BANK OF ENGLAND

Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 18 September 2019

Publication date: 19 September 2019

These are the minutes of the Monetary Policy Committee meeting ending on 18 September 2019.

They are available at https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2019/september-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 6 November will be published on 7 November 2019.

Monetary Policy Summary, September 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 18 September 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 MPC's previous meeting, the trade war between the United States and China has intensified, and the outlook for global growth has weakened. Monetary policy has been loosened in many major economies. Shifting expectations about the potential timing and nature of Brexit have continued to generate heightened volatility in UK asset prices, in particular the sterling exchange rate has risen by over 3½%.

Brexit-related developments are making UK economic data more volatile, with GDP falling by 0.2% in 2019 Q2 and now expected to rise by 0.2% in Q3. The Committee judges that underlying growth has slowed, but remains slightly positive, and that a degree of excess supply appears to have opened up within companies. Brexit uncertainties have continued to weigh on business investment, although consumption growth has remained resilient, supported by continued growth in real household income. The weaker global backdrop is weighing on exports. The Government has announced a significant increase in departmental spending for 2020-21, which could raise GDP by around 0.4% over the MPC's forecast period, all else equal.

CPI inflation fell to 1.7% in August, from 2.1% in July, and is expected to remain slightly below the 2% target in the near term. The labour market appears to remain tight, with the unemployment rate having been just under 4% since the beginning of this year. Annual pay growth has strengthened further to the highest rate in over a decade. Unit wage cost growth has also risen, to a level above that consistent with meeting the inflation target in the medium term. The labour market does not appear to be tightening further, however, with official and survey measures of employment growth softening.

For most of the period following the EU referendum, the degree of slack in the UK economy has been falling and global growth has been relatively strong. Recently, however, entrenched Brexit uncertainties and slower global growth have led to the re-emergence of a margin of excess supply. Increased uncertainty about the nature of EU withdrawal means that the economy could follow a wide range of paths over coming years. The appropriate response of monetary policy will depend on the balance of the effects of Brexit on demand, supply and the sterling exchange rate.

It is possible that political events could lead to a further period of entrenched uncertainty about the nature of, and the transition to, the United Kingdom's eventual future trading relationship with the European Union. The longer those uncertainties persist, particularly in an environment of weaker global growth, the more likely it is that demand growth will remain below potential, increasing excess supply. In such an eventuality, domestically generated inflationary pressures would be reduced.

In the event of a no-deal Brexit, the exchange rate would probably fall, CPI inflation rise and GDP growth slow. The Committee's interest rate decisions would need to balance the upward pressure on inflation, from the likely fall in sterling and any reduction in supply capacity, with the downward pressure from any reduction in demand. In this eventuality, the monetary policy response would not be automatic and could be in either direction.

In the event of greater clarity that the economy is on a path to a smooth Brexit, and assuming some recovery in global growth, a significant margin of excess demand is likely to build in the medium term. Were that to occur, the Committee judges that increases in interest rates, at a gradual pace and to a limited extent, would be appropriate to return inflation sustainably to the 2% target.

In all circumstances, the Committee will set monetary policy appropriately to achieve the 2% inflation target. The MPC judges at this meeting that the existing stance of monetary policy is appropriate.

Minutes of the Monetary Policy Committee meeting ending on 18 September 2019

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

Monetary and financial conditions

2 Government bond yields and risky asset prices had generally been little changed over the period as a whole since the Committee's previous meeting. That had masked significant falls during August, appearing to reflect the continuing trade war between the United States and China, and wider concerns about the global growth outlook. These asset prices had retraced subsequently. In the United States, ten-year Treasury yields had remained somewhat lower than at the time of the MPC's previous meeting, however.

3 Monetary policy had been loosened in many major economies. Following the Federal Open Market Committee's (FOMC) 25 basis point cut in the target range for the federal funds rate on 31 July, the US instantaneous forward Overnight Index Swap (OIS) curve was now pricing in a further 25 basis point cut at the FOMC's 17-18 September meeting. In the euro area, the ECB Governing Council had announced a package of easing measures on 12 September. This had been composed of: a 10 basis point reduction in the deposit facility rate; the introduction of a two-tier reserve remuneration scheme for banks; a re-starting of net purchases of government and corporate bonds of €20 billion per month under the asset purchase programme, with no set end date specified; and a reduction of up to 20 basis points in the cost of bank funding via a new series of targeted longer-term refinancing operations. The ECB had also strengthened its forward guidance by emphasising that interest rates would remain at their present or lower levels until the inflation outlook robustly converged to its target.

4 UK asset prices had been affected by global developments and also by Brexit news. The instantaneous forward OIS curve had remained slightly downward sloping, but was higher than at the time of the previous MPC meeting. It had risen around the passage of the *European Union (Withdrawal) (No. 6) Bill*, which sought to delay the United Kingdom's departure from the European Union if Parliament by 19 October had neither approved a withdrawal agreement nor endorsed a no-deal exit. The increase in market forward pricing for Bank Rate was broadly consistent with responses to the latest Reuters survey of economists, in which the mean expectation was for Bank Rate to remain on hold over the coming twelve months.

5 The sterling exchange rate index (ERI) had increased by over 3½% since the previous MPC meeting, and by around 1½% compared to the 15-day average on which the August *Inflation Report* had been conditioned. The probability of a no-deal Brexit during 2019 derived from betting odds had fallen sharply around the passage of the *European Union (Withdrawal) (No. 6) Bill*, and the implied probability of the United Kingdom leaving the European Union with a deal this year had risen more recently. A reduction in the perceived probability of an imminent no-deal Brexit had led sterling implied volatilities to fall back from their recent highs. These had remained at elevated levels, however, especially relative to other currency pairs and around the three-month

horizon. Risk reversals had remained strongly negative, suggesting that markets continued to place more weight on a large sterling depreciation than on a large appreciation.

6 UK five-year inflation swap rates, five years forward had been little changed relative to the time of the August MPC meeting. On 4 September, the Chancellor had announced his intention to consult on whether to bring the method of calculating RPI into line with that used for CPIH between 2025 and 2030. On the day, five-year swap rates, five years forward had fallen slightly, although there had been a somewhat larger reaction in longer maturity rates, with the 30-year forward swap rate having fallen by around 20 basis points.

7 UK bank funding costs had been little changed compared with those prevailing at the time of the previous MPC meeting. According to the CBI Industrial Trends Survey, the availability and cost of corporate credit had increased as a concern, but had remained fairly low down the list of factors judged by companies to be limiting investment, with uncertainty about demand continuing to be identified as the most significant constraint. That was consistent with intelligence from the Bank's Agents, with most large companies noting that credit remained readily available. The Agents had, however, noted some indications that credit conditions may be tightening for some small and medium-sized companies, and in a few particular sectors. There had been little news in household credit conditions since the previous MPC meeting.

8 There had been acute volatility in US repo markets towards the end of the period since the MPC's previous meeting, but there had been no spillovers to UK money markets.

The international economy

9 UK-weighted global GDP growth appeared to have been slightly weaker than expected at the time of the August *Inflation Report*. World goods trade and industrial production had fallen in 2019 Q2, by 0.7% and 0.1% respectively. Forward-looking indicators suggested that the near-term outlook was somewhat weaker, with the JP Morgan global manufacturing PMI new export orders index continuing to fall, to its lowest level since 2012.

10 Alongside the data news, the US-China trade war had intensified over the summer. Shortly after the publication of the August *Report*, the United States administration had announced increases of existing tariffs on $250 billion of imports from China, from 25% to 30%, and had introduced new tariffs of 15% on most of the remaining $300 billion of US imports from China. Almost all US imports from China were now subject to significantly higher tariff rates than at the start of 2018. The Chinese authorities had retaliated, with tariffs of 5-10% applied to some goods on a $75 billion target list. The implementation of a subset of the latest round of tariff increases had subsequently been delayed by two weeks to 15 October.

11 With bilateral tariffs between the United States and China now approximately 20 percentage points higher than at the start of 2018, the Committee discussed both the marginal economic impact of the latest developments and the cumulative impact of the trade war. Bank staff continued to expect that the direct economic impacts would, in themselves, be relatively small, as tariff rates and their coverage increased. There had also been increasing evidence, however, that, combined with confidence and sentiment effects, the trade

war was having a material negative impact on global business investment growth. There had, moreover, been few signs of significant offsetting effects from trade diversion.

12 Euro-area GDP growth had slowed to 0.2% in 2019 Q2, in line with the previous release, but down from 0.4% in Q1. The slowdown had been most notable in Germany, where GDP had contracted by 0.1%. Italy had recorded flat GDP on the quarter, while French GDP growth had held up at 0.3%. The near-term euro-area outlook continued to look subdued, with the manufacturing PMI having remained close to the 50 no-change mark since the start of the year. Bank staff now judged that GDP growth in the euro area would be 0.2% in Q3, unchanged from Q2, but 0.1 percentage points lower than had been expected at the time of the August *Report*. The package of easing measures announced by the ECB was expected to provide support to the outlook.

13 US GDP had grown by 0.5% in 2019 Q2, unrevised from the advance estimate.   Annual GDP revisions for the past five years had left the level of GDP little changed, but growth was now estimated to have moderated to a greater degree in 2018, suggesting somewhat weaker momentum. Growth over the recent past also appeared to have been more reliant on consumption and government spending, with contributions from business investment and exports having been revised down. Recent indicators of investment and manufacturing had, on balance, weakened, perhaps reflecting the impact of trade tensions. Overall, however, Bank staff judged that Q3 GDP growth would come in a touch stronger than expected at the time of the August *Report*, at 0.6%, reflecting robust household consumption.

14 In China, key activity indicators had been broadly consistent with the slowing in growth expected at the time of the August *Report*. Although volatile, annual industrial production growth had slowed to 4.4% in August, well below market expectations and the weakest reading in 17 years. Annual retail sales growth had fallen by over 2 percentage points in August, to 7.5%, reflecting a contraction in car sales on the month following the implementation of new emission standards. Fixed-asset investment had slowed marginally in August, to 5.5%, although the Caixin services PMI had risen slightly. On balance, activity indicators suggested that domestic growth momentum had weakened, and that the US-China trade war could be having a more meaningful impact on growth. In Hong Kong, GDP had contracted by 0.4% in 2019 Q2, compared with a rise of 1.3% in Q1. This slowing, however, was not anticipated to have a large direct impact on the Chinese outlook, given the relatively small size of the Hong Kong economy compared with mainland China.

15 GDP data for non-China emerging market economies in 2019 Q2 had been mixed, but broadly in line with the August *Report*. A weighted average of manufacturing PMIs for seven major emerging market economies had declined slightly in August, although services PMIs had generally held up in July and August.

16 Spot oil prices were broadly unchanged since the August *Report*, at around $64 per barrel. Prices had initially fallen following the MPC’s previous meeting, reflecting increased trade tensions against a backdrop of weakening global demand. They had risen sharply following the attacks on Saudi Arabia’s oil supply infrastructure.

17 Euro-area annual HICP inflation had been stable, at 1.0%, in August, and core HICP inflation had also remained weak, at 0.9%. Wage growth had continued to firm, however, to 2.7% on a year earlier in 2019 Q2, the highest rate since the start of the series in 2010.

18 US annual headline and core PCE inflation had remained soft in July, at 1.4% and 1.6% respectively. Most of the easing in core inflation since last December had been accounted for by the clothing and the financial services and insurance components, both of which appeared to have been affected by temporary factors. Annual headline CPI inflation had eased to 1.7% in August, in contrast to core CPI inflation which had picked up to 2.4%, its highest rate since July 2018.

Demand, output, money and credit

19 In the United Kingdom, GDP had fallen by 0.2% in 2019 Q2, 0.2 percentage points weaker than had been expected at the time of the August *Inflation Report*. That news had reflected small downward revisions to monthly GDP growth in April and May. Monthly GDP in July had risen by 0.3%, stronger than Bank staff's expectations.

20 Bank staff's nowcast for GDP growth in 2019 Q3 as a whole had been revised down slightly to 0.2%, from 0.3% at the time of the August *Report*. Mechanically that downward revision could be attributed to a smaller-than-expected boost to GDP growth from car production. Updated intelligence from the Bank's Agents suggested that some vehicle manufacturers had shut down as usual in the summer, in addition to previous shutdowns in April as part of Brexit-related contingency plans that had pushed down Q2 GDP growth. One car manufacturer had recently announced a further shutdown at the end of October and the beginning of November, and it was possible that other manufacturers could follow suit, pushing down Q4 GDP growth.

21 Uncertainty about the extent and timing of Brexit-related adjustments to companies' inventory holdings in the United Kingdom and in the European Union had persisted. Based on the latest available official output and expenditure data, Bank staff judged that a decline in stockbuilding was likely to have subtracted between 0.1 and 0.2 percentage points from UK GDP growth in 2019 Q2, net of its impact on exports and imports, following a similar-sized boost to GDP growth in Q1. There had not yet been clear signs from most business surveys that stock levels were being increased ahead of the 31 October Brexit deadline, at least in the United Kingdom, although the balance of responses to the latest Bank's Agents' Brexit survey and Decision Maker Panel (DMP) suggested that a small boost to GDP from stockbuilding was likely during the autumn.

22 Looking through recent movements in the most volatile components of GDP, the Committee judged that underlying growth in the first half of this year had been weaker than in 2017 and 2018, though still slightly positive. The available indicators suggested a similarly weak picture for Q3.

23 Business investment had fallen by 0.5% in 2019 Q2 and had now declined in five of the past six quarters. Contacts of the Bank's Agents had continued to report weak investment intentions, in part due to the soft global environment but primarily due to Brexit uncertainties. Results from the Agents' latest Brexit survey suggested that companies who judged themselves not ready for a no-deal Brexit had the weakest investment intentions, and that they were also expecting the weakest output and employment outturns over the next year in a no-deal scenario. There had been a rise in the proportion of respondents to the August DMP reporting that Brexit was one of their top three sources of uncertainty. Disaggregated results from the DMP suggested that the recent

pickup in uncertainty had been broadly based across companies. While the level of uncertainty had remained highest for those who exported the most to the European Union, it had also risen for other firms exposed to the European Union through more indirect channels such as imports and migrant labour.

24 Official external trade data had been especially volatile over the course of this year in part due to the effects of Brexit-related stockbuilding on exports and imports. The trade data had also been distorted by swings in flows of non-monetary gold that had widened the UK's trade deficit significantly in 2019 Q1, but unwound subsequently, such that the current account deficit was also likely to have narrowed markedly in Q2. The Bank's Agents' score for manufacturing export growth had continued to fall, with intelligence pointing to a negative impact from global trade tensions in particular. Some of the Agents' contacts had also reported that EU-based customers had become more nervous about the risk of supply disruption in the event of a no-deal Brexit.

25 Following growth of 0.6% in 2019 Q1, household consumption had risen by 0.5% in Q2, stronger than expected in the August *Report*. That had been slightly below the growth in real household labour income over the same period. More recently, retail sales volumes had grown by 0.5% in the three months to July. Consumer confidence had fallen back sharply in August, although that had only slightly more than unwound the increase in confidence recorded in July. House prices had been broadly flat on most measures over recent months. Mortgage approvals for house purchase had continued to edge up, although HMRC property transactions had weakened, even following upward revisions to initial estimates that may have been distorted downwards by a change in reporting requirements. Housing investment had fallen by 0.8% in Q2, and had now declined in four of the past six quarters.

26 The Government had announced a significant increase in departmental current spending for fiscal year 2020-21 in *Spending Round 2019*. All else equal, Bank staff estimates suggested that this could raise GDP by around 0.4% over the MPC's forecast period.

Supply, costs and prices

27 Twelve-month CPI inflation had fallen to 1.7% in August, from 2.1% in July, in line with staff expectations immediately prior to the release. Core CPI inflation had declined to 1.5% and core services CPI inflation had been 2.0%.

28 CPI inflation was expected to remain slightly below the MPC's 2% target over the remainder of 2019. Energy prices were the main driver of the near-term profile. Base effects would push down inflation over the next couple of months, before gas and electricity prices were due to fall in October as a result of Ofgem's updated price caps. In January 2020, the drag from energy prices would be likely to wane due to the implementation of Ofgem's main price cap in January 2019 dropping out of the annual comparison.

29 Recent data releases had continued to show a divergence between price and labour cost-based measures of domestically generated inflation. A proxy for the annual growth of private sector unit wage costs,

based on regular pay data, had reached 3.9% in 2019 Q2, a ten-year high and above the range consistent with the 2% inflation target. That had reflected strengthening wage growth and weak productivity growth.

30 Regular pay in the private sector had risen by 4.0% in the year to 2019 Q2, its highest rate for eleven years. It had fallen back to 3.9% in the three months to July, but that was still 0.2 percentage points higher than projected in the August *Report*. Growth in whole economy total pay had reached 4.0%, the highest since June 2008 and 0.4 percentage points stronger than expected in the August *Report*. That had partly been driven by upside news in bonuses, which had been particularly strong in the construction and public sectors. The median private sector settlement from the Bank's database had risen from 2.6% in the twelve months to September 2018 to 2.9% in September 2019. Base effects were likely to depress pay growth over the coming months, although private sector unit wage costs were still likely to have risen at rates above target-consistent levels in Q3.

31 The unemployment rate had fallen to 3.8% in the three months to July, reversing the rise recorded in June. That was 0.1 percentage points higher than expected in the August *Report*. The unemployment rate had been relatively stable throughout 2019, fluctuating between 3.8% and 3.9% since January.

32 Employment growth had been weak in 2019 compared with recent years and available indicators suggested that this weakness would continue. Employment growth had fallen to 0.1% in the three months to July, and the employment rate had edged back down to 61.5%. The increase in the number of people employed had been driven largely by increasing full-time employment. Looking ahead, the Agents' employment intentions score had fallen somewhat and the REC headline index was now a full standard deviation below its historical average. Vacancies had continued to decline in the three months to August, and were around 6% lower than their peak in the three months to January. Given the declines in unemployment, the reduction in the ratio of vacancies to unemployment had been smaller.

33 The Committee discussed the implications of recent developments for the degree and composition of spare capacity in the economy. Since the MPC's previous annual review of the supply side of the economy in February, the weakening in underlying GDP growth implied that a margin of spare capacity had opened up in the economy, assuming that supply had continued to evolve relatively smoothly. It was not clear that slack had emerged in the labour market, however. Unemployment had remained below the MPC's judgement of the equilibrium unemployment rate, of 4¼%, labour participation had remained robust and there had been limited news in average hours worked. There were signs of emerging slack within firms, consistent with both the IHS Markit/CIPS and CBI survey measures of capacity utilisation decreasing over the past year. The Agents' capacity utilisation score had also fallen recently, albeit to a somewhat smaller degree.

34 While supply side variables typically moved relatively slowly and smoothly, it was notable that productivity growth appeared to have weakened further so far this year. Econometric analysis using responses from the Decision Maker Panel suggested that Brexit uncertainties had depressed productivity growth through several channels since the referendum. One channel had been via the diversion of resources, with, for example, a number of companies reporting that their senior executive officers had spent time preparing for Brexit. That would be detracting from output and productivity growth, although probably only temporarily. Brexit

uncertainties could also be having a more persistent negative impact on potential supply, through channels such as reduced investment and the reallocation of activity away from more productive internationally exposed firms. If supply growth had weakened, that could imply that not all of the recent softening in GDP growth had led to an increase in excess supply. The Committee would continue to monitor closely the evolution of the supply side of the economy in response to Brexit.

35 While there had been no new data on corporate inflation expectations since the Committee's previous meeting, measures of households' shorter-term inflation expectations had risen slightly. That was consistent across the Bank of England/TNS Inflation Attitudes Survey and the measures from the Citi, Barclays Basix and the GfK surveys. The latest Inflation Attitudes Survey had asked about the impact of Brexit on respondents' one-year and two-year ahead inflation expectations. At those horizons, 50% and 44% of respondents respectively had reported that Brexit had raised their inflation expectations, compared with around 10% of respondents at both horizons saying that it had lowered their inflation expectations. By contrast, measures of households' longer-term inflation expectations had either been broadly flat or had fallen slightly.

The immediate policy decision

36 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 against a backdrop, more recently, of weaker global growth, 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.

37 The Committee reviewed global and domestic developments since its previous meeting.

38 The outlook for global growth had weakened as the trade war between the United States and China had intensified. UK-weighted global GDP growth appeared to have been slightly weaker than expected at the time of the August *Inflation Report*, driven largely by developments in the euro area. The German economy, and its industrial sector in particular, had been sensitive to the weakness in global trade. The quality of global growth also appeared to have deteriorated, as investment growth across advanced economies had weakened. Set against that, economic and financial imbalances appeared, at the global level, to be smaller than in the past.

39 Monetary policy had been loosened in many major economies, including in the euro area where a package of easing measures announced by the ECB was expected to provide support to the outlook.

40 Although there had not been much news from global financial markets by the end of the period leading up to the MPC's September meeting, the sharp falls in government bond yields observed during August had continued a downward trend that had been in place for almost a year. The declines over that latter period had reflected both lower real interest rates and, away from the United Kingdom, a reduction in implied inflation

compensation. These moves partly reflected the impact of the US-China trade war, including its broader effects on confidence and sentiment. In addition, they could have reflected a judgement by market participants that the global equilibrium interest rate was lower than they had previously thought.

41 Shifting expectations about the potential timing and nature of Brexit had continued to generate heightened volatility in UK asset prices. The sterling exchange rate and market forward pricing of Bank Rate had both risen as the perceived probability of a no-deal Brexit had fallen. The implied probability of the United Kingdom leaving the European Union with a deal this year had also increased more recently. Sterling implied volatilities had remained at elevated levels.

42 Brexit-related developments, such as stockbuilding and shutdowns in car production around previous Brexit deadlines, were making UK economic data more volatile. GDP had fallen by 0.2% in 2019 Q2 and was now expected to rise by 0.2% in Q3, compared with 0.3% at the time of the August *Report*. That small downward revision to the Q3 nowcast could be attributed to a smaller-than-expected boost to GDP growth from car production, as some vehicle manufacturers had shut down again over the summer in addition to closures in April. Business surveys of companies' output had remained weak, and the latest indicators of output expectations had declined further. The Committee judged that underlying growth had slowed, but remained slightly positive.

43 Brexit uncertainties, and more recently the slowing global economy, had weighed on business investment, which had now declined in five of the past six quarters. There had been a rise in the proportion of respondents to the Decision Maker Panel (DMP) reporting that Brexit was one of their top three sources of uncertainty. The weaker global backdrop was weighing on exports. Consumption growth had remained resilient, however, supported by continued growth in real household income.

44 The Government had announced a significant increase in departmental spending for 2020-21, which could raise GDP by around 0.4% over the MPC's forecast period, all else equal.

45 The labour market appeared to remain tight, although it was possible that some recent developments were lagging the broader weakness in economic activity. The unemployment rate had been just under 4% since the beginning of this year and, though the number of vacancies had fallen, the vacancies to unemployment ratio had remained fairly close to its previous high. Employment growth had been weak in the first two quarters of 2019 and the available indicators suggested that this weakness would continue. So, although it was too early to judge that the labour market was loosening, it did not appear to be tightening further.

46 Given the recent weakness in activity, the Committee judged that a degree of excess supply appeared to have opened up in the economy, and that this was most likely to be situated within companies. That was consistent with the movements in some, though not all, survey measures of capacity utilisation. It was hard to be precise about the degree of emerging spare capacity in the economy, however. In particular, the DMP suggested that productivity growth had weakened due to the response of companies to Brexit uncertainties. That could imply that part of the recent softening in activity had reflected a reduction in supply growth, rather than it all having fed through to an increase in excess supply.

47 CPI inflation had fallen to 1.7% in August, from 2.1% in July. It was expected to remain slightly below the 2% target in the near term, before rising close to the target at the beginning of next year, mainly reflecting developments in energy prices. Annual pay growth had strengthened further to the highest rate in over a decade. Unit wage cost growth had also risen, to a level above that consistent with meeting the inflation target in the medium term, although core services CPI inflation had remained slightly below target-consistent levels.

48 The Committee turned to its immediate policy decision.

49 For most of the period following the EU referendum, the degree of slack in the UK economy had been falling and global growth had been relatively strong. Recently, however, entrenched Brexit uncertainties and slower global growth had led to the re-emergence of a margin of excess supply. Increased uncertainty about the nature of EU withdrawal meant that the economy could follow a wide range of paths over coming years. The appropriate response of monetary policy would depend on the balance of the effects of Brexit on demand, supply and the sterling exchange rate.

50 It was possible that political events could lead to a further period of entrenched uncertainty about the nature of, and the transition to, the United Kingdom's eventual future trading relationship with the European Union. The longer those uncertainties persisted, particularly in an environment of weaker global growth, the more likely it was that demand growth would remain below potential, increasing excess supply. In such an eventuality, domestically generated inflationary pressures would be reduced.

51 In the event of a no-deal Brexit, the exchange rate would probably fall, CPI inflation rise and GDP growth slow. The Committee's interest rate decisions would need to balance the upward pressure on inflation, from the likely fall in sterling and any reduction in supply capacity, with the downward pressure from any reduction in demand. In this eventuality, the monetary policy response would not be automatic and could be in either direction.

52 In the event of greater clarity that the economy was on a path to a smooth Brexit, and assuming some recovery in global growth, a significant margin of excess demand was likely to build in the medium term. Were that to occur, the Committee judged that increases in interest rates, at a gradual pace and to a limited extent, would be appropriate to return inflation sustainably to the 2% target.

53 In all circumstances, the Committee would set monetary policy appropriately to achieve the 2% inflation target.

54 The MPC judged at this meeting that the existing stance of monetary policy was appropriate.

55 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.

56 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

Vanessa MacDougall was present as the Treasury representative.

As permitted under the Bank of England Act 1998, as amended by the Bank of England and Financial Services Act 2016, Bradley Fried and Dorothy Thompson were present on 12 September as observers for the purpose of exercising oversight functions in their role as members of the Bank's Court of Directors.