Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 4 November 2020

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These are the minutes of the Monetary Policy Committee meeting ending on 4 November 2020.

They are available at https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2020/november-2020.

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 16 December will be published on 17 December 2020.

Monetary Policy Summary, November 2020

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. In that context, its challenge at present is to respond to the economic and financial impact of the Covid pandemic. At its meeting ending on 4 November 2020, the MPC voted unanimously to maintain Bank Rate at 0.1%. The Committee voted unanimously for the Bank of England to maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at £20 billion. The Committee voted unanimously for the Bank of England to continue with the existing programme of £100 billion of UK government bond purchases, financed by the issuance of central bank reserves, and also for the Bank of England to increase the target stock of purchased UK government bonds by an additional £150 billion, financed by the issuance of central bank reserves, to take the total stock of government bond purchases to £875 billion.

Since the Committee's previous meeting, there has been a rapid rise in rates of Covid infection. The UK Government and devolved administrations have responded by increasing the severity of Covid restrictions. All restrictions announced up to and including 31 October have been reflected in the Committee's judgements.

There are signs that consumer spending has softened across a range of high-frequency indicators, while investment intentions have remained weak. The Committee's latest projections for activity and inflation are set out in the accompanying November *Monetary Policy Report*. These assume that developments related to Covid will weigh on near-term spending to a greater extent than projected in the August *Report*, leading to a decline in GDP in 2020 Q4.

Household spending and GDP are expected to pick up in 2021 Q1, as restrictions loosen. The level of activity in the first quarter is expected to remain materially lower than in 2019 Q4. UK trade and GDP are also likely to be affected during an initial period of adjustment, over the first half of next year, as the United Kingdom leaves the Single Market and Customs Union on 1 January and is assumed to move immediately to a free trade agreement with the European Union.

Over the remainder of the forecast period, GDP is projected to recover further as the direct impact of Covid on the economy is assumed to wane. Activity is also supported by the substantial fiscal policies already announced and accommodative monetary policy. The recovery takes time, however, and the risks around the GDP projection are judged to be skewed to the downside.

The fall in activity over 2020 has reflected a decline in both demand and supply. Overall, there is judged to be a material amount of spare capacity in the economy. The LFS unemployment rate rose to 4.5% in the three months to August, but it is likely that labour market slack has increased by more than implied by this measure. The extended Coronavirus Job Retention Scheme and new Job Support Scheme will mitigate significantly the impact of weaker economic activity on the labour market. The unemployment rate is expected to peak at around 7¾% in 2021 Q2. Beyond that point, spare capacity is expected to be eroded as activity picks up, and a small degree of excess demand emerges over the second half of the forecast period.

Twelve-month CPI inflation increased to 0.5% in September, but remained well below the MPC's 2% target, largely reflecting the direct and indirect effects of Covid on the economy. These include the temporary impact of lower energy prices and the reduction in VAT, as well as some downward pressure from spare capacity. CPI inflation is expected to remain at, or just above, ½% during most of the winter, before rising quite sharply towards the target as the effects of lower energy prices and VAT dissipate. In the central projection, conditioned on prevailing asset prices, inflation is projected to be 2% in two years' time.

The outlook for the economy remains unusually uncertain. It depends on the evolution of the pandemic and measures taken to protect public health, as well as the nature of, and transition to, the new trading arrangements between the European Union and the United Kingdom. It also depends on the responses of households, businesses and financial markets to these developments.

At this meeting, the MPC judges that a further easing of monetary policy is warranted. The Committee agreed to increase the target stock of purchased UK government bonds by an additional £150 billion in order to meet the inflation target in the medium term, taking the total stock of government bond purchases to £875 billion. The Committee will keep the asset purchase programme under review.

The MPC will continue to monitor the situation closely. If the outlook for inflation weakens, the Committee stands ready to take whatever additional action is necessary to achieve its remit. The Committee does not intend to tighten monetary policy at least until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% inflation target sustainably.

Minutes of the Monetary Policy Committee meeting ending on 4 November 2020

1 Before turning to its immediate policy decision, and against the backdrop of its latest economic projections, the Committee discussed: the international economy; financial markets; credit conditions and monetary developments; demand and output; and supply, costs and prices.

The international economy

2 The recovery in global activity, which had begun over May and June, had continued in 2020 Q3, with UK-weighted world GDP estimated to have grown by around 8¼% on the quarter. But Covid cases had accelerated in September and October, particularly in advanced economies, and governments had re-imposed restrictions, most notably in Europe. Global output growth looked likely to slow in the fourth quarter.

3 According to the preliminary flash estimate, euro-area GDP had increased by 12.7% in 2020 Q3, significantly stronger than expected, leaving its level around 4½% lower than in 2019 Q4.

4 The prospects for euro-area growth in 2020 Q4 had deteriorated, however. In the largest euro-area economies, Covid cases had risen sharply since the summer, and countries had imposed progressively tighter restrictions through the autumn. The economic effect of such measures added to the impact of voluntary social distancing in response to infection risk, both of which were likely to weigh on euro-area activity in Q4. Mobility indices had dropped in late September and October, internet searches related to social spending had fallen, and the recovery in retail sales had stalled. There had been a broad-based fall in the October services PMIs, although changes in the manufacturing indices had been more differentiated, broadly in line with the pattern of restrictions across individual countries.

5 The euro-area unemployment rate had remained unchanged in September at 8.3%. This was materially lower than would typically have been implied by the weakness of output, largely reflecting the impact of employment support schemes.

6 US GDP had increased by 7.4% in 2020 Q3, according to the advance estimate, higher than expected immediately prior to the release. The level of output was around 3½% lower than in 2019 Q4. This had been a stronger recovery than expected at the time of the August *Monetary Policy Report*.

7 Indicators for early 2020 Q4 suggested that US economic activity had continued to hold up relatively well, though with clear downside risks, given the rise in Covid cases. High-frequency card spending data up to mid-October suggested that aggregate household spending had been only a little below January levels, though with some evidence of greater caution in states that had seen the biggest rise in cases. The labour market had recovered more rapidly than anticipated, although the pace of improvement had slowed. The unemployment rate had fallen further in September, to 7.9%, compared to a peak of 14.7% in April, and non-farm payrolls had increased by 661,000. However, a new fiscal support package had yet to be agreed following the expiry of

extended enhanced unemployment insurance in most states. The MPC's November *Report* projections were conditioned on such a fiscal package being passed in 2021 Q1.

8 According to the National Bureau of Statistics, GDP in China had increased by 4.9% in 2020 Q3 on a year earlier, following a sharp contraction in Q1 and a strong recovery in Q2, leaving it 3% above its level in 2019 Q4. Industrial production had continued to drive the recovery, growing by 6.9% in September on a year earlier, although the rate of services growth had also risen to 5.4% on a year earlier, and retail sales growth had been unexpectedly positive.

9 Chinese export and import volumes had continued to grow strongly, and there was evidence that this had driven the relative resilience of world goods trade, which had increased by 6.8% in the three months to August, relative to the previous three months. For much of this year so far, trade between China and the United States and between China and the euro area had been much stronger than those economies' trade with the rest of the world. China, having emerged from lockdown earlier than other economies, had been a key driver for international trade, and Chinese exports had been particularly strong for products that had helped to support economies through the pandemic, such as medical equipment and technical products.

10 In other emerging market economies, signs of a recovery had continued to firm. In particular, the average manufacturing PMI across seven large non-China emerging market economies had risen again in October to 54.8. Indicators of mobility and services activity had picked up from their troughs, although they had remained below their levels at the beginning of the year.

11 The Brent spot oil price was $39 per barrel, broadly unchanged relative to the time of the MPC's previous meeting, as a weaker-than-expected outlook for demand had been offset by news of lower supply. There had been some divergence across countries in recent inflation outturns. In the euro area, the twelve-month headline and core HICP inflation rates had remained unchanged at very low levels in October, according to the flash estimate, at -0.3% and 0.2% respectively. In the United States, annual headline and core PCE inflation had ticked up again in September, to 1.4% and 1.5% respectively.

Financial markets

12 Major global equity price indices had fallen since the September MPC meeting, although the S&P 500 had fallen by less than the FTSE All-Share and the Eurostoxx equity indices. The relative underperformance of European equities was consistent with the resurgence of Covid cases in Europe. The FTSE All-Share had fallen to its lowest level since mid-April. UK-focused equities had increased over the period, in part reflecting developments in trade negotiations between the United Kingdom and the European Union, but had fallen back more recently, following global moves. The VIX, a measure of US equity market implied volatility, had risen recently. Advanced economy high-yield and investment-grade corporate bond spreads had also generally risen more recently but had remained below their average levels in 2020.

13 Since the September MPC meeting, US ten-year government bond yields had risen, while euro-area yields had fallen and UK yields had been broadly unchanged. US five-year inflation swap rates, five years

forward, had increased whereas corresponding measures for the euro area had fallen and for the United Kingdom had remained broadly unchanged.

14 At its meeting on 16 September, the Federal Open Market Committee had left unchanged its target range for the federal funds rate and the pace of asset purchases. The ECB Governing Council had left its key policy interest rates and operations unchanged at its 29 October meeting. In its accompanying statement, the Governing Council had stated that it would recalibrate its instruments as appropriate to respond to developments and ensure that financing conditions remained favourable to support the economic recovery. Market contacts expected that a substantial stimulus package would be announced at the ECB's December meeting.

15 Since the September MPC meeting, the UK three-year instantaneous forward Overnight Index Swap (OIS) rate had been broadly unchanged. The market-implied path for Bank Rate was little changed since the August *Monetary Policy Report*, with the trough of the OIS curve implying a reduction in Bank Rate of around 15 basis points by the first half of 2022. Market contacts expected the MPC to announce an extension to the asset purchase programme at its November meeting of around £100 billion.

16 The sterling effective exchange rate index had appreciated by around 2% since the September MPC meeting and was a little higher compared to the August *Report* 15-day average, perhaps reflecting greater confidence among market participants that a trade agreement would be reached between the United Kingdom and the European Union before the end of the Withdrawal Agreement implementation period on 31 December 2020. Measures of uncertainty around the outlook for the exchange rate, such as sterling option-implied volatilities over the next six months, had fallen since the September MPC meeting, although they had remained slightly higher than at the time of the August *Report*. Sterling-US dollar and sterling-euro six-month risk reversals had risen since the September MPC meeting but had remained negative, indicating that perceived risks to the exchange rate continued to be skewed to the downside.

Credit conditions and monetary developments

17 Quoted rates on new fixed-rate mortgages had continued to rise in October. Since August, the interest rate on two-year fixed-rate mortgages with 75% and 90% loan-to-value ratios (LTV) had increased by 26 and 76 basis points respectively. Interest rates on 90% LTV mortgages were at their highest level since 2015. With risk-free reference rates broadly unchanged since the August *Monetary Policy Report,* spreads on mortgages had therefore widened as well, although they had remained well below the levels seen in the first few years after the global financial crisis.

18 The Committee discussed possible explanations for these moves in mortgage interest rates. Demand for new loans had been very strong, boosted by the easing of Covid restrictions and the resulting release of pent-up demand in the housing market. Demand was also likely to have been strengthened by the temporary increase in the Stamp Duty threshold in England and Northern Ireland, and similar measures in Scotland and Wales. Mortgage approvals for house purchase had risen to 91,500 in September, their highest monthly level since 2007. House price indicators, based on asking prices and mortgage approvals data, had increased by between

3% and 5% since January, with the official UK House Price Index, using less timely completions data, also picking up.

19 There had been some evidence of operational constraints in the mortgage market. Supervisory intelligence suggested that, although some lenders had increased capacity to meet higher demand, pricing was being used as the primary tool to manage demand within lenders' operational constraints. Such constraints might be expected to be relatively short-lived.

20 More generally, the supply of mortgage products had remained constrained, especially at high LTVs, continuing the trend since the August *Report*. Lenders responding to the 2020 Q3 Credit Conditions Survey conducted in mid-September had reported that, having tightened sharply over the previous quarter, overall secured credit availability had increased slightly during the period from June to August, but was expected to remain unchanged in the period from September to November. Supervisory intelligence had suggested that, in part, the tightening of conditions at higher LTVs in recent months appeared to have reflected higher borrower credit risk. This might be expected to be somewhat more persistent than the effects of operational constraints.

21 In the run-up to the MPC's November meeting, HM Treasury and the FCA had announced extensions to the payment holidays for mortgages and for consumer credit available to borrowers affected by the pandemic.

22 Net unsecured consumer credit had fallen slightly on the month in September as gross repayments had exceeded gross lending, with both series remaining below their February levels.

23 In September, net finance raised by private non-financial corporations (PNFCs) had been close to zero. Within this, strong equity issuance had been offset by net repayments of bonds and commercial paper. There had continued to be a divergence between companies by size, with larger companies having repaid around £6 billion of bank lending, while smaller companies had drawn down a further £1.6 billion of lending. The 2020 Q3 Credit Conditions Survey had shown a decrease in demand for lending from medium and larger PNFCs. The Bank's Agents had reported a pickup in demand for credit among smaller businesses reflecting, in part, renewed restrictions and the need to make payments that had previously been deferred.

24 The Chancellor had recently announced an extension of applications for the Government's Coronavirus loan schemes until the end of January.

Demand and output

25 The recent rise in the number of Covid cases and associated social distancing measures were likely to weigh on activity in the near term, with GDP expected to fall in 2020 Q4 and to be at a level around 9% lower in 2021 Q1 than in 2019 Q4. Heightened England-wide Covid restrictions on economic activity had been announced for the period 5 November to 2 December, following an intensification of regional and sub-regional tiered restrictions. Unlike during the period of earlier restrictions, schools and higher education establishments would remain open. The Scottish Government had announced a new five-level system of restrictions from 2

November. The firebreak lockdown in Wales would end on 9 November, after just over two weeks, and a four-week period of heightened restrictions in Northern Ireland would end on 13 November.

26 The Quarterly National Accounts had shown a fall in the level of GDP of 22% between 2019 Q4 and 2020 Q2.

27 According to the latest monthly estimate, GDP had increased by 2.1% in August, and by 22% relative to its April trough. More than half of the pickup on the month in August had been accounted for by a sharp rise in accommodation and food services output, supported in part by the Government's Eat Out to Help Out (EOHO) scheme. Bank staff estimated that GDP in September had grown at a similar rate to that in August, leaving the level of GDP in 2020 Q3 as a whole 9% below its 2019 Q4 level and in line with the August *Monetary Policy Report* projection.

28 The recovery in GDP to date had been led by higher household consumption. Retail sales had increased by a further 1.5% in September, moving 5.3% above the 2019 Q4 average. Social and work-related spending had also recovered much of their falls earlier in the year, but had remained materially lower in absolute terms. Bank staff estimated that aggregate consumption in 2020 Q3 had been around 5% below its 2019 Q4 level, having been 26% lower in Q2.

29 More recently, there had been signs that consumer spending had softened across a range of high-frequency indicators, amid an increase in the number of Covid cases and the introduction of renewed restrictions. The number of visitors to retail and recreation venues, such as shopping centres, cinemas and restaurants had fallen in recent weeks, although the latter had in part reflected the end of the EOHO scheme. Indicators of travel journeys, such as public transport usage and motor vehicle traffic, had also edged back down. These trends had been consistent with a moderation in social and work-related spending. There was likely to be a partial offset through higher spending via online channels and on other goods and services, however.

30 The Government had announced further significant fiscal measures in its Winter Economy Plan and subsequently. These had included additional spending on public services, job support schemes and business grants. The Government had also stated that a one-year Spending Review would be announced on 25 November.

31 Business investment had lagged behind other components of spending, and investment intentions had remained weak. Companies in the October Decision Maker Panel (DMP) had reported investment being 25% lower in 2020 Q3 due to the pandemic. Expectations of investment spending over the next year had also fallen. The Bank's Agents had reported that a few paused investment projects had been reinstated, although elevated uncertainty had continued to weigh on investment decisions more generally. Almost three-quarters of businesses in the October DMP had thought uncertainty was high or very high, a slight increase on the month and much higher than at the beginning of the year, with Covid being one of the top three sources of uncertainty for 80% of firms, and Brexit for around a half of them. Information from the Agents and the DMP had been gathered before the heightened England-wide restrictions had been announced on 31 October.

32 The November *Report* projections had been conditioned on the United Kingdom leaving the Single Market and Customs Union on 1 January with an immediate move to a free trade agreement with the European Union. As businesses adjusted to the introduction of those new trading arrangements, some reduction in trade was anticipated. As set out in the November *Report*, there was a wide range of survey evidence on the degree of preparedness among companies, with those more exposed to a change in trading terms tending to be less prepared. Around half the respondents to the Agents' survey intended to increase the amount of stocks they were holding in the run-up, alongside other measures.

Supply, costs and prices

33 The LFS unemployment rate had risen to 4.5% in the three months to August, but it was likely that labour market slack had increased by more than implied by this measure. The average number of hours worked had risen further, but remained around 14% below its 2019 Q4 level.

34 The ONS had published re-weighted estimates of its LFS data in the latest labour market release to help to control for the sharp fall in responses to the survey among households living in rented accommodation since the onset of the pandemic. This re-weighting had led to the level of LFS employment being revised down by 314,000 in the three months to July, with the bulk of these revisions concentrated in a lower level of participation in the labour market rather than higher unemployment. In the three months to August, LFS employment had fallen by 153,000. This was more than accounted for by declines in self-employment. The number of employees had risen slightly and was estimated to have been 41,000 higher than in the three months to February. HMRC administrative data, however, which the ONS judged to be the best current data source for employee numbers, pointed to a fall of 673,000 over that same period. The ONS had continued to note the challenges associated with collecting labour market statistics at this time, and an article accompanying its most recent release raised the possibility of further revisions to the LFS in the future as its methodology continued to be refined.

35 According to the latest ONS Business Impact of Covid-19 Survey, the preliminary estimate of the number of private sector employees continuing to use the Coronavirus Job Retention Scheme (CJRS) had fallen further, to around 1¾ million employees. Other timely labour market news had generally improved over recent weeks. The stock of job vacancies had risen to around 40% below its usual level, although new vacancies in the accommodation and food services sectors had fallen back quite sharply. The number of notifications of 20 or more redundancy intentions in any single establishment had fallen back to less than half of the levels reported in June and July, although it had remained elevated by historical standards. Employment intentions reported to the Bank's Agents had remained very weak overall, although contacts in some sectors reported taking on staff to meet increased demand.

36 There had been a series of fiscal announcements relating to the labour market since the MPC's previous meeting. The Winter Economy Plan had included a six-month Job Support Scheme (JSS) and a Self-Employment Income Support Scheme Grant Extension (SEISS). Subsequently, the JSS had been expanded to support businesses required to close their premises due to local or national Covid restrictions. For companies

remaining open but facing low demand, the JSS had been further amended such that the incentives for its take-up were broadly similar to those under the CJRS during the August to September period. That announcement had also increased the amount of monthly trading profits covered by the SEISS from 20% to 40%.

37 In the run-up to the MPC's November meeting, HM Treasury had announced that the CJRS would be extended nationwide until December, with the terms matching those under the earlier version of the scheme in August. In particular, for hours not worked by employees, the Government would pay 80% of wages, up to a cap of £2,500. The Government had also increased the amount of trading profits covered by the SEISS to 80% in November.

38 The Committee discussed the implications of recent developments for the labour market outlook. The unemployment rate had been expected to rise to around 7½% by the end of this year in the August *Monetary Policy Report* projections. There had been two significant developments since then. First, the near-term growth outlook had deteriorated, as Covid-related restrictions on economic activity had been re-imposed. Second, under the extended CJRS and new JSS, around 5½ million employees were assumed to be furloughed in November and a little under 2½ million employees from December to the end of April 2021 on average, mitigating significantly the impact of weaker economic activity on the labour market. The unemployment rate was now expected to rise to around 6¾% in 2021 Q1 and to peak at around 7¾% in 2021 Q2. The latter projection took into account the sectoral pattern of output and, in particular, that the sectors most affected by the pandemic also tend to be more labour-intensive than others.

39 Whole-economy total Average Weekly Earnings (AWE) and private-sector regular AWE were both unchanged in the three months to August compared to a year earlier, as earnings growth had been boosted by some employees previously on the CJRS returning to work. AWE growth had been stronger than expected, but this was likely in part to have been caused by a shift towards higher-paid employees, reflecting the sectoral skew in employment losses. HMRC median pay growth had risen to 3.3% in the three months to September. Private-sector pay settlements had weakened in recent months compared with the same period last year, including an unusually large share of pay freezes.

40 Twelve-month CPI inflation had risen to 0.5% in September from 0.2% in August, slightly stronger than had been expected in the August *Report*. Core CPI inflation, excluding energy, food, beverages and tobacco, had also increased, from 0.9% to 1.3%. A large part of these increases had reflected the impact on catering services prices of the end of the Eat Out to Help Out scheme at the end of August. Those and other components of the CPI were continuing to be depressed, to some extent, by the temporary reduction in the VAT rate for hospitality, holiday accommodation and attractions. Since the MPC's previous meeting, the Government had announced that this VAT cut would be extended until the end of March 2021. Bank staff expected CPI inflation to remain at, or just above, ½% during most of the winter. Headline inflation was then projected to rise quite sharply in the spring, as the VAT cut came to an end and the large fall in energy prices earlier this year dropped out of the annual comparison.

41 Indicators of household inflation expectations had been mixed since the MPC's previous meeting. In particular, five-year ahead expectations in the latest Bank/NMG Consulting survey had remained broadly stable,

while five to ten-year ahead expectations in the September and October Citi/YouGov surveys had risen notably. Financial market-implied measures of medium-term UK inflation compensation, such as five-year inflation swap rates, five years forward, had been little changed since the MPC's September meeting.

The immediate policy decision

42 The MPC sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. In that context, its challenge at present was to respond to the economic and financial impact of the Covid pandemic.

43 Since the Committee's previous meeting, there had been a rapid rise in rates of Covid infection. The UK Government and devolved administrations had responded by increasing the severity of Covid restrictions.

44 The Committee reviewed recent developments against that backdrop and in light of its latest projections for activity and inflation as set out in the accompanying November *Monetary Policy Report*.

45 Covid cases had risen sharply in many economies and governments had re-imposed restrictions on economic activity, most notably in Europe, such that global output growth appeared likely to slow in the near term. Although it would have limited impact on the immediate outlook, it was notable that the rebound in activity in advanced economies in the third quarter had been greater than the Committee had previously expected. The first official estimates for 2020 Q3 had shown that euro-area GDP had recovered to around 4½% below its level in 2019 Q4, while the US economy had recovered to around 3½% below its 2019 Q4 level. Fiscal policy actions had continued to help to limit the response of unemployment to a given decline in GDP, especially in Europe.

46 Beyond the near term, global activity was expected to rise in the November *Report*, as the impact of Covid on the economy was assumed to wane, and was supported by the substantial policy responses that had been put in place. Some longer-lasting effects were expected to dampen output over the forecast period, however.

47 Movements in global financial markets had been mixed since the MPC's previous meeting. Prices of risky assets had fallen in response to the recent faster rises in Covid cases. The market-implied path for Bank Rate was little changed compared to the August *Report*. The sterling effective exchange rate index had risen slightly compared to the August *Report* 15-day average.

48 As of 4 November, the total stock of assets held in the Asset Purchase Facility had reached £717 billion, an increase of £272 billion as part of the combined £300 billion programmes of asset purchases announced on 19 March and 18 June. Within that increase, £262 billion of UK government bonds, and £10 billion of sterling non-financial investment-grade corporate bonds, had been purchased since March.

49 To support lending through the Bounce Back Loans Scheme (BBLS), a change to the design of the Term Funding scheme with additional incentives for Small and Medium-sized Enterprises (TFSME) had been announced on 24 September. In addition to the change announced in May, whereby banks would be able to extend the term of some TFSME funding from four to six years, the Bank of England would also in future allow

TFSME participants to extend part of their borrowings again, out to a total term of up to ten years. The MPC had been briefed on the monetary policy impact of these changes.

50 Quoted rates on new fixed-rate mortgages had continued to increase, partly reflecting the response of lenders to the recent surge in demand for mortgages, as well as concerns about the economic outlook. Household credit conditions were assumed to remain tighter over the November *Report* forecast period than had been projected in August.

51 The Government had announced further significant fiscal measures in its Winter Economy Plan and subsequently. In particular, the most recent set of announcements had included the extension of the Coronavirus Job Retention Scheme (CJRS) until December, a more generous Self-Employment Income Support Scheme, a continuation of mortgage payment holidays, and an extension of the deadline for applications for government-backed loan schemes until the end of January 2021.

52 The November *Report* projections assumed that developments related to Covid would weigh on near-term activity to a greater extent than projected in the August *Report*. There were signs that consumer spending had softened across a range of high-frequency indicators, while investment intentions had remained weak. The forecast incorporated the restrictions announced across the United Kingdom up to and including 31 October. Activity was expected to weaken further in response. Following the scheduled end of these measures, restrictions were assumed to loosen somewhat, to levels that had been prevailing in mid-October on average in the United Kingdom, and remain in place until the end of 2021 Q1. The uncertainty around how the pandemic evolved, and how restrictions and government support measures changed in response, was very substantial. Different developments could have material effects on the path of activity over the coming months.

53 In the central projection in the November *Report*, GDP was projected to fall in 2020 Q4. That largely reflected lower consumer spending on social activities, which was assumed to be partially offset by higher spending on other goods and services. Household spending and GDP were expected to pick up in 2021 Q1, as restrictions loosened. The level of activity in the first quarter was expected to remain materially lower than in 2019 Q4.

54 UK trade and GDP were also likely to be affected during an initial period of adjustment, over the first half of next year, as the United Kingdom left the Single Market and Customs Union on 1 January 2021 and was assumed to move immediately to a free trade agreement with the European Union. Recent evidence from the Bank's Agents and a range of business surveys and intelligence suggested that, while some businesses felt prepared for the change in trading arrangements, others, particularly smaller firms, were not fully prepared, with Covid having hampered some preparations. In particular, while the United Kingdom would phase in checks at the border, the European Union had stated that it would apply full border controls from 1 January, for which some businesses were initially unlikely to be fully prepared.

55 The fall in activity over 2020 had reflected a decline in both demand and supply. Overall, there was judged to be a material amount of spare capacity in the economy. The LFS unemployment rate had risen to 4.5% in the three months to August, but it was likely that labour market slack had increased by more than implied by this measure. The extended CJRS and new Job Support Scheme would mitigate significantly the

impact of weaker economic activity on the labour market. In November, around 5½ million employees were assumed to be furloughed in the Committee's latest projections. From December to the end of April 2021, a little under 2½ million employees were assumed to be supported by government schemes, on average. The unemployment rate was expected to peak at around 7¾% in 2021 Q2.

56 Beyond the near term, GDP was projected to recover as the direct impact of Covid on the economy was assumed to wane. Activity was also supported by the substantial fiscal policies already announced and accommodative monetary policy. Spare capacity was expected to be eroded as activity picked up, and a small degree of excess demand emerged over the second half of the forecast period. The recovery would take time, however, and the risks around the GDP projection were judged to be skewed to the downside.

57 Twelve-month CPI inflation had increased to 0.5% in September, but had remained well below the MPC's 2% target, largely reflecting the direct and indirect effects of Covid on the economy. These included the temporary impact of lower energy prices and the reduction in VAT, as well as some downward pressure from spare capacity. CPI inflation was expected to remain at, or just above, ½% during most of the winter, before rising quite sharply towards the target as the effects of lower energy prices and VAT dissipated. Wage growth had remained weak, however, consistent with reports of widespread pay freezes and some outright cuts. Commercial rent inflation for retail and office properties had also weakened, markedly so for retail, and might continue to do so, given lower retail footfall and greater remote working.

58 In the central projection, conditioned on prevailing asset prices that embodied market expectations of the future stock of Bank of England asset purchases, inflation was projected to be 2% in two years' time. The Committee judged that inflation expectations remained well anchored and consistent with inflation close to the 2% target.

59 The Committee turned to its immediate policy decision.

60 The outlook for the economy remained unusually uncertain. It depended on the evolution of the pandemic and measures taken to protect public health, as well as the nature of, and transition to, the new trading arrangements between the European Union and the United Kingdom. It also depended on the responses of households, businesses and financial markets to these developments.

61 Taken together, the risks to the outlook for activity were judged to be skewed to the downside, while inflation risks were judged to be balanced. Different members placed different weights on the nature and the scale of these risks.

62 Although household spending had rebounded to a greater extent than expected following the easing of the initial lockdown, this might not prove a good guide to the behaviour of consumers over this winter, once current restrictions were eased. A number of factors that had been material in the summer, and had contributed to the recovery in social consumption, were unlikely to be repeated.

63 Recent Covid-related developments might have a further dampening effect on businesses' willingness to invest and leave them in a worse financial position.

64 Although the November *Report* projections were, beyond the very near term, conditioned on an assumption that the direct impact of Covid on the economy would wane, an additional period of tighter restrictions on economic activity was also possible, albeit that this might be accompanied by some degree of further fiscal support. In the absence of an effective vaccine, improved treatments or other health interventions becoming available, there might be limits to the pace of the recovery in economic activity. Conversely, the announcement and rollout of an effective vaccine, as well as other treatments and interventions, would reduce significantly the uncertainties facing businesses and households.

65 Over a longer period, recent Covid developments might cause companies to take decisions that prioritised greater balance sheet resilience, with ongoing caution over investment, hiring and risk-taking. These scarring effects on demand would be greater the longer that the current conditions of infection, restriction and uncertainty persisted. Even after the pandemic was over, there might be a permanently lower level of demand for certain types of commercial property and business services. That would require a reallocation of capital and labour that could leave some resources underutilised during the transition. The risk of a more persistent period of elevated unemployment remained material. Elevated unemployment could lead to weaker wage and price growth, and a slower return of CPI inflation to target. Set against that, there could be upward price pressures should a substantial degree of labour-market mismatch or other scarring effects on potential supply emerge.

66 Risk management considerations implied that policy should lean strongly against downside risks to the outlook. Announcing further asset purchases now should support the economy and help to ensure that the unavoidable near-term slowdown in activity was not amplified by a tightening in monetary conditions that could slow the return of inflation to the target. For the same reasons, the Committee could reinforce its guidance on the stance of monetary policy over the medium term.

67 The appropriate path of monetary policy would depend in part on the balance of the effects of the United Kingdom’s new trading arrangements with the European Union on demand, supply and the exchange rate. In the event that those trade negotiations did not reach an agreement, the exchange rate would probably fall and, relative to the projections in the November *Report*, CPI inflation was likely to be higher and GDP growth weaker. Relative to previous periods during which non-negotiated Brexit outcomes had been possible, the economy was starting from a position of greater spare capacity and weaker price pressures, reducing the likelihood of material trade-offs between the variability of output and inflation emerging. Inflation expectations must also remain well anchored.

68 At this meeting, all members judged that a further easing of monetary policy was warranted. The Committee agreed to increase the target stock of purchased UK government bonds by an additional £150 billion in order to meet the inflation target in the medium term.

69 The MPC would continue to monitor the situation closely. If the outlook for inflation weakened, the Committee stood ready to take whatever additional action was necessary to achieve its remit. The Committee did not intend to tighten monetary policy at least until there was clear evidence that significant progress was being made in eliminating spare capacity and achieving the 2% inflation target sustainably.

70 The Chair invited the Committee to vote on the propositions that:

Bank Rate should be maintained at 0.1%;

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 £20 billion;

The Bank of England should continue with the existing programme of £100 billion of UK government bond purchases, financed by the issuance of central bank reserves, and the Bank of England should also increase the target stock of purchased UK government bonds by an additional £150 billion, financed by the issuance of central bank reserves, to take the total stock of government bond purchases to £875 billion.

The Committee voted unanimously in favour of all of the propositions.

71 The Committee continued to expect the existing programme of £100 billion of UK government bond purchases to be completed around the turn of the year.

72 The Committee expected the new UK government bond purchase programme to start in January and be completed by around the end of 2021. The Committee envisaged that the pace of purchases could remain at around its current level initially, with flexibility to slow the pace of purchases later. Should market functioning worsen materially again, however, the Bank of England stood ready to increase the pace of purchases to ensure the effective transmission of monetary policy.

73 A Market Notice would be released alongside the December MPC decision, setting out further operational details of the new UK government bond purchase programme.

74 The Committee would keep the asset purchase programme under review. If needed, there was scope for the Bank of England to re-evaluate the existing technical parameters of the gilt purchase programme.

75 The following members of the Committee were present:

Andrew Bailey, 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.

As permitted under the Bank of England Act 1998, as amended by the Bank of England and Financial Services Act 2016, Ron Kalifa was present on 2 November, as an observer for the purpose of exercising oversight functions in his role as a member of the Bank's Court of Directors.