BANK OF ENGLAND

Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 22 June 2021

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These are the minutes of the Monetary Policy Committee meeting ending on 22 June 2021.

They are available at https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2021/june-2021.

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 4 August will be published on 5 August 2021.

Monetary Policy Summary, June 2021

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 22 June 2021, the Committee judged that the existing stance of monetary policy remained appropriate. 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 by a majority of 8-1 for the Bank of England to continue with its existing programme of UK government bond purchases, financed by the issuance of central bank reserves, maintaining the target for the stock of these government bond purchases at £875 billion and so the total target stock of asset purchases at £895 billion.

In the MPC's central projection in the May *Monetary Policy Report*, UK GDP was expected to recover strongly over 2021, to pre-Covid-19 (Covid) levels. Spare capacity in the economy was expected to be eliminated as activity picked up, and there was expected to be a temporary period of excess demand, before demand and supply returned broadly to balance. CPI inflation was projected to rise temporarily above the 2% target, owing mainly to developments in energy prices. As these transitory effects faded, conditioned on the market path for interest rates, inflation was expected to return to around 2% in the medium term.

Since May, developments in global GDP growth have been somewhat stronger than anticipated, particularly in advanced economies. Global price pressures have picked up further, reflecting strong demand for goods, rising commodity prices, supply-side constraints and transportation bottlenecks, and these have started to become apparent in consumer price inflation in some advanced economies. Financial market measures of inflation expectations suggest that the near-term strength in inflation is expected to be transitory.

Bank staff have revised up their expectations for the level of UK GDP in 2021 Q2 by around 1½% since the May *Report*, as restrictions on economic activity have eased, so that output in June is expected to be around 2½% below its pre-Covid 2019 Q4 level. This recovery in activity has been most pronounced in the consumer-facing services for which restrictions were loosened in April. Output in a number of sectors is now around pre-Covid levels, although it remains materially below in others. The housing market remains strong, and indicators of consumer confidence have increased. The direct economic implications of the delays in the final stages of the relaxation of Covid restrictions are likely to be relatively small compared with the impact of previous stages.

The LFS unemployment rate fell slightly to 4.7% in the three months to April, although it is likely that labour market slack has remained higher than implied by this measure. Some individuals stopped looking for work during the pandemic, and were therefore recorded as inactive. There is uncertainty around how many of these individuals will resume their search for a job, and when. The number of furloughed jobs has declined faster than expected, as demand has recovered. Overall, there is judged to be spare capacity in aggregate in the economy at present. However, vacancies have risen above pre-Covid levels, and there are increasing signs of recruitment difficulties for some businesses, and in some locations and sectors.

Private sector regular pay in the three months to April was 5.6% higher than a year earlier. Measured pay growth continues to be boosted by compositional effects, given that job losses have been skewed towards lower-paid employees during the pandemic. In addition, the base effect of the drop in pay in spring and summer 2020 will continue to distort the annual comparison, such that, even if the level of private sector regular pay were to remain unchanged in May and June, twelve-month pay growth would still rise to close to 8% in the second quarter. Underlying pay growth appears to be around pre-Covid rates.

Twelve-month CPI inflation rose from 1.5% in April to 2.1% in May, above the MPC's 2% target and 0.3 percentage points higher than expected in the May *Report*. Core CPI inflation has also risen from 1.3% to 2.0%. Building global input cost pressures have increasingly been passed through into manufacturing output prices and non-oil import prices. CPI inflation is expected to pick up further above the target, owing primarily to developments in energy and other commodity prices, and is likely to exceed 3% for a temporary period.

The Committee's expectation is that the direct impact of rises in commodity prices on CPI inflation will be transitory. More generally, the Committee's central expectation is that the economy will experience a temporary period of strong GDP growth and above-target CPI inflation, after which growth and inflation will fall back. There are two-sided risks around this central path, and it is possible that near-term upward pressure on prices could prove somewhat larger than expected. Taking together the evidence from financial market measures and surveys of households, businesses and professional forecasters, the Committee judges that UK inflation expectations remain well anchored.

In judging the appropriate stance of monetary policy, the Committee will, consistent with its policy guidance and as always, focus on the medium-term prospects for inflation, including the balance between demand and supply, and medium-term inflation expectations, rather than factors that are likely to be transient.

The MPC will continue to monitor the situation closely and will take whatever 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.

The Committee will have the opportunity to assess the economic outlook more fully in the context of its August *Monetary Policy Report* and accompanying economic projections.

At this meeting, the Committee judged that the existing stance of monetary policy remained appropriate.

Minutes of the Monetary Policy Committee meeting ending on 22 June 2021

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

The international economy

2 UK-weighted global GDP growth in 2021 Q1 had been slightly stronger than expected at the time of the May *Monetary Policy Report*. Global activity was also now expected to pick up by more in 2021 Q2, largely accounted for by stronger-than-expected growth in the euro area. Across advanced economies, the recovery had firmed, with Covid cases generally falling, restrictions easing and mobility indicators picking up. However, there had been somewhat less momentum in some emerging market economies (EMEs). There had continued to be signs of building global price pressures, and headline consumer price inflation had picked up across several regions by more than external forecasters had expected.

3 Manufacturing input and output prices had continued to increase sharply, driven by higher commodity and transport cost prices. The Brent oil spot price had risen further to $74 per barrel, $9 higher than at the time of the May *Report*, and had now exceeded its pre-Covid level. That had reflected a combination of stronger demand as economies recovered, as well as supply concerns and falling inventories. Non-oil commodity prices had also continued to rise. Shipping costs had increased further in recent months, following similar rises at the end of 2020. These price rises had reflected a range of factors including strong global goods demand, supply chain disruptions and bottlenecks, as well as idiosyncratic events such as the Suez Canal blockage in late March and continuing Covid-related closures, including those that had caused loading constraints at some large Chinese ports. Global PMIs had continued to point to sharp increases in input and output prices and there had been further steep rises in producer price indices. Some of the strength in input prices could have reflected the effect of transitory supply constraints, which could subsequently unwind. For example, US lumber futures prices had risen to around four times their pre-Covid levels by May 2021, before retracing much of that increase.

4 US CPI inflation had risen to 5.0% in May, its highest level since August 2008. Core CPI inflation had also increased to 3.8%. Some of the rise in inflation had reflected factors that were likely to be transitory, including energy price increases and supply bottlenecks. For example, a shortage of semiconductors had affected the supply of new cars, and used car prices had risen strongly. The pickup might also have been influenced by imbalances between demand and supply, as there had been strong consumer demand following the reopening of the economy and a boost from government stimulus cheques on the one hand, and some signs of labour shortages on the other.

5 In the euro area, the twelve-month headline HICP inflation rate had risen in May to 2.0%, from 1.6% in April, while core inflation had risen to 1.0% from 0.7%. This increase had partly reflected higher energy prices, a past VAT cut in Germany falling out of the annual comparison, and the effects of the annual update to the weights of the HICP.

6 According to the latest release, euro-area GDP had fallen by 0.3% in 2021 Q1, a slightly smaller contraction than had been expected at the time of the May *Report*. Over that period, Covid infections had been rising and there had been some tightening in restrictions, although there were signs that the relationship between economic activity and a given level of restrictions had been weaker than during earlier periods. In the second quarter, Covid cases had fallen back, the pace of vaccinations had accelerated, and mobility had increased sharply. The euro-area unemployment rate had fallen on the month, to 8% in April. PMIs were pointing to stronger activity in the second quarter as restrictions on the service sector had eased. Euro-area GDP in Q2 was now expected to grow at a faster rate than at the time of the May *Report*.

7 US GDP had risen by 1.6% in 2021 Q1, broadly in line with expectations at the time of the May *Report*. There had been some moderation in the pace of the recovery in the labour market. Non-farm payrolls had increased by 559,000 in May, a slower pace than the 785,000 jobs that had been added in March. The unemployment rate had nevertheless fallen to 5.8%. Covid cases had continued to fall across US regions, and the vaccination rollout had continued to progress, albeit at a slightly slower pace than before. Output PMIs had remained strong for both manufacturing and non-manufacturing sectors. Real personal consumption spending had fallen by 0.1% in April, but there had been some recovery in social spending, pivoting away from recent strength in goods spending. The most recent high-frequency spending data pointed to a further recovery in consumption. Activity in Q2 was expected to rise by slightly more than expected at the time of the May *Report*, taking it back above its pre-Covid peak.

8 Chinese activity indicators had softened over the first half of 2021, with the re-imposition of some travel restrictions in response to rising Covid cases. This slowing in growth had followed the strong recovery in activity over the latter parts of 2020, albeit with some divergence across sectors. Retail sales had lagged the broader recovery, while industrial production had continued to exceed its pre-Covid trend.

9 The recovery in other EMEs had slowed since the start of the year as some countries had also experienced large increases in Covid cases and had re-imposed restrictions accordingly. Case levels had fallen recently in Central and Eastern Europe and in India, but had remained high in Latin America. The rollout of vaccines in EMEs had generally been more limited than in many advanced economies. Industrial production and retail sales had picked up slightly at the start of the second quarter for a group of large EMEs.

Monetary and financial conditions

10 Since the MPC's previous meeting, advanced-economy equity prices had increased slightly, and longer-term government bond yields had generally fallen a little. Both of these had remained significantly higher than at the beginning of 2021, largely reflecting the positive news on global economic growth over that longer period.

11 For longer-term advanced-economy government bonds, the increase in yields since the beginning of the year had generally reflected a combination of real and inflation compensation components. For shorter-term yields, the inflation component had picked up materially, reflecting market participants' expectations of a period

of higher inflation across advanced economies in the near term. Since the beginning of 2021, for instance, the one-year inflation swap rate, one year forward, had increased by around 15, 35 and 40 basis points respectively in the United States, euro area and United Kingdom.

12 Market-implied measures of advanced-economy policy rates had increased a little, including in the United Kingdom, since the MPC's previous meeting. At its meeting on 10 June, the ECB Governing Council had left its key policy interest rates and the scale and pace of its asset purchase programmes unchanged. At its 16 June meeting, the Federal Open Market Committee (FOMC) had left unchanged its target range for the federal funds rate and the pace of asset purchases. In their updated Summary of Economic Projections, FOMC participants had revised up their median projection for the appropriate level of the federal funds rate.

13 Longer-term measures of inflation compensation, such as the five-year inflation swap rate, five years forward, had generally risen since the beginning of the year, though by much less than shorter-term measures: up by around 15 and 25 basis points in the United Kingdom and euro area respectively, but down slightly in the United States. The Committee discussed a range of possible explanations for those moves. These measures had moved in line internationally to some degree, suggesting some role for global factors. There was estimated to have been an increase in inflation risk premia, which was likely to have reflected in part a reduction in disinflation risks towards more evenly balanced risks, related to the improving global macroeconomic outlook. Market contacts had pointed to a reduction in concerns about a low inflation environment in the United States and to a lesser extent the euro area, although it was less obvious that this had previously been a concern for the United Kingdom.

14 The UK five-year inflation swap rate, five years forward, had also been affected by these global factors, but had fallen by less than in other countries around the onset of the pandemic and, unlike in the United States and euro area, now stood somewhat above its average level over the previous decade. There appeared to have been little impact on this measure recently from UK-specific influences that had been important in the past, such as expectations around future reforms to the Retail Prices Index, or actual or prospective large changes in the exchange rate.

15 The sterling effective exchange rate had appreciated by around 1% since the May MPC meeting.

16 Overall credit supply conditions had been broadly unchanged since the MPC's previous meeting. For households, spreads on fixed-term mortgages had fallen a little further in May, and spreads on products with loan-to-value ratios greater than or equal to 75% were now between around 50 and 80 basis points below their peak in 2020 Q4. Although net mortgage borrowing had fallen sharply in April, this had largely reflected the large number of property transactions completed ahead of the original end dates for the temporary increases in thresholds for stamp duty and equivalent property taxes that had been in place across the United Kingdom.

17 Demand for corporate lending had remained relatively subdued in recent months. Corporates had made a net repayment of bank lending in April, accounted for entirely by large businesses, with lending to small and medium-sized enterprises (SMEs) broadly unchanged. Intelligence from lenders indicated that credit supply

conditions for bank lending to SMEs, including micro firms, had tightened in 2021 Q2 compared with Q1, as the previous government-guaranteed schemes had been replaced by the Recovery Loan Scheme in April.

Demand and output

18 According to the ONS's first quarterly estimate, UK GDP had fallen by 1.5% in 2021 Q1, a period in which significant restrictions on activity had been re-imposed due to the pandemic. That had left the level of real activity in 2021 Q1 around 8½% lower than it had been at its pre-Covid peak in 2019 Q4, and broadly in line with the expectation in the May *Monetary Policy Report*. Within the Q1 expenditure components, household consumption was estimated to have declined by 3.8% on the quarter, and business investment to have fallen sharply, by almost 12%. Total government expenditure had continued to grow strongly, by almost 5%.

19 GDP data for March and April 2021 had been stronger than anticipated in the May *Report*, with monthly growth rates of 2.1% and 2.3% respectively. That upside news had been concentrated in business-facing services output in March and in consumer-facing services in April. The strong growth in the latter in April had in large part reflected the loosening of Covid-related restrictions on non-essential retail, outdoor hospitality and self-contained accommodation activities that had come into effect during the month. Despite that recovery, the output of consumer-facing service sectors had remained around 9% below its level in 2019 Q4, whereas manufacturing and construction output, and activity in a number of business-facing services, had been only slightly below their pre-Covid levels.

20 Retail sales volumes had fallen by 1.4% in May, following 9.2% growth in April. That had nonetheless left their level around 9% higher than in 2019 Q4, stronger than had been expected in the May *Report*, and with strength in online spending being maintained as in-person spending had recovered. Faster indicators of household spending, including CHAPS payments data, had also picked up sharply following the relaxation of Covid-related restrictions from mid-April. There had been a further step-up in restaurant bookings following the relaxation of restrictions on indoor hospitality from mid-May. But high-frequency indicators of aggregate retail spending had not risen further in May or early June. Indicators of consumer confidence and SMMT new car registrations had risen to around their pre-Covid levels over recent months. Some indicators of household mobility remained below their pre-Covid levels, particularly around the use of public transport and in more densely populated areas.

21 Indicators of housing market activity had remained robust following the extension of the temporary stamp duty threshold in England and Northern Ireland, and an equivalent extension in Wales, with mortgage approvals for house purchase having picked up in April. Commentary from surveys and the Bank's Agents had noted a general theme of strong housing demand running up against limited supply, with increasing evidence that the tax changes were only one of several factors boosting demand. The UK House Price Index had fallen by 2.2% in April, following a 2.0% rise in March, but had been 9% higher than in the same month a year earlier. Other more timely indicators of house prices had remained strong.

22 According to the latest ONS Business Insights and Conditions Survey, the proportion of companies open for trading had reached its highest level since the onset of the pandemic. Firms' expectations about the impact of Covid on sales had been little changed in the May Decision Maker Panel. Other surveys of businesses' expectations for future output had remained at historically high levels. Official trade data for April suggested that goods imports from the European Union had remained materially below their levels immediately prior to the end of the Brexit transition period, and weaker than the equivalent non-EU import series.

23 Overall, Bank staff had revised up their expectations for 2021 Q2 GDP growth to 5½%, from 4¼% at the time of the May *Report*. That would be consistent with output in Q2 being less than 4% below its 2019 Q4 level, and projected output in June around 2½% lower.

24 Since the MPC's previous meeting, there had been a rise in the number of Covid cases in the United Kingdom, with the Delta variant making up almost all of the new cases over recent weeks. The vaccination programme had continued to proceed apace. The Government had announced a four-week pause in its roadmap at step three, with an expectation that England would now move to step four on 19 July. In Scotland, any further easing of restrictions would also be postponed until 19 July, while rules in Wales would be reviewed again on 15 July, and in Northern Ireland on 1 July. The direct economic implications of the delay in the final stages of the relaxation of Covid restrictions were likely to be relatively small compared with the impact of the re-openings of retail and hospitality activities that had already occurred.

Supply, costs and prices

25 Twelve-month CPI inflation had risen from 1.5% in April to 2.1% in May. Core CPI inflation, excluding food, beverages, tobacco and energy, had also risen, from 1.3% to 2.0%. While a pickup in CPI inflation had been expected, partly due to higher energy prices, these latest figures represented material upside news to the May *Monetary Policy Report* projections. Core goods inflation had risen to 2.3%, its strongest rate since early 2018. Services inflation had increased to a ten-month high, although it was 0.6 percentage points below its average rate in 2019, with part of this weakness reflecting the continued effect of the temporarily reduced VAT rate for hospitality, holiday accommodation and attractions.

26 Other price and cost indicators had also picked up further. The manufacturing input and output price PMIs had been at historically high levels in May, with companies having reported supply chain disruptions and raw material shortages alongside strong demand. Twelve-month producer input price inflation had risen to 10.7% in May, and producer output price inflation had risen to 4.6%. Non-oil goods import prices had risen sharply in recent months. The Bank's Agents' contacts had reported that there had been more signs of pass-through of past cost increases into selling prices recently, especially in the manufacturing and construction sectors, as well as for some consumer goods, with further pass-through likely in coming months.

27 CPI inflation was expected to pick up further above the 2% target in the months ahead, owing primarily to developments in energy and other commodity prices, and was likely to exceed 3% for a temporary period. The

catering services component was expected to contribute to higher inflation in August, reflecting the impact of the Government's Eat Out to Help Out Scheme, which had dragged on prices last August, together with last year's temporarily reduced VAT rate for hospitality, holiday accommodation and attractions dropping out of the annual calculation. Recent increases in wholesale energy prices were also expected to contribute substantially to the pickup in CPI inflation.

28 Results from the May Decision Maker Panel had indicated an increase in companies' one-year ahead own-price inflation expectations. In contrast, households' short-term inflation expectations had fallen in recent months. Both the Bank/Kantar and Citi/YouGov measures of one-year ahead household inflation expectations had fallen. Households' short-term inflation expectations tended to move with measured inflation rates. Recent developments at longer horizons were more mixed. The Bank/Kantar five-year ahead measure had fallen, whereas the Citi/YouGov five-to-ten year ahead measure had remained stable.

29 The Labour Force Survey (LFS) unemployment rate had fallen to 4.7% and employment had risen by 0.3% in the three months to April. These figures were both below expectations at the time of the May *Report*. The counterpart to both lower unemployment and employment growth had been higher-than-expected inactivity. Timelier labour market indicators had pointed to further strength in employment growth, consistent with building labour demand. HMRC payroll numbers had increased by around 200,000 in May relative to the month before, the largest increase since the series began in 2014. This meant that the level of employees was around 475,000 lower than in 2019 Q4, but around 425,000 above the November 2020 trough. The stock of job vacancies in May had risen above its pre-pandemic level, according to ONS data, with a broadly similar trend in online measures of vacancies.

30 Alongside the upside news to GDP, the number of jobs furloughed under the Coronavirus Job Retention Scheme (CJRS) had fallen significantly faster than expected at the time of the May *Report*. According to HMRC administrative data, 3.6 million jobs had been furloughed in April, around 15% of private sector jobs, down from 5 million jobs in February. Timelier data from the ONS's Business Insights and Conditions Surveys for May had pointed to further falls in the number of furloughed jobs to below 2 million, around half of which were held by employees on a flexible form of furlough that allowed them to have undertaken some work with their employer.

31 The Committee discussed recent trends in sectoral reallocation and the possible implications for labour market tightness. There had been a large reallocation in sales and labour demand across and within sectors since the onset of the pandemic. Alongside this, indicators had suggested that the labour market was tightening. Although the ratio of vacancies to unemployment had remained below its 2019 average, it had started to rise quite rapidly. The REC staff availability index in May had fallen to its lowest level for four years, which had been a period during which the labour market was tightening. Although a number of the Agents' contacts had continued to report that recruitment was easier than normal, an increasing proportion had reported recruitment difficulties across a range of occupations, sectors and locations. Some of the recent tightening in the labour market might have been reinforced by the weakness in the number of workers searching for jobs observed over the course of the pandemic. Additional job search generated by the unemployed had probably been offset by lower job search elsewhere, especially among the employed, including those whose jobs had

been furloughed. There was also evidence that the job market had tightened in some sectors that were particularly exposed to health risks, such as social care. Some of these effects were likely to be temporary phenomena that would reverse as demand recovered, furlough came to an end, people's health concerns eased and uncertainties receded.

32 Private-sector regular Average Weekly Earnings (AWE) had risen by 5.6% in the three months to April on a year earlier. AWE growth had continued to be boosted by compositional effects, given that job losses had been skewed towards lower-paid employees during the pandemic. On an underlying basis, pay growth appeared close to pre-pandemic levels. The REC Report on Jobs permanent staff salaries index, which measured monthly pay growth, had increased to levels last seen in 2018, when annual AWE pay growth had been around 3¼%. The latest increase in AWE growth had partly reflected a base effect from a decline in average pay in the spring of last year, associated with the reduced pay of employees moved onto the CJRS. The past period of pay weakness that had persisted into the summer of 2020 would continue to distort earnings growth looking ahead. Even if the level of private sector regular pay remained unchanged in May and June, its annual growth rate would still rise to close to 8% in 2021 Q2.

The immediate policy decision

33 The MPC sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment.

34 In the MPC's central projection in the May *Monetary Policy Report*, UK GDP had been expected to recover strongly over 2021, to pre-Covid levels. In those projections, as the vaccination programme proceeded apace and restrictions on economic activity were eased further, output was boosted by a decline in public health concerns and a fall in uncertainty, as well as by announced fiscal and monetary stimulus, and by households running down some of their additional accumulated savings. Spare capacity in the economy had been expected to be eliminated as activity picked up during 2021, and there was expected to be a temporary period of excess demand, before demand and supply returned broadly to balance. CPI inflation had been projected to rise temporarily above the 2% target, owing mainly to developments in energy prices. As these transitory effects faded, conditioned on the market path for interest rates, inflation was expected to return to around 2% in the medium term.

35 The Committee reviewed recent developments, including the extent to which they had been in line with the projections in the May *Report*.

36 Since May, developments in global GDP growth had been somewhat stronger than anticipated, particularly in advanced economies. Global activity was now expected to pick up by more in 2021 Q2, largely accounted for by stronger-than-expected growth in the euro area.

37 Changes in the composition of spending since the onset of the pandemic had fuelled a rapid rebound in world trade in goods and global manufacturing output. Combined with supply-side constraints and

transportation bottlenecks, this had led to a pickup in the prices of commodities and manufactured goods. Since the MPC's previous meeting, global price pressures had picked up further, and had started to become apparent in consumer price inflation in some advanced economies. Financial market measures of inflation expectations suggested that the near-term strength in inflation was expected to be transitory.

38 As of 22 June 2021, the total stock of assets held in the Asset Purchase Facility had reached £823 billion, including £78 billion of the £150 billion programme of UK government bond purchases announced on 5 November 2020.

39 Since the MPC's previous meeting, the number of Covid cases in the United Kingdom had risen, and the Government had announced a four-week pause in its roadmap in England, with similar postponements in Scotland, Wales and Northern Ireland. The direct economic implications of these delays in the final stages of the relaxation of Covid restrictions were likely to be relatively small compared with the impact of previous stages, however.

40 Bank staff had revised up their expectations for the level of 2021 Q2 GDP by around 1½% since the May *Report*, as restrictions on economic activity had eased and activity had rebounded by more than expected, so that output in June was expected to be around 2½% below its pre-Covid 2019 Q4 level. This recovery in activity had been most pronounced in the consumer-facing services for which restrictions had been loosened in April. Output in a number of sectors was now around pre-Covid levels, although it remained materially below in others. Housing market activity had remained robust, and indicators of consumer confidence had risen to around their pre-Covid levels over recent months.

41 The Labour Force Survey (LFS) unemployment rate had fallen slightly to 4.7% in the three months to April, although it was likely that labour market slack had remained higher than implied by this measure. For example, some individuals had stopped looking for work during the pandemic, and had therefore been recorded as inactive, which had contributed to the 1 percentage point fall in the labour force participation rate since the onset of the pandemic. The number of furloughed jobs had declined faster than expected, as demand had recovered. Overall, there was judged to be spare capacity in aggregate in the economy at present. However, vacancies had risen above pre-Covid levels, and there were increasing signs of recruitment difficulties for some businesses, and in some locations and sectors.

42 Private sector regular pay in the three months to April had been 5.6% higher than a year earlier. Measured pay growth continued to be boosted by compositional effects, given that job losses had been skewed towards lower-paid employees during the pandemic. In addition, the base effect of the drop in pay in spring and summer 2020, associated with the reduced pay of employees moved onto the furlough scheme, would continue to distort the annual comparison, such that, even if the level of private sector regular pay were to remain unchanged in May and June, twelve-month pay growth would still rise to close to 8% in the second quarter. Underlying pay growth appeared to be around pre-Covid rates.

43 Twelve-month CPI inflation had risen from 1.5% in April to 2.1% in May, above the MPC’s 2% target and 0.3 percentage points higher than expected in the May *Report*. Core CPI inflation had also risen from 1.3% to 2.0%, and, excluding the estimated impact of the temporarily reduced VAT rate for hospitality, holiday accommodation and attractions, it had risen from around 1½% to around 2¼%. Core goods inflation had risen to 2.3%, its strongest rate since early 2018. Building global input cost pressures had increasingly been passed through into manufacturing output prices and non-oil import prices. CPI inflation was expected to pick up further above the target, owing primarily to developments in energy and other commodity prices, and was likely to exceed 3% for a temporary period, peaking higher than previously thought.

44 The Committee turned to its immediate policy decision.

45 The news on activity and inflation since the Committee’s previous meeting had predominantly been to the upside. The key judgements were to what extent the near-term pickup in cost and price pressures was likely to affect the medium-term prospects for CPI inflation, and whether the recent upside news on activity signalled stronger demand growth in the future or simply a faster recovery to the pre-Covid level of GDP. MPC members had a range of views on these issues.

46 The upside news on the level of activity had been broad based across sectors and was underpinned by a continued recovery in the jobs market and an improvement in sentiment, although some indicators had levelled off most recently. It was possible that a stronger path for demand would close the output gap somewhat sooner than had previously been expected. Household and business confidence and spending decisions would continue to depend on the course of the pandemic. Although the direct economic implications of the recently announced delay to the roadmap were likely to be relatively small, downside risks remained, for instance from increased caution following a further pickup in cases or a possible drop in vaccine effectiveness arising from virus mutations.

47 In the labour market, one uncertainty was the extent to which those workers who had become temporarily inactive during the pandemic would resume their search for a job, and when. The recovery in demand should encourage some of these workers to re-enter the labour force, but the degree to which that occurred was likely to depend on the age mix and other characteristics of those who had stopped their job search. The effective labour force had also been boosted substantially by a faster-than-expected fall in the number of furloughed jobs. But even a sharp increase in the labour force would not necessarily imply that appropriate matches would be found, given the wide dispersion of demand growth across and within sectors. This helped to explain why some firms were continuing to hold workers on furlough even as others were posting vacancies, and why underlying wage growth had strengthened and already appeared to be around pre-Covid levels.

48 Since the onset of the pandemic, there had been a significant redistribution of demand, not only away from consumer services and towards goods, but also within sectors and across individual firms. Given localised supply constraints and cost pressures, this could lead to a pickup in prices even if there was aggregate spare capacity in the economy. There were signs that such effects had helped to explain some of the strength of aggregate price inflation recently. It remained to be seen how long these would last.

49 It was unclear how persistent global price pressures would prove to be. Some of these developments, perhaps including the pickup in oil and other commodity prices, would tend to lead to a permanent increase in the level of consumer prices, implying a pickup in inflation in the near term, but not by themselves suggesting a permanent impact on medium-term inflationary pressures. In some cases, the price level increases could even subsequently unwind.

50 Taking together the evidence from financial market measures and surveys of households, businesses and professional forecasters, the Committee judged that UK inflation expectations remained well anchored. Longer-term household inflation expectations had remained broadly stable, although there had been some movement in financial market measures. The UK five-year inflation swap rate, five years forward, had risen since the start of the year, and was around 10 basis points above its 2019 average. The Committee would continue to monitor the risk that domestic and global demand and cost pressures affected medium-term inflation expectations.

51 The Committee's expectation was that the direct impact of rises in commodity prices on CPI inflation would be transitory. More generally, the Committee's central expectation was that the economy would experience a temporary period of strong GDP growth and above-target CPI inflation, after which growth and inflation would fall back. There were two-sided risks around this central path, and it was possible that near-term upward pressure on prices could prove somewhat larger than expected.

52 In judging the appropriate stance of monetary policy, the Committee would, consistent with its policy guidance and as always, focus on the medium-term prospects for inflation, including the balance between demand and supply, and medium-term inflation expectations, rather than factors that were likely to be transient.

53 At this meeting, most members of the Committee judged that the existing stance of monetary policy, which included the previously announced £150 billion increase in the target stock of purchased assets, remained appropriate. The Committee had previously said that risk management considerations had justified this stance of policy. Although downside risks were judged to have fallen as the recovery had taken hold, these considerations still had force. Policy should both lean strongly against downside risks to the outlook and ensure that the recovery was not undermined by a premature tightening in monetary conditions. Most members judged that the conditions set out in the MPC's existing policy guidance, which were in any case necessary but not sufficient conditions for any future tightening in monetary policy, were not met.

54 When assessing the conditions under which that policy guidance might be met, the Committee would place weight on the implications of any changes to its projections for spare capacity and inflation, and to the risks around them. In addition, clear evidence of significant progress against those conditions should be demonstrated by developments in economic data, including the degree to which current inflationary pressures proved temporary or more persistent. On one view, forthcoming data had the potential to provide an early indication of sustained economy-wide inflationary pressures. On another view, weight should also be put on developments over a somewhat longer period of time, such as how unemployment and wider measures of slack in the labour market, and hence underlying wage pressures, would be affected once the furlough scheme

ended, and the impact more generally of the withdrawal of government support measures. It would be important to continue to monitor closely movements in measures of medium-term inflation expectations.

55 For one member, the rapidly improving economic outlook, and rising cost and price pressures, warranted a reduction in the degree of additional stimulus being provided to the UK economy at this meeting. Economic activity had continued to surprise significantly to the upside since the previous MPC meeting, and consumer and business confidence had risen further. A widening range of markets and sectors were facing excess demand as the economy opened up and more of the accumulated large stock of savings was run down, causing sharp rises in the prices of some goods, services and assets. The economy was likely to experience excess demand in aggregate entering the second half of the year, causing generalised upward pressures on prices, and risking inflation settling persistently above target. Market-implied measures of longer-term inflation expectations had already moved higher and there was a risk they could shift higher still, increasing the likelihood of inflationary persistence and a larger or faster pace of monetary policy tightening being required. A reduction in the size of the current asset purchase programme from £150 billion to £100 billion would mean that it would be completed in August rather than by around the end of 2021.

56 The MPC would continue to monitor the situation closely and would take whatever 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.

57 The Committee would have the opportunity to assess the economic outlook more fully in the context of its August *Monetary Policy Report* and accompanying economic projections.

58 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 its existing programme of UK government bond purchases, financed by the issuance of central bank reserves, maintaining the target for the stock of these purchases at £875 billion.

The Committee voted unanimously in favour of the first and second propositions.

Eight members (Andrew Bailey, Ben Broadbent, Jon Cunliffe, Jonathan Haskel, Dave Ramsden, Michael Saunders, Silvana Tenreyro and Gertjan Vlieghe) voted in favour of the third proposition. One member (Andrew Haldane) voted against this proposition, preferring to continue with the existing programme of UK government bond purchases but to reduce the target for the stock of these purchases from £875 billion to £825 billion.

Operational considerations

59 The existing programme of £150 billion of UK government bond purchases had started in January and its completion was expected by around the end of 2021. A Market Notice accompanying the May minutes had set out the planned operational approach to gilt purchases between the May and August MPC meetings, which had included a slowing in the pace of these continuing purchases. This operational approach remained unchanged. Should market functioning worsen materially, the Bank of England stood ready to increase the pace of purchases to ensure the effective transmission of monetary policy.

60 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.

61 In its February 2021 minutes, the Committee had requested that Bank staff should commence internal technical preparations that would provide the capability to set a negative Bank Rate at any point after August 2021, should it be judged appropriate. At this meeting, the Committee had been briefed by Bank staff that these preparations were on track. Bank staff had also briefed the Committee on operational and legal documentation that would be issued in the coming days, updating the contractual framework between the Bank and its Sterling Monetary Framework counterparties in line with these technical preparations. As the Committee had stressed in February, these preparations should not be interpreted as a signal that the setting of a negative Bank Rate was imminent, or in prospect at some specific time.

62 Finally, on behalf of the Committee, the Chair expressed his appreciation to Andrew Haldane for his contributions to the work of the MPC since becoming a member in 2014 and his personal contribution in establishing and developing the monetary policy framework.

63 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, Bradley Fried was also present on 16 and 18 June, as an observer, for the purpose of exercising oversight functions in his role as a member of the Bank's Court of Directors.