerned that consumers just don't think the

Bank of England is actually capable of dealing with these types of shocks and getting inflation back to 2%?

Andrew Bailey

Well, a couple of things on that, Jack. Obviously, and I said this in my opening remarks, we do have to take into account that history is something that, individuals will factor in when they think about what their inflation expectations are going to be. So that's a reality. But let me, let me sort of draw out really, I say, three points that I think where we differ from 2022. And I think this is, these are all important.

So first of all, monetary policy is in a more restrictive position today than it was at that time, because the reason it was where it was at that time was the legacy of COVID. But monetary policy today is more restrictive. So we start in a different place. Second, the labor market, going back to what I was saying earlier a bit, the labor market is, is, is different today. The problem, it has, as we've all been saying, it has been gradually loosening. And that was true, before any of this started, this conflict started.

The problem we had in 2022, and this is not a criticism of the policy, was that it was very hard to read the labor market coming out of COVID, in part because the furlough scheme was very successful. It was a good scheme, but it was, it had the effect of really obscuring the labor market in terms of what was going to happen. So we, and frankly, all other forecasters, and you can see this from the tables we regularly publish in the March policy report, thought that unemployment would rise coming out of COVID, and it didn't. So the labor market turned out to be tighter, and it was hard to read, whereas I don't, it isn't, it isn't hard to read in that sense. It isn't as hard, anything like. And then the third point I'd make is the balance, the balance of demand and supply. again, the problem coming out of COVID was that COVID affected, COVID pushed out demand and supply dramatically in the economy. So reading the output gap was hard.

People often say, well, demand was recovering very fast. Well, yeah, but it wasn't back to the levels it was pre-COVID. But that, then the question was what was the supply capacity of the economy? And that was the other thing that was hard to read. Again, it's not, we're in a more regular situation today. So we, we look at all those things, and in judging this point about, how do we have to respond and inflation expectations will feed into that. But those things are all relevant to, to where inflation will go to.

Dave Ramsden

And as Andrew emphasized up top of his opening remarks, and as we emphasize again in the monetary policy statement, we'll act as necessary to ensure that inflation does get back to the 2% target sustainably in the medium term. So that's the key message. Yeah.

Katie Martin

Anna, and then Tim.

Anna Wise

Hi, thanks. Anna Wise from Press Association.

The bank rate seems to have little bearing on the rates that mortgage lenders are charging. They've gone well above 5% this month in response to the war. Is that, is that fair?

Andrew Bailey

Well, the reason is that the mortgage market has changed over the last 20 years dramatically. So if you go back to before the financial crisis, the majority of mortgage, the large majority of mortgages were variable rate mortgages. So literally, if we change bank rate today, the mortgage lenders would change their mortgage rates tomorrow. Today, it's the other way around. The large majority of, the vast majority of mortgages are fixed rate mortgages. Now, this is not US style 30 year fixes. This is, two, five, seven year fixes. What that means is that mortgage rates are priced off the interest rate curve, because they have to be, because the banks have to manage their interest rate risk. They're hedging the interest rate risk, over those, those periods. So they're hedging at sort of two, five, seven year point, depending on what mortgages they're writing. So to your point, therefore, mortgage rates move as the curve moves in at those points on the curve. Now, us changing bank rate obviously influences that, by the way. And indeed, as today, us not changing bank rate influences the curve. So it's not that we have no effect. The transmission mechanism works, but it's changed, as you say.

Katie Martin

Tim. Thank you.

Tim Wallace

Tim Wallace at the Daily Telegraph.

Governor, what's your message to businesses when they're considering their prices? Do they need to resist the temptation to put up prices, or the pressure to put up prices in the face of this shock? And also to pick up on what you said about the labour market before. Lots of private sector companies have set their wages for this year. They've had the increases already. The public sector is not quite the same. There's still a lot of negotiation going on, strike threats, things like that. Do the public sector wages feed into your forecast?

Andrew Bailey

Well, for businesses, it's really the same point, Tim, as I made about wages. prices are set in markets, so businesses will have to obviously look at the markets they're operating, and they have to look at the costs that they are obviously seeing, and receiving, and taking, and, they will set their prices in markets. So our judgment of second round effects is really a judgment

on how those markets operate. On public sector wages, look, this is an issue for the government. I don't think they need, I think they're very aware of the situation, obviously, in the Gulf, they're very aware of the impact on energy pricing, on inflation, but those decisions are taken by the government, not by us.

Katie Martin

Delphine

Delphine Strauss

I was interested to see you'd flag the risk of a much sharper rise in unemployment in some sectors than others, hospitality in particular. I wondered if you could talk a little bit more about how plausible you think that is, and what it would mean for your assessment of whether the labour market's working efficiently.

Clare Lombardelli

So we've done quite a lot of analysis that looks at different sectors of the labour market. I mean, one of the big questions prior to this was what is going on in the labour market, and how should we think about the different ways to understand what might be going on structurally and cyclically, and so could we get a handle on it by looking at that sectorally? We do see quite a big dispersion between sectors, and actually at the moment the difference across sectors is higher than it typically is, and as you say, we've seen particular impacts on a particular weakness in hospitality and in some professional services as well. We've done a lot of analysis of whether or not that is a sort of leading indicator of a bigger problem, and it's not clear that it is in that sense, but obviously there's risks on either side of that, and it's something that we're monitoring really carefully.

Katie Martin

Is that you, Sue? Yeah, go, Sue. Just a final one then.

Szu Chan

Looking at chart 1.10 on page 21, can you just describe how you see the outlook for living standards going forward this year?

Andrew Bailey

It's falling. Well, I think you can see what it shows, which is we have had periods where we've had positive real income growth, and we've had periods where it's gone below the line. And again, what it shows is that it's coming down, has been coming down for a little while, but from a fairly positive position. Honestly, I think what happens hereafter depends upon a lot of the debate or the discussion we've been having in the last hour, which is the balance of what the picture is on inflation and what the picture is on increase in wages and incomes. And so that really gets us back to this question about second round effects.

Dave Ramsden

It's also a negative supply shock. Yeah. That's what we're dealing with, and that is negative to the economy. It is negative to real incomes through the economy.

Andrew Bailey

It's negative to the UK terms of trade.

Clare Lombardelli

You can see in the scenarios, you can see just how the difference happens, the difference in terms of the impact on real incomes will be, and the fact that obviously the larger the shock is, the greater the impact that it is. Well, it comes back to this point about size and persistence.

Katie Martin

Thanks very much, everyone. Thank you.