



BANK OF ENGLAND

Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 20 March 2019

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These are the minutes of the Monetary Policy Committee meeting ending on 20 March 2019.

They are available at <https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2019/march-2019>.

The Bank of England Act 1998 gives the Bank of England operational responsibility for setting monetary policy to meet the Government's inflation target. Operational decisions are taken by the Bank's Monetary Policy Committee. The minutes of the Committee meeting ending on 1 May will be published on 2 May 2019.

Monetary Policy Summary, March 2019

The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. At its meeting ending on 20 March 2019, the MPC voted unanimously to maintain Bank Rate at 0.75%. The Committee voted unanimously to maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at £10 billion. The Committee also voted unanimously to maintain the stock of UK government bond purchases, financed by the issuance of central bank reserves, at £435 billion.

Since the Committee's previous meeting, the news in economic data has been mixed, but the MPC's February *Inflation Report* projections appear on track. In those projections, a weaker near-term outlook was expected to lead to a small margin of slack opening up this year. Thereafter, demand growth exceeded the subdued pace of supply growth and excess demand built over the second half of the forecast period.

The broad-based softening in global GDP and trade growth has continued. Global financial conditions have eased, in part supported by announcements of more accommodative policies in some major economies.

Shifting expectations about the potential nature and timing of the United Kingdom's withdrawal from the European Union have continued to generate volatility in UK asset prices, particularly the sterling exchange rate. Brexit uncertainties also continue to weigh on confidence and short-term economic activity, notably business investment. Employment growth has been strong, although survey indicators suggest that the outlook has softened. Most indicators of consumer spending are consistent with ongoing modest growth. As the Committee has previously noted, short-term economic data may provide less of a signal than usual about the medium-term growth outlook.

CPI inflation rose slightly to 1.9% in February and is expected to remain close to the 2% target over coming months. The labour market remains tight and annual pay growth, having risen through 2018, has remained around 3½%. Given continuing weakness in productivity growth, growth in unit wage costs has also risen, although other indicators of domestically generated inflation have remained modest.

The Committee's February *Inflation Report* projections were conditioned on a smooth adjustment to the average of a range of possible outcomes for the United Kingdom's eventual trading relationship with the European Union. The Committee continues to judge that, were the economy to develop broadly in line with those projections, an ongoing tightening of monetary policy over the forecast period, at a gradual pace and to a limited extent, would be appropriate to return inflation sustainably to the 2% target at a conventional horizon.

The economic outlook will continue to depend significantly on the nature and timing of EU withdrawal, in particular: the new trading arrangements between the European Union and the United Kingdom; whether the transition to them is abrupt or smooth; and how households, businesses and financial markets respond. The appropriate path of monetary policy will depend on the balance of these effects on demand, supply and the exchange rate. The monetary policy response to Brexit, whatever form it takes, will not be automatic and could be in either direction. The MPC judges at this month's meeting that the current stance of monetary policy is appropriate. The Committee will always act to achieve the 2% inflation target.

Minutes of the Monetary Policy Committee meeting ending on 20 March 2019

1 Before turning to its immediate policy decision, the Committee discussed: financial market developments; the international economy; money, credit, demand and output; and supply, costs and prices.

Financial markets

2 Global financial conditions had loosened compared with those prevailing at the time of the Committee's previous meeting. Short-term and longer-term nominal government bond yields across advanced economies were generally a little lower, following significant falls in late 2018. Risky asset prices were stronger, with equity prices higher and both investment-grade and high-yield corporate bond spreads narrower.

3 These movements had, to a large degree, reflected news about global monetary, fiscal and trade policies. The European Central Bank had revised down its projections for euro-area GDP growth and HICP inflation, while continuing to emphasise downside risks to growth. In response, the Governing Council had extended its forward interest-rate guidance, as well as announcing a new series of quarterly targeted longer-term refinancing operations. These announcements had lowered euro-area yields. Global risk sentiment had been supported by an apparent easing in trade tensions between the United States and China. In addition, a range of monetary and fiscal measures had been announced this year by the authorities in China. The Committee noted that a number of market-based measures of implied and realised volatility had remained historically low, which appeared at odds with the elevated level of aggregate measures of policy uncertainty.

4 These global trends had affected UK financial conditions, which had also been influenced by Brexit developments since the MPC's previous meeting. The sterling effective exchange rate had ended the period around 3% higher. Sterling had continued to be sensitive to market participants' interpretation of Brexit news, in particular their changing views of the likelihood of a no-deal, no-transition outcome, as well as reflecting developments abroad, such as the depreciation of the euro. Although still elevated at shorter horizons, sterling implied volatilities had fallen back a little further. Sterling-dollar risk reversals at longer horizons had become somewhat less negative, suggesting that market participants continued to view the risks to the exchange rate as skewed to the downside, but to a lesser degree than before. UK short-term interest rates had continued to be less responsive to data news than in the period prior to the late-2018 episode of global market volatility, and were slightly higher than at the time of the MPC's February meeting.

5 Financial market indicators of UK inflation expectations had fallen a little at shorter horizons. Five-year inflation swap rates, five years forward, however, had drifted up a little and, adjusted for the downward effect on rates related to the release of the House of Lords' Economic Affairs Committee report on RPI reform, had remained higher than in 2018.

6 UK senior unsecured bank funding spreads had fallen somewhat since the MPC's previous meeting, remaining in line with the equivalent instruments for euro-area banks. Secured bank funding spreads, which

tended to have a greater influence on the pricing of new loans, had fallen to a lesser degree, albeit having risen by less in late 2018.

The international economy

7 Global growth had continued to slow, broadly in line with the February *Inflation Report*. Global trade growth had also continued to weaken, with greater evidence of trade tensions weighing on global activity. Quarterly growth in world goods trade had fallen sharply in 2018 Q4, to -0.9%. Survey measures of global export orders had also continued to ease. The JP Morgan global manufacturing PMI had fallen in February, to its lowest level since its previous trough in May 2016, and had remained below 50 for the sixth consecutive month. In contrast, the JP Morgan composite PMI had risen slightly in February. Trade tensions between the United States and China had eased somewhat in recent weeks, with the potential increase in trade tariffs, from 10% to 25% on \$200 billion of US imports from China due to come into effect on 2 March, having been postponed.

8 According to the latest release of euro-area GDP, growth had been 0.2% in 2018 Q4, in line with the previous estimate, following a downwardly revised growth rate of 0.1% in Q3. Some of the weakness in the second half of 2018 had reflected temporary factors related to EU emissions testing that had affected the vehicle sector, as well as protests in France. But some had been accounted for by weaker net trade, with declining demand for euro-area exports from China, as well as Central and Eastern Europe. Export volumes to the United Kingdom had also contracted during this period.

9 High-frequency indicators suggested that euro-area GDP growth in 2019 Q1 had recovered somewhat, to 0.3%, a touch stronger than had been expected at the time of the February *Report*. This reflected relatively strong industrial production for January that, with the exception of Germany, had been broad-based across countries. The euro-area composite output PMI had also increased in February to 51.9, reflecting an increase in the services PMI, while the manufacturing PMI had continued to fall, particularly in Germany. Other near-term indicators for Germany, such as the February Ifo business climate index, had suggested a more generalised weakening in activity.

10 According to the initial estimate, US GDP had grown by 0.6% in 2018 Q4, stronger than had been expected at the time of the February *Report*. However, personal consumption had fallen by 0.6% in December, consistent with a weakening in underlying growth momentum towards the end of 2018.

11 Incoming data had indicated that growth in the United States was likely to have slowed in the first quarter, reflecting in part the partial shutdown in the federal government during December and January. Industrial production had recovered slightly in February from a very weak January, business surveys had generally eased relative to 2018 Q4 and non-farm payroll growth had slowed to 20,000 in February. Abstracting from the volatility of monthly payrolls, however, the labour market had remained relatively strong, with unemployment falling to 3.8% in February and annual average hourly earnings growth picking up to 3.4%. Overall, Bank staff judged that growth in 2019 Q1 would be 0.2%, weaker than the 0.4% growth that had been expected at the time of the February *Report*, before recovering in Q2.

12 In China, activity indicators had appeared to suggest a further weakening since the start of the year, but remained broadly as expected in the *February Report*. Industrial production in January and February had grown at its slowest pace in well over a decade. The official NBS manufacturing PMI had come in below 50 for the third consecutive month in February. The Caixin services PMI had also fallen in February, although more generally service-sector activity had been holding up. At the National People's Congress in March, the authorities had announced a new growth target range of 6 to 6½% for 2019, as well as significant cuts in taxes and increases in infrastructure expenditure. Bank staff judged that these additional fiscal measures, alongside earlier easing in monetary policy, would provide support to demand later in the year.

13 In other emerging markets, recent activity data had come in broadly in line with the *February Report*. Business surveys had suggested that industrial activity in non-China emerging market economies had begun to recover in early 2019 from their weak levels in late 2018. A weighted average of seven major emerging market economies' manufacturing PMIs had risen in February to its highest level in a year. Activity indicators for Turkey had remained in contractionary territory, however.

14 The spot oil price had increased further since the MPC's previous meeting, to just over \$65 per barrel. The recent moves had reflected a combination of supply and demand factors.

15 In the United States, the January PCE inflation data release had been delayed due to the partial federal government shutdown. Both annual headline and core CPI inflation had eased in February, to 1.5% and 2.1% respectively. In the euro area, headline HICP inflation had increased a touch to 1.5% in February, but core inflation had fallen back slightly to 1.0%.

Money, credit, demand and output

16 UK GDP was estimated to have grown by 0.2% in 2018 Q4, marginally weaker than expected at the time of the *February Inflation Report*. The ONS's first estimate of the expenditure components of GDP in 2018 Q4 had come in broadly as expected in the *February Report*. In particular, household consumption had risen by 0.4%, but business investment and net trade had contributed negatively to growth.

17 Monthly GDP had been volatile around the turn of the year, falling by 0.4% in December 2018, but rising by 0.5% in January 2019. Output in the manufacturing and construction sectors had continued to decline in the three months to January, while services output had increased relatively strongly by comparison. In part reflecting a slightly greater-than-expected recovery in output in January, Bank staff now expected GDP to grow by 0.3% in 2019 Q1, marginally stronger than in the *February Report*. That was despite a marked weakening in business survey indicators of output since the start of the year, which by themselves suggested somewhat weaker activity in the first quarter. The Bank's Agents had also noted a softening in growth over recent months.

18 After appearing to weaken around the turn of the year, some indicators of household spending had recovered a little, and were consistent with ongoing modest growth in consumer spending in 2019 Q1. The GfK/EC consumer confidence balance had risen slightly in February, with the sub-components relating to major purchases remaining around the levels seen in recent years. Private car registrations had also picked up in

February, to above the level seen prior to the distortions caused by the introduction of new EU emissions standards last September. Indicators of retail sales had been mixed, although their relationship with overall consumption was not very strong. The net flow of consumer credit had recovered somewhat in January. In the housing market, prices and secondary market transactions had been broadly flat. Mortgage approvals had also been a bit stronger in January, both for house purchases and remortgaging. Some leading indicators of housing activity had weakened further, however, and housing investment was still expected to fall in the first quarter.

19 The Committee discussed the extent to which uncertainty was weighing on corporate activity. Around 40% of companies in the Decision Maker Panel (DMP) had cited Brexit as one of their top three uncertainties immediately following the referendum and, in the February 2019 survey, that share had risen to close to 60%. A new question had asked panel members about the time horizon over which they expected Brexit uncertainty to be resolved: around 40% of respondents expected the uncertainty to be resolved by the end of 2019, another 30% thought that the uncertainty would persist into 2020, and another 20% to 2021 or beyond.

20 Business investment had now fallen in each of the past four quarters as uncertainties relating to Brexit had intensified. Based on staff analysis of the DMP, the cumulative effect of Brexit uncertainties on nominal investment spending appeared to have increased recently. For example, conditioned on a range of model specifications and other factors, the latest DMP data suggested that the level of nominal investment may be between 6-14% lower than would have been the case in the absence of Brexit uncertainties. Respondents to the DMP in February had also highlighted that negative effects from Brexit had been larger for investment in machinery, equipment and buildings.

21 There had been further evidence from a range of sources that companies had continued to build up their inventories. The stocks of purchases index in the manufacturing PMI had increased sharply again in February from an already high level, while both the DMP and Bank's Agents had reported that a large number of companies had adjusted their stock levels in both the manufacturing and consumer services sectors. Goods imports had risen strongly in the latest trade data, however, seemingly consistent with a large proportion of those additional inventories having been sourced from overseas. As a result, this additional spending was unlikely to have had an appreciable net impact on UK GDP growth. Net finance raised by UK non-financial companies had picked up in January, especially among larger companies, although this had partly reflected merger and acquisition activity.

22 More broadly, the results from the latest special survey of companies' preparations for EU withdrawal, conducted by the Bank's Agents, had suggested that around 80% of companies judged themselves ready for a no-deal, no-transition Brexit scenario. This compared with a figure of around 50% in the equivalent January survey. Nevertheless, many of those companies had also reported that there were limits to the degree of readiness that was feasible in the face of the range of possible outcomes in that scenario. These included issues relating to tariffs, border frictions, exchange rate movements and recognition of certifications, which many companies had noted were outside their control. In the Agents' survey, companies had continued to report significantly weaker expectations of output, employment and investment in the event of a no-deal, no-transition Brexit.

23 During its policy meetings, the Committee had received a briefing from the Treasury representative on the *Spring Statement* and associated OBR *Economic and fiscal outlook* published on 13 March.

Supply, costs and prices

24 Twelve-month CPI inflation had risen slightly in February to 1.9%, in line with Bank staff's expectations immediately prior to the release, and slightly above the February *Inflation Report* forecast. The near-term path for CPI inflation was expected to be a touch higher than at the time of the Committee's previous meeting, though remaining close to the 2% target over the coming months. This partly reflected a 6% increase in sterling spot oil prices, and the announcement by Ofgem on 7 February of an increase in the caps for standard variable and pre-payment tariffs, from April, which had been somewhat larger than expected.

25 The Committee continued to judge that the prospects for CPI inflation over the medium term would be determined significantly by the path of domestically generated inflation. The Committee routinely monitored a wide range of indicators of domestic price and cost pressures. Most price-based indicators of domestically generated inflation had remained modest. Core services CPI inflation had increased slightly in recent months, but had remained below its historical average. The figure had been depressed by particular weakness in a small number of components, notably rents and insurance. Services producer output prices had increased by 1.7% in the year to 2018 Q4, down from 1.8% in the previous quarter.

26 In contrast, domestic cost pressures had been more evident in rising earnings and unit wage cost growth, although there had been limited news since the Committee's previous meeting. Whole-economy and private-sector average weekly earnings (AWE) growth excluding bonuses had both been unchanged in the three months to January, at 3.4% and 3.5% respectively, in both cases a little stronger than expected in the February *Report*. Using a proxy of private-sector unit wage costs based on AWE, LFS employment and GDP, Bank staff estimated that annual growth of unit wage costs had risen from 2.2% in 2018 Q3 to 2.9% in the fourth quarter.

27 Empirical estimates by Bank staff using ONS microdata suggested that compositional effects, in particular the occupational mix of the workforce, had pushed up significantly on average pay growth in the year to 2018 Q4, by about 0.6 percentage points more than average, the same as in Q3. That said, as the Committee had previously noted, since these compositional changes should have a similar effect on average productivity, the implications for unit wage costs were likely to be limited.

28 The labour market had remained tight. The unemployment rate had fallen to 3.9% in the three months to January, as expected in the February *Report*. The employment rate had been stronger than expected, at 61.5%, also reflecting a higher participation rate. Growth in employment had picked up significantly in the three months to January, to 0.7%. Notwithstanding this relative strength of employment growth, evidence from the Decision Maker Panel had suggested that, other things equal, uncertainty related to Brexit had had a modest negative effect on firms' hiring decisions in 2018.

29 The strength in official estimates of employment growth was somewhat at odds with evidence from surveys. The employment components of the PMI surveys, and those from the REC and the Bank's Agents, had weakened appreciably since the start of the year.

30 The Committee noted that, alongside the rise in longer-term financial market measures, short-term household inflation expectations in the GfK consumer confidence survey had risen significantly. However, other indicators of household and corporate inflation expectations had remained close to their historical averages, and were little changed since the Committee's February meeting.

The immediate policy decision

31 The MPC sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. In pursuing that objective, the main challenges the Committee faced had been to assess the economic implications of the United Kingdom withdrawing from the European Union and to identify the appropriate policy response to that changing outlook. That outlook depended significantly on the nature and timing of EU withdrawal, in particular: the form of new trading arrangements between the European Union and the United Kingdom; whether the transition to them was abrupt or smooth; and how households, businesses and financial markets responded. The implications for the appropriate path of monetary policy would depend on the balance of the effects on demand, supply and the exchange rate. The MPC judged that the monetary policy response to Brexit, whatever form it took, would not be automatic and could be in either direction.

32 Shifting expectations about the potential nature and timing of the United Kingdom's withdrawal from the European Union had continued to generate volatility in UK asset prices, particularly the sterling exchange rate, since the MPC's previous meeting. Sterling had ended the period around 3% higher and had continued to react to market participants' interpretation of Brexit news, in particular their changing views of the likelihood of a no-deal, no-transition scenario.

33 Brexit uncertainties had also continued to weigh on confidence and short-term economic activity, notably business investment. The latest evidence from the Decision Maker Panel suggested that the cumulative effect of those uncertainties on nominal investment spending had increased significantly recently. There had also been further evidence from a range of sources that companies had been building up their inventories recently, although the latest strength in imports was consistent with that not having a large impact on GDP growth. Although a significantly greater number of companies had judged themselves ready for a no-deal, no-transition Brexit scenario in the latest Agents' special survey, many of those companies had also reported that there were limits to the degree of readiness that was feasible in the face of the range of possible outcomes. In the same survey, companies had continued to report significantly weaker expectations of output, employment and investment in the event of a no-deal, no-transition Brexit.

34 After appearing to weaken around the turn of the year, some indicators of household spending had recovered a little. That would be consistent with ongoing modest growth in consumer spending in 2019 Q1, supported by the recent strength in household incomes. Some leading indicators of housing activity had weakened further, however, and housing investment was expected to fall in the first quarter.

35 As the Committee had previously noted, short-term economic data may provide less of a signal than usual about the medium-term growth outlook.

36 The Committee also discussed the extent to which Brexit uncertainties would continue to affect economic activity looking ahead, most notably business investment. If, for example, businesses judged that uncertainty was likely to fade quickly, then that might lead to a larger immediate reduction in capital expenditure, as they waited for a resolution to emerge. In contrast, a more protracted period of uncertainty might lead to a less abrupt reduction in expenditure if companies judged it too costly to wait for any resolution to become apparent. There was also the possibility of further cliff-edge uncertainties that could have a significant effect on spending as any new deadline approached. And the response of different sectors of the economy would depend on the specific types of investment being undertaken and the expected payback periods of those projects. As greater clarity emerged about the nature and timing of EU withdrawal, the Committee would return to this issue.

37 Aside from Brexit uncertainties, the news since the Committee's previous meeting had been mixed, but the MPC's February *Inflation Report* projections, which were conditioned on a smooth adjustment to the average of a range of possible outcomes for the United Kingdom's eventual trading relationship with the European Union, appeared on track. It was, nevertheless, still the case that a range of assumptions and judgements related to Brexit would need to be updated in due course, once greater clarity emerged about the nature and timing of EU withdrawal.

38 In the February *Report*, global growth had been expected to dip below trend in coming quarters, weighing on UK net trade, before rising to around potential rates. In the Committee's central projection, conditioned on the gently rising path of Bank Rate implied by market yields, quarterly UK GDP growth had been expected to recover later this year, with four-quarter growth rising to 2% by the end of the forecast period. The MPC had judged that demand and potential supply were currently broadly in balance, although a weaker near-term outlook was likely to lead to a small margin of slack opening up this year. Thereafter, demand growth had been expected to exceed the subdued pace of supply growth and excess demand had built over the second half of the forecast period. As a result, domestic inflationary pressures had been expected to firm, while the upward pressure on inflation of sterling's past depreciation waned. Under the assumptions that conditioned the February *Report*, CPI inflation had settled at a rate a little above the target.

39 Since the Committee's last meeting, the broad-based softening in trade and global GDP growth had continued. First-quarter US GDP growth was expected to be 0.2 percentage points weaker than had been expected at the time of the February *Report*. Indicators suggested that euro-area GDP was likely to remain subdued in 2019 Q1, albeit growing at a marginally stronger pace than had been expected at the time of the February *Report*. Weakness in German manufacturing and exports had been particularly pronounced, and appeared in part to reflect the broader slowdown in the global trade cycle and trade tensions. In response to these developments, there had been announcements of more accommodative policies in some major economies, which had contributed to an easing in global financial conditions. In China, activity indicators had also appeared to weaken since the start of the year, but remained broadly in line with the MPC's forecast, and the announcement of additional fiscal easing measures would provide support to demand later in the year.

40 In the United Kingdom, growth in 2018 Q4 had been marginally weaker than expected at the time of the February *Report*, but Bank staff now expected GDP to grow by 0.3% in 2019 Q1, marginally stronger than previously expected. That was despite a further weakening in survey indicators of output since the start of the year, which by themselves suggested somewhat weaker activity.

41 The labour market had remained tight. The unemployment rate had fallen to 3.9% in the three months to January and the number of vacancies had remained elevated over recent months. Employment growth had been robust in the three months to January, although survey indicators suggested that growth could now moderate significantly.

42 CPI inflation had risen slightly to 1.9% in February. It was likely to remain close to the 2% target over coming months, as upside news on energy prices was partially offset by downside news from other factors.

43 Annual pay growth, having risen through 2018, had remained around 3½%. Given continuing weakness in productivity growth, growth in unit wage costs had also risen, although other indicators of domestically generated inflation had remained modest.

44 The Committee discussed the implications of these developments for domestic inflationary pressures. As the pay bill was the most significant part of total costs for the economy, indicators based on unit wage costs were clearly informative about broader inflationary pressures and so their recent strength was notable. There had not appeared to be a strong link from wages to prices recently, however, as evidenced by developments in core services CPI inflation. That could reflect a number of factors, including weakness in other costs facing firms or a reduction in firms' mark-ups over costs. Overall, the Committee judged that underlying inflationary pressures appeared to be broadly on track with the projections underlying the February *Report*.

45 Financial market indicators of UK inflation expectations had fallen a little at shorter horizons, but risen at longer horizons. Most indicators of household and corporate inflation expectations were little changed since the MPC's previous meeting.

46 The Committee turned to its immediate policy decision.

47 The MPC judged at this month's meeting that the current stance of monetary policy was appropriate. The Committee continued to judge that, were the economy to develop broadly in line with its February *Inflation Report* projections, an ongoing tightening of monetary policy over the forecast period, at a gradual pace and to a limited extent, would be appropriate to return inflation sustainably to the 2% target at a conventional horizon.

48 The Governor invited the Committee to vote on the propositions that:

Bank Rate should be maintained at 0.75%;

The Bank of England should maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at £10 billion;

The Bank of England should maintain the stock of UK government bond purchases, financed by the issuance of central bank reserves, at £435 billion.

The Committee voted unanimously in favour of all three propositions.

49 The following members of the Committee were present:

Mark Carney, Chair
Ben Broadbent
Jon Cunliffe
Andrew Haldane
Jonathan Haskel
Dave Ramsden
Michael Saunders
Silvana Tenreyro
Gertjan Vlieghe

Clare Lombardelli was present as the Treasury representative on 13 March and Tom Scholar was present on 18 March.

As permitted under the Bank of England Act 1998, as amended by the Bank of England and Financial Services Act 2016, Bradley Fried was present on 13 and 18 March as an observer for the purpose of exercising oversight functions in his role as a member of the Bank's Court of Directors.