BANK OF ENGLAND

MEETINGS OF THE MONETARY POLICY COMMITTEE
August 2017

A meeting of the Monetary Policy Committee was held on Monday 31 July 2017. The following members of the Committee were present:

Mark Carney, Governor
Ben Broadbent, Deputy Governor, Monetary Policy
Jon Cunliffe, Deputy Governor, Financial Stability
Andrew Haldane, Chief Economist
Ian McCafferty, External Member
Gertjan Vlieghe, External Member
Michael Saunders, External Member
Silvana Tenreyro, External Member

Dave Ramsden was present as the Treasury representative

The following members of staff were present:

Gareth Ramsay, Director, Monetary Analysis
Alan Castle, MPC Secretariat
Simon Hayes, MPC Secretariat
Bob Hills, MPC Secretariat
Melissa Davey, Editor of Inflation Report

Transcript of the Monetary Policy Committee Meeting on Monday 31 July 2017

Governor Carney. Ok, good morning everyone. Before turning to indicative policy statements I am going to ask Andy to give an update on recent macroeconomic data.

> **Andrew Haldane.** Yes, I will be brief. Internationally we had Q2 US GDP data that came in at 0.6. That was a fraction lower than the staff's forecast which only recently had been nudged up to 0.7. Also, embedded within that, were some data on wage growth and on core inflation, both of which came in on the soft side.
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> Domestically, let me mention three surveys that we have received since we last met. We received the CBI Distributive Trades Survey for July that had actual sales up a touch. Expectations of sales are up rather more sharply. We have had the GfK measure of consumer confidence for July that, as you will recall, dipped in June. It recovered a little bit in July, but largely was in line with the June, the lower June, reading. And then we've had advance sight, as you will have seen, of the composite PMIs for July. They're on the output side largely unchanged, up a little bit. Expectations also up a little bit but the key point there is they remain at or around the lower level that we saw in June. That's all, thank you.

Governor Carney. Ok. Good. So we'll turn to indicative policy statements and I'll start with Ben. I'll just remind that we have three decisions to make later in the week. The first is on Bank Rate, the second is around the stock of asset purchases and the third is on whether to terminate the TFS at the end of February. So with that I'll pass to you Ben.

> **Ben Broadbent.** Thank you, Governor.

Governor Carney. And then I am going to go to Ian next, thanks.

> **Ben Broadbent.** Thank you, Governor.
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> Let me begin with the news on the global economy. On the whole it's been good. In the euro area the PMIs dipped slightly in July, by half a point, but they're still close to multi-year highs and consistent with growth at well-above average rates. After 0.6% in Q1 our forecasts for GDP growth in the second and third quarters of the year have been revised up to 0.7%. That would mean the strongest year-on-year growth for a decade.
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> In the US growth was marginally weaker than we'd expected in Q2, by the grand total of 2 basis points, although that was enough for a 0.1 percentage point miss on the rounding. Investment spending remains firm – orders of non-defence capital goods rose by 7% between the first and second quarters of the year. Growth in China was slightly stronger than expected, in particular in the industrial sector.
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> And overall, growth in the UK trade-weighted world in Q2 looks to have been around 0.2 percentage points higher than we'd anticipated at the time of the last *Inflation Report*.
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> That pickup in activity has been reflected in continued falls in unemployment, most notably in the euro area but also in the United States. Yet, as Jon remarked last week, there have been precious few signs of inflationary pressure. Wage growth is weak and, in both the US and the Euro area, unit cost growth is around ½ a percentage point below the historical average. Core inflation rates in both regions are comfortably below target-consistent rates. In the US, inflation in the core PCE deflator fell below 1.5% for the first time since 2015.
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> We recognise that puzzle, at least as regards domestic cost growth, in this country. In fact we currently have two puzzles, in some ways. Despite a deceleration in output, during the first half of this year, employment growth remains strong. If the nowcast is to be believed, employment in heads rose by 0.6% in the first half of this year, twice the rate in the second half of last and only a whisker below GDP growth, even on the backcast. And despite strong employment, and other signs of a tightening labour market, growth of nominal wages and unit costs remains weak here as elsewhere. I will return to these points at the end; as ever, the labour market is central to the policy question.

In the meantime I wanted to touch on something else we've been living with for a while, namely the discrepancy between the bearish expectations of Brexit in the currency market and what appears to be a less pessimistic view, as revealed by their spending, among consumers and businesses.

As we've noted before, this combination is inflationary. It means financial conditions are too accommodative for prevailing expectations in the real economy and the levels of spending they involve. By the same token, any reconciliation of expectations, whether it's the foreign exchange market that becomes less pessimistic or the economy more so, is disinflationary.

This sounds nice enough in principle. It's a reasonably clean story. In reality the situation isn't quite so discontinuous or straightforward to judge. Michael raised the possibility that the path of investment, if not in the data then at least in our forecasts, is already consistent with businesses taking the same pessimistic view of Brexit – for example putting the same weight on some cliff-edge outcome – as those in financial markets. If so, there is nothing to reconcile and no disinflationary skew to future outcomes.

I think this is unlikely. It's clear that business investment has already been depressed by something. According to the ONS's latest estimates, the rate of profit for non-oil businesses rose to its highest level since the 1990s in the first quarter of this year. Profits in the non-financial service sector have declined slightly since late 2015, the date of sterling's last local high. But the estimated rate of return in manufacturing, which benefits more from the depreciation, is up almost 4 percentage points over that time. And also over that five-quarter period quoted interest rates on corporate loans have declined, yields in equity and debt markets have fallen and UK-weighted global growth has improved significantly. Furthermore, much of that improvement reflects stronger US and European investment spending, something that's usually pretty well correlated across the developed world.

Yet business investment in the UK looks to have stagnated. The ONS says it was ½% lower in the first quarter of this year than in the last quarter of 2015. And if that reflects something specific to the UK there is an obvious candidate.

But think what would have happened, at least in a model, had businesses really been as pessimistic as the foreign exchange market. If you draw a graph of per capita income against real exchange rates – the sort of thing people have done to establish the Balassa Samuelson effect – a drop of 18% in the real exchange rate equates to an expected loss in income of somewhere between 4 and 5%. Suppose that's what the foreign currency market has factored in, over the long run, as the effect of Brexit. If the real economy had shared those expectations then consumption would've fallen immediately, by the same amount; so would the desired stock of capital; and, to achieve that, investment itself would've fallen by much more than 4 to 5%.

Investment is generally smoother than the simple models predict, partly due to long planning times. And in this case things would probably be a little smoother still because the event in question was delayed. With Brexit two to three years away some shorter-term investments would be worthwhile, particularly if consumers failed to look forward, whatever the eventual consequences. But the point remains that, in all likelihood, the predicted short-term hit to investment would be greater than the long-run hit to expected income. And clearly, that's not what has happened.

In fact, the *Inflation Report* says we've had the worst of it already. In the central forecast we're publishing on Thursday the first quarter of this year marks the trough for business investment. Over the next three years it's projected to grow by close to 3% a year, faster than in the Euro area. And as we saw at KIM2, if only implicitly, when you project business investment on the world, that involves a slightly smaller drag from domestic factors than over the past year to eighteen months. And I'm not sure this is what would happen if businesses were assumed to be as pessimistic about the future as the foreign exchange market appears to be.

This apparent discrepancy makes the policy decision slightly tricky. Our central forecast, which essentially for me assumes that that discrepancy continues, says that even after a couple of rate hikes the economy ends up marginally too strong – in the last year of the forecast any remaining slack has gone and inflation is still above target. If, on the other hand, you believe a reconciliation of those beliefs is more likely than a further divergence, there should be some downside skew to that projection.

I think that's probably the case. But we've lived with that discrepancy for a while and it's quite possible that a more categorical series of events – even beyond the surprise result of the general election and the continuing debates, let's call them, within the British government – may be necessary for these expectations to converge. And, in the meantime, you can only play the economy that's in front of you.

Growth has slowed and the projected peak in inflation is marginally lower than we thought it would be a month ago. I don't feel any urgency to change the monetary stance today. But that is the direction underlying the forecast and the direction of my bias. What would cause me to shift? I don't think there's any single trigger, though developments in the labour market are certainly no less important than any others. Our forecast says that, after 0.6% growth in the first half of the year, employment growth falls back to 0.3% in the second, and then stays at around that level throughout the following two years. If that fails to happen and we get those stronger growth rates persisting into the second half of the year, then the case for a rise in interest rates becomes more pressing.

As for this meeting, I expect on Wednesday to vote for no change in Bank Rate, no change in either stock of asset purchases and I expect to vote for the TFS drawdown period to be closed at the end of February. Thank you.

Governor Carney. Ok thank you very much. So, Ian and then Andy please.

Ian McCafferty. Thank you. At our Deliberation meeting, Andy gave what I thought was a very good summary of the conundrums we continue to face when interpreting the recent data and what it implies for the outlook. We have spent much of the forecast round discussing this in detail, so I don't intend to go over it at any length yet again.

But ultimately, I think we can boil this debate down to a relatively simple question, albeit one to which the answer is anything but. On balance, does the evidence point to an economy that is in the early stages of a marked and persistent slowdown, or to one that retains some momentum, albeit, as expected, at a pace somewhat more moderate than that which we enjoyed last year? At its simplest, is the glass half empty, or half full?

On the basis of the data news, I am reassured in my view of last month that the glass remains half full. The GDP data suggest that the pace of growth has slowed relative to the second half of last year, but there are enough loose ends, both in terms of the puzzles within the individual sectoral narratives, and of the official data relative to the trend in the surveys, that it is likely that the preliminary figures slightly overstate the underlying pace of the slowdown. In particular, the weakness in manufacturing output so far in Q2, which has held back the GDP data, appears concentrated in a small number of often volatile sectors.

Moreover, as I argued last month, there are idiosyncratic factors that validate the relative weakness in both the housing and car markets without having to resort to an explanation that consumers have lost their willingness to spend. Yes, the GfK measure of consumer confidence softened a little further this month, possibly reflecting post-election uncertainty, but the early survey indicators for retail sales ex cars suggest that, after the spring wobble, consumer spending is holding up, albeit somewhat constrained by the squeeze on real income. Moreover, the most recent batch of survey data suggests that the rotation in domestic demand away from consumer spending towards investment and exports is still underway, albeit slowly, and that the wobble in business confidence in the late spring was predominantly election related, and temporary.

The signals coming from the labour market continue to support this narrative. Jan raised the possibility that the continued strength in employment growth may simply be lagged relative to a deceleration in output, such that the third quarter will see a marked deterioration in the tenor of the labour market data. This is clearly possible, but it doesn't chime with the hiring intentions survey data, the continued high level of reported vacancies, or the anecdotal evidence from the Agents. These all suggest that employers intend to continue to grow their labour force into Q3, consistent with a picture of continued growth in demand and output.

The relative resilience in the domestic economy is explained, I think, by the fact that, while the pace of domestic activity is adjusting to the squeeze on real income, provoked by the fall in the exchange rate, the impact on activity from heightened Brexit uncertainty remains limited. As Michel Barnier has pointed out, the clock continues to tick, such that a failure in negotiations and a sharp loss of confidence cannot be ruled out at some point over the next 18 months, and that uncertainty as to the final outcome cannot be sustained indefinitely before some contingency plans are triggered. However, for me, the surprising news of the past few weeks has been how quickly and quietly a number of the previous red lines of the UK negotiating position appear to have softened, with an almost unanimous acceptance of a transition period and a greater flexibility of labour movement emerging within the Cabinet. There are many elephant traps still out there, but from the point of view of the short-term economic outlook, the recent news has been encouraging.

In our latest forecast, once we add the improved international background to this moderate outlook for domestic demand, we arrive at a position in which GDP growth continues at a pace such that with only a modest recovery in productivity growth, the output gap closes in the course of the forecast horizon. If I were preparing an individual forecast, I would be arguing that the start point for that output gap is somewhat closer to zero, yielding a slightly earlier closure and some modest upside risk to the inflation profile. And in terms of inflation, I take little signal from the June CPI data. As Stuart said, the dip on the month brings second-stage pass-through closer to our prior estimates, but it’s still too early to conclude that the upside risks of slower- or bigger-than-average pass-through can be fully discounted. However, with these minor quibbles, I am content, on a best collective basis, to sign off on the forecast as agreed.

Beyond the news on data, and that on Brexit, there is, in my view, a third item from which to take some modest encouragement this month. That is, the response of the bond market to our recent communications. In spite of Ben’s reservations, I think that the moves in the yield curve since the May *IR* suggest that - the recent reduced statistical sensitivity to economic data news notwithstanding - markets *are* listening to the news on our collective, as well as our individual reaction functions. Even if the markets have partially succumbed to what Ben described as a lazy counting of heads between hawks and doves, our comms have dispelled the canard that Brexit risk was so overwhelming that the shorter-term evolution of the economy counted for little, and will, I suspect, lead to greater attention to the evolution of the economy (as well as a revival in sensitivity to data news) over the autumn.

Overall, therefore, I see little reason to change my position from last month. The August IR forecast continues to imply some modest reduction in stimulus over the forecast period, and last month I rehearsed the arguments as to why I’m minded to begin very gradually now. On balance, the short term data news this month has helped to dissipate some of those downside risks and uncertainties that I cited last month, though these may yet come back to haunt us. So, this month, I am minded to vote for a quarter-point rise in Bank Rate, no change in the level of stocks of either gilts or corporate bonds, and the closure of drawdown for the drawdown period for the TFS in February, as planned.

Governor Carney. Thank you very much Ian. Andy and then Michael please.

Andrew Haldane. Thank you Governor. In June, I said that I believed August was a live meeting for me in the sense that it was possible I would wish to vote for a modest tightening in monetary policy.

The two conditions I set out for doing so were: First, clearer evidence that the economy was not poised to go down another gear, growth-wise, perhaps as a consequence of heightened political-cum-Brexit related uncertainties following the General Election. And second, that the nominal side of the economy, in an underlying sense, began to show at least some signs of life, be that from wages or prices.

In the event, there’s not been a great deal of news on either front over the period since the May *Inflation Report* and nor has this news been, in the main, significantly in one direction or the other. If anything, the news has been the weak side of neutral – for example, with the softness in some surveys, post-election, appearing to be more persistent than was the case after last year’s Referendum. That being the case, I am inclined at the policy meeting later this week to vote to leave unchanged both interest rates and the stock of asset purchases and to close the TFS at the end of its drawdown period in February.

The one place where there has been material news since May is in financial markets. At least as far as the yield curve is concerned, I think those movements have been a positive development and that communications by the MPC, cumulatively and collectively, can claim some credit for that.

For some months now we have been puzzled at the low level, unresponsiveness and shallowness of the yield curve. In particular we have been surprised, and a little concerned, that this shallowness and unresponsiveness may have reflected a perception that the MPC might be unwilling to raise rates this side of Brexit. In the run up to the May *Inflation Report*, financial markets put only a 15% probability on a rate rise this year, did not have one fully priced until the very end of 2019 and the 10-year yield was just over 1%. In the run up to the August *Inflation Report*, the probability of a rate rise before year-end has risen to 56%, it is fully priced by the third quarter of next year and the 10-year yield is at 1.3%. This strikes me as a much better balanced assessment of the two-sided risks facing the UK economy in the period ahead. Market perceptions of no pre-Brexit rate rise, to the extent they existed, appear largely to have been extinguished.

It is still the case that the sterling yield curve doesn't appear to be as responsive to data news as in the past. But, as Ben pointed out, it is by no means clear there is anything particularly UK- or Brexit-specific about this phenomenon, as it is a feature shared by other countries and one which appears to long predate the Brexit vote. None of that should, of course, prevent us from continuing to emphasise the importance of the data flow in determining the course of policy in the period ahead.

Turning to that data flow, as I mentioned, this has been modestly to the downside over the period. The UK's data surprise index has more or less traversed sideways since the May *IR*, down by around 0.1 standard deviations. Some of the smoke signals emerging from the data have been not just mixed but mysterious. The gap between still fairly robust output surveys, confidence surveys and employment data, on the one hand, and weak official data, housing market and some sectoral spending data on the other, has not narrowed.

There is more evidence than at the time of our last meeting about the effects of the election on sentiment among consumers and companies. These falls do not appear to be as sharp as the ones immediately after last year's referendum, but there are some signs they may prove more persistent. The CBI and BCC have both noted the down-leg in optimism among companies after the election, as has our Decision Maker Panel. The expectations component of the PMIs also weakened sharply in June and, on the latest data, that weakness has persisted into July. Some of the surveys of companies' investment intentions have also slowed a little.

Perhaps it should come as no great surprise if this step down in companies' levels of optimism proves more persistent than last year. The big risk this time is the possibility of a Brexit cliff-edge which, companies might reasonably suppose, is unlikely to dissipate quickly. If so, this is likely to impart some headwind to investment.

Acting against this Brexit-related headwind is the tailwind from the upturn in the global trade and investment cycle, which has been gathering pace since the end of last year. Nonetheless, with this global investment cycle still in its infancy, it seems plausible that domestic factors could prove dominant for most domestically-focussed firms, perhaps posing some downside risk to the investment leg of our forecast.

The election outcome also appears to have affected consumers' confidence, despite households seemingly being less directly exposed to Brexit uncertainties. As among companies, there is some evidence that this effect may prove more persistent than last year, with the GfK measure of consumer confidence falling back in June and not really recovering much in July.

Against that, hard data suggest that the consumer is proving resilient, perhaps surprisingly so, with retail sales reversing their fall in the second quarter, consumer-facing services growth robust and the expectations component of the latest CBI Distributive Trades survey strong, cars sales excepted.

Wage growth of course remains anaemic. But with still-strong jobs growth, labour incomes at the whole economy level are still growing at a reasonable pace, with nominal labour income rising by around 3% in the year to May, if you simply added together AWE and employment growth.

This, and the fact that the peak of the real income squeeze may already have passed, means I think the risks to the consumption leg of our forecast story probably lie to the upside.

Taken together, there is enough mixture and mystery in these data to make three scenarios, I believe, equally plausible, moving into the second half of the year.

In the first scenario, the economy evolves broadly as in the forecast, with nominal demand growing at just over 1.5% in the first half of the year and by roughly the same amount in the second half, perhaps with a somewhat different consumption/investment balance.

Nominal demand would be, if you like, cruising in the middle lane of the motorway.

In the second scenario, the economy takes another leg down in the second half of the year, with consumption remaining subdued as in our forecast but with investment disappointing as that Brexit-related hit to companies' optimism prevents it from filling-in for weaker consumption.

In this scenario, the economy switches to the slow lane.

In the third scenario, the consumer proves more resilient than expected, after a first-quarter blip, and with investment recovering as in the forecast nominal-demand growth picks up in the second half of the year compared with the first.

In that scenario, the economy switches to the fast lane.

Now, to be clear, this isn't an especially fast lane – more English motorway in the holiday traffic than German autobahn - with nominal growth little above 4%. The key is that growth would be picking up again.

What does this mean for policy?

Well in the first scenario, the middle lane and close to our forecast, I'd be minded to raise rates modestly later this year.

And in the third scenario, the fast lane with growth picking up in the second half, I would certainly wish to do so.

In the second scenario, the slow lane where growth dips further, I would probably be holding rates.

So if we place roughly equal odds on the three scenarios, that would put my own subjective probability of voting for a rate rise before year-end a little higher than those of market participants, perhaps closer to two-thirds than 50/50.

But, I hope like them, I will be data-dependent too in the months ahead.

Thank you.

Governor Carney. Thank you, Andy. So, Michael and then Jan please.

Michael Saunders. Thank you.

I am inclined to again vote for a 25 basis point rate hike and to back the proposition on the TFS.

In the exceptional circumstances since the EU referendum, we have sought the appropriate trade-off between above-target inflation and below-potential output. That trade-off has shifted markedly in recent quarters. Inflation in Q1 and Q2 was at or above our forecasts, while spare capacity in the economy has fallen faster than expected, with the jobless rate now at the lowest for over 40 years and matching our estimate of equilibrium. The prospective trade-off is beyond my limits of tolerance, with the likelihood of an extended period of above-target inflation coupled with a further drop in unemployment to below our U* estimate.

The drop in inflation from May to June does not, in my view, signal a change in the inflation trend. The decline was quite narrowly-based. Using a disaggregated split of the CPI, the median inflation rate among CPI items rose slightly, with more items recording higher inflation rather than lower inflation between the two months.

And even with the June figures, the quarter to quarter annualised core inflation rate for Q2 as a whole, seasonally adjusted, was 3 to 3½%, the second highest of any quarter in the last 20 years. Early guides to external cost pressures, such as the Bank's agents reading for finished goods import prices, and PMI output prices, do show signs of levelling off but remain quite elevated – indicating that substantial further pass through from sterling's decline is likely. At the same time, inflation in CPI components that more closely reflect domestic costs has picked up to around a target-consistent pace. With the current mix of commodity prices and exchange rate, I suspect that the inflation overshoot will prove a bit larger and more protracted than the IR base case.

At the same time, spare capacity appears to have shrunk faster than expected. Of course, estimates of spare capacity are inherently uncertain. Indeed, the recent pace of GDP growth, at 0.2% in Q1 and 0.3% in Q2, would not normally imply shrinking slack. However, UK GDP data are usually revised substantially over time – often up – and hence may not provide precise enough guides to short-term changes in spare capacity. In judging the level and change in spare capacity, I believe we should consider labour market trends and business surveys, as well as GDP-based estimates. And in recent months, unemployment and U6-type underemployment have both fallen quite rapidly, while the Bank's Agents and other surveys show rising recruitment difficulties. To me, all this indicates reduced slack.

Overall, the output gap is now probably close to zero in my view. The jobless rate matches our estimate of equilibrium, the participation rate is around a record high and business surveys do not suggest that capacity use in firms as a whole is significantly below average.

If there is some remaining slack, it probably is in hours worked and under-employed part-time workers. The widest measure is the number of extra hours that people say they would like to work, compared with the desire of some people to work fewer hours for less pay. This gap was 0.4% of total hours worked in Q1, but only about 0.2% of total hours if one allows for the regular tendency of people to overstate the number of extra hours that they would actually like to work.

Looking ahead, I suspect that the jobless rate will again fall more than the IR forecast implies, reflecting some mix of greater resilience in GDP growth, lower-than-expected trend productivity growth, and perhaps an undershoot in workforce growth.

Business surveys suggest that the economy continues to grow at a modest but steady pace of around 2% per year, similar to the average of the last few years. This pace of growth is not spectacular. But it probably is a bit above the economy's potential, as evident in the steady decline in unemployment and under-employment over recent years. Consumer spending appears to be slowing more or less as expected. Business surveys suggest that the expected rotation of growth to exports and investment is underway, although some uncertainty over this is inevitable given the paucity and lowish quality of official data in these areas.

At the same time, surveys suggest that firms' hiring intentions remain a bit above average overall, with little signs of a pickup in productivity growth.

Moreover, the prospect of Brexit may already be starting to impede labour supply, with reduced willingness of EU nationals to work in the UK. The three industry sectors with the highest shares of employment of EU nationals are accommodation and food services, administration and support, and manufacturing. In recent quarters, aggregate job growth in these sectors has slowed markedly to just 0.1% year-to-year – the lowest since 2011. However, the number of unfilled job vacancies in these sectors is up 11% year-to-year, whereas it was falling a year ago. In other sectors, aggregate job growth has been fairly steady at just over 1% year-to-year and the growth in vacancies has also been fairly stable, at 1 to 2% year-to-year. So it appears that labour supply in sectors most reliant on EU nationals is worsening.

Overall, I expect that the jobless rate will soon fall below our current estimate of the equilibrium jobless rate, 4.5%, and stay below that level in coming quarters.

So to me, the outlook is for above target inflation with the output gap closing soon, if it is not already closed.

This prospective trade-off is beyond my limits of tolerance. I do believe that policy should remain somewhat accommodative. In particular, it is conceivable that U* is slightly below 4.5%. However, as the staff note, recent pay data do not at this stage make a clear cut case to revise U* lower. If we are going to test the lower limits of the equilibrium jobless rate below 4.5%, I believe we should do so cautiously – and with less stimulus than currently – especially given the prospect of an extended period of above-target inflation.

Of course there are many uncertainties. A key one is the possibility of a disorderly Brexit with an abrupt disruption to business confidence and growth. However, as the staff note explains, the appropriate policy response in this scenario would depend on the mix of changes to output, supply and the exchange rate. And this could in theory go either way. The difficulties of such a scenario would not be lessened by keeping rates on hold near-term. Indeed, the staff note suggests that, if one assumes that a disorderly Brexit would trigger significant further sterling depreciation, then the possibility of such a scenario would actually argue for a slightly tighter near-term stance to dampen the resultant inflation pickup. To be clear, my likely vote for a 25 basis point rate hike is not a pre-emptive move against these risks. It is driven by the prospective trade-off under our Brexit base case.

A 25 basis point rate hike still leave a very loose policy stance, helping to support output and jobs. But, it would somewhat shift the trade-off in a less inflationary direction and increase the chance that tightening is limited and gradual.

Thank you.

Governor Carney. Ok. Can I just clarify where you're minded on asset purchases because I missed that if you did say it.

Michael Saunders. To leave those intact.

Governor Carney. So Jan and then Jon please.

Gertjan Vlieghe. Thank you.

It remains difficult to tell a coherent story about the recent evolution of the UK economy that is consistent with all of the data.

The economic slowdown that we expected after a Leave vote appears to be taking place. It started a little later and is not as pronounced as we had pencilled in back in August, but the economy has stepped down from a growth pace with a 2-handle to a growth pace with a 1-handle. In fact, if you take the ONS preliminary GDP data at face value, GDP growth in the first half was exactly 1% annualised.

Consumption seems to have played a major role in the slowdown: in the first half, retail sales have been broadly flat, house price inflation has ground to a halt, as have housing transactions, and car sales have weakened sharply. Consumer confidence has been on a weakening trend since last autumn, and did not bounce back in July even as the immediate post-election fog cleared a little.

I have highlighted the very sharp decline in car sales in Q2 on a number of occasions. Car sales fell by between 15% and 20% on the quarter, depending on which seasonal adjustment algorithm you prefer. We heard from the staff that car distribution in Q2 was not that weak in the preliminary services output data, and was offset by better retail sales on the quarter. Yet we were also told that car production was weak and contributed to puzzling weakness in manufacturing in Q2. It seems to me that cars are dragging the economy down, even if it is not showing up exactly where we expected it in the early sectoral breakdowns.

On the investment outlook, I remain sceptical that it is picking up meaningfully. I highlighted the discrepancy between the manufacturing and services-related surveys last month, and that discrepancy continues. In short, manufacturing is not large enough to pull the economy up when the much larger services sector remains subdued.

The global economy has been performing well by the standard of the post-crisis years, and the eurozone is enjoying a solid and broad-based recovery. Normally, where the global economy goes, the UK follows. This time, a dark cloud of Brexit-related uncertainty and the loss of purchasing power is holding the economy back, moving us from the top of the pack to the bottom of the pack.

The question remains quite how dark that cloud is. I expressed some optimism last month that the messy general election outcome seemed to have injected a dose of realism into the government about the true trade-offs concerning leaving the EU. As a result, we are seeing signs that earlier unrealistic options are no longer being pursued, and, for example, a transition period with continued single market access and de facto free movement is now being given serious consideration. If confirmed, that has the potential to push out the date of any material changes to the UK-EU relationship far enough into the future to let businesses get back to business, reducing worries about a no-deal scenario. However, for businesses to believe it, they will have to hear a consistent message from all senior government officials. We are not there yet.

So far, I have told a story of a slowdown, albeit somewhat delayed and less sharp than initially expected, which nevertheless fits with what I think are the major drivers of the economy.

But now we come to the labour market, and here is where the story runs into some trouble. The first half of this year has seen a re-acceleration of employment growth. And that employment growth has been almost entirely in full-time jobs, not the part-time or self-employment components which have been a significant part of the job recovery of the past few years.

The gap between weak output growth and strong employment growth in the first half of the year cannot easily be dismissed as data noise. Statistically, a gap of this extent has only occurred less than 20% of the time in the past. And if we exclude recession periods, such a gap has occurred less than 10% of the time. It might be noise, but it is unusual noise to say the least. Moreover, the employment data are not entirely isolated in their strength. Some employment surveys such as the REC survey have started to tick up.

The strength in employment has taken the unemployment rate down to 4.5%. I can easily defend the idea that even at 4.5% there is some slack left. Underemployment measures are still a little above their pre-crisis lows, so even with unemployment at U* there might be some remaining slack. And the evidence on U* is sufficiently imprecise that it could well be 4% rather than 4.5%. But I also think that even if there is some slack left, it is not much, and it has continued to shrink.

Even the wage data have not been that weak anymore over the past few months. The three month on three month annualised growth rate of private sector regular pay has been close to 3%, the highest in about a year. This is a volatile series, and we have had many false take-offs in the past few years. But here, again, there is some support from the REC survey, suggesting that it might not all be noise. For the first time in quite a while, we have not been surprised on the downside by wage growth, and the modest rise in wage growth in our forecast is looking somewhat more plausible.

An economy that's slowing, but where slack is still being reduced, is one that is moving closer to requiring tighter monetary policy. The question is when?

My forecast is that the strength in employment will not last; that the weakness in consumption will remain; that investment and exports provide an insufficient offset; and that wage growth and underlying inflation pressure remain subdued. If that forecast proves broadly right, the appropriate time for tightening monetary policy could still be some time away.

But my sensitivity to the incoming data is high. Previously I put a lot of weight on the asymmetry of policy near the zero bound, which provides an independent rationale for waiting longer to tighten policy. In other words, the strategy is, first, to wait for the data to justify a hike if there was no zero bound, and then to wait a little longer, because moving too soon is more costly than moving too late.

But while I have been waiting, the labour market data suggests that slack is being used up, even while the activity data has been pointing to a slowing. So, on some arguments the data is justifying a hike already, and I am already into the "just to make sure" waiting phase.

Some combination of the following surprises could therefore lead me to switch my vote as early as in the next quarter or so. Many other aspects of the economy could surprise me as well of course, and lead to a change in the required policy stance. I am focusing below on three surprises that are think are most plausible.

First, if consumption growth turns out better than I thought. Specifically, if retail sales in Q3 looks like it continues the uptick that we have seen in Q2, or if consumer credit growth shows even a slight re-acceleration, that would suggest to me that monetary policy is pushing harder than I intended.

Second, if business-related surveys show more broad-based strength beyond the manufacturing sector, for example because firms are taking some comfort from the prospect of a smooth transition after 2019.

Third, if the higher frequency wage data remain close to their current annualised pace of nearly 3%, or we see a further uptick in the wage-related surveys, which would increase my confidence that reduced slack is at last having the upward pressure on wages that we have been expecting for so long.

In conclusion, I am minded to vote for no change in Bank Rate, no change in the stock of purchased assets and to close the TFS drawdown window in February 2018, as initially announced.

Governor Carney. Thank you. And so, Jon and then Silvana.

Jon Cunliffe. Thank you.

Before turning to the assessment of the latest data and the decision, I just want to stand back for a moment and consider the context in which we appear to be operating.

Monetary policy always involves decisions taken in conditions of uncertainty and the data are never fully clear etc. But two underlying uncertainties for me characterise this particular period of monetary policy making.

The first is what one might call the “new normal” and whether we have reached it. Put simply, since the expansion began in the UK the economy has created employment and reduced unemployment, but without creating the pay or broader inflationary pressures similar labour market developments would have generated in the past. And as we discussed last week, other advanced economies appear to exhibit the same characteristics.

We do not know if this is because there has been more labour slack than we anticipated or whether the relationship between labour market tightness and pay pressure has changed, a view for which I increasingly have some sympathy. It could be and probably is, some combination of both. Nor do we know how long lasting this environment will be – it has certainly surprised all of us by its longevity so far. We have of course discussed it many times. But because we are familiar with the uncertainty, doesn’t mean we should forget it.

The second is a more recent underlying uncertainty – the way economic agents, firms, households, markets, will anticipate the impact of Brexit, given both the exchange rate impact now and the down-side risk that it could have a major adverse economic impact.

To be clear, this is not about setting policy as an insurance against a severe adverse Brexit shock at the point we leave. We will need to cross that bridge if and when we come to it. Rather it’s about the ‘shadow’, through the exchange rate and through expectations, that the UK’s exit casts on the decisions by economic agents now and over the forecast period.

This context of two underlying uncertainties doesn’t in as of itself lead me to a particular decision. But it makes me cautious and it makes me require more evidence, more firm evidence, before I act.

Last meeting I thought the case for holding policy unchanged was stronger than the case for raising rates given the conjuncture and the May *Inflation Report* forecast. The world economy certainly seems firmly on track. So how has the UK economy evolved since then relative to that last meeting, and to that forecast?

Well, the moderate growth slowdown that we had in our May IR forecast – growth falling from 0.7% in Q4 of last year to 0.4% in each of Q1 and Q2 of this year – looks to have been broadly right with the Q1 outturn at 0.4% and the first read for Q2 at 0.3%. But the composition of this growth may not have followed the expected narrative. Consumption slowed a little less than we expected (Q1 was 0.4% as opposed to 0.3% in our May forecast) and business investment expanded a touch less than we had forecast. Manufacturing investment was down 11% on the year in Q1.

Looking to Q2 and the near-term outlook, composite PMIs show output in line with its historical average, within which manufacturing and construction are looking stronger while services are weaker. As Andy has set out, the output surveys and the data have not consistently agreed of late – the surveys have generally pointed to stronger growth than the out-turns. Expectations surveys broadly now suggest weakening across sectors, with services expectations particularly weak. Staff showed us last week how in their new model the upside risk pointed to by the output surveys outperforming data broadly cancels out the downside risk of these weak expectations when it comes to in forecasting the third quarter.

In contrast to the PMIs, services growth was strong in the preliminary Q2 outturn. More tellingly, the pickup in services growth in the most recent data (May) was driven by consumer-facing businesses. And CBI reported sales and expectations for retailing also picked up to their long-run average in July. Both of these might suggest consumption could come in stronger than we have forecast. Against that, the GfK measure of consumer confidence fell sharply in June and has remained subdued into July.

On the other side, a downside risk comes from business investment where across both services and manufacturing we see relatively weak investment intentions. And according to the IHS Markit global business outlook survey, capital expenditure in the UK has fallen sharply, while it's been picking up in other countries over the past year as global growth has strengthened.

And turning to that long-running puzzle – weak wage growth – the weakness in the most recent data is not relative to our forecast in an absolute sense. Indeed the wage data came in very slightly ahead of our forecast. But it is again puzzling relative to our traditional understanding of relationships in the economy. For while wage growth came in in line with our forecast unemployment fell by rather more than our unemployment forecast for Q2, which is now already 0.3% lower than it was back in May leaving it lower than our estimate of U*.

This growth in employment looks set to continue according to survey indicators and Agent scores. As Jan has pointed out, the employment strength has come at a time that the economy is weakening – a rare event he tells us, particularly when we have a moderation in growth and not a contraction. We revised U* down at the start of the year meaning that weak wage growth over the past few years now appears less a puzzle than it did. But we continue to make judgements under the belief that the relationship between slack and wage inflation remains as it was.

And so for me the data paint a picture on growth that is broadly consistent with what we expected in the May forecast, the underlying narrative of which is carried through to August. But there is near-term uncertainty about the composition of growth – giving rise to two-sided risks – and our forecast for the longer-term outlook inevitably relies on longstanding economic relationships that continue to be challenged.

Turning to inflation, unit costs, like wages, appear currently to be growing more slowly than would be consistent with inflation at target – though these measures are volatile. Domestically generated inflation is about more than just wages so staff have compiled a range of measures to gauge current domestically generated inflation. The non-wage measures in their suite are still contaminated by the depreciation to some extent – but the work they have done to control for that impact suggests that DGI is currently below a target-consistent rate. But – as the staff analysis shows – while DGI is a useful concept, it's not a strong predictor of future inflation.

The exchange rate move associated with the Referendum vote is still for me the driver of both current levels of inflation and the outlook. In a broad sense, the depreciation is feeding through to prices as we expected. The most recent CPI read – a dip to 2.6% – is good to see but it is one month of data so I don't take any particular signal from it. Reassuringly, however, the above recent target inflation does not seem to have led to inflation expectations beginning to become dislodged.

Overall, and with the context that I set out at the beginning in mind, this leaves me content with our August forecast. The narrative as I have said is similar to May. If that narrative does not play out then we need to revisit it. If consumption were beginning to pick up and pay beginning to ignite alongside the growth we are forecasting in other parts of the economy then I would be prepared to re-evaluate my caution.

But at present I don't see sufficiently strong evidence for that and therefore I vote provisionally for no change in Bank Rate and no change in the stock of purchased assets, and I vote provisionally also, to confirm that the TFS will close at the end February as originally envisaged.

Governor Carney. Thank you, Jon. Ok, and Silvana please.

Silvana Tenreyro. Thank you, Governor. I'd like to start by spelling out the factors that most influenced my thinking.

The international context is generally positive. The euro area is finally recovering and there seems to be widespread confidence in the economy. US growth is holding up, despite the rocky politics. China's growth has been strong and other EMEs are also performing well.

The picture is slightly less rosy once we consider risks. While activity in the euro area seems to be moving in the right direction, some countries are starting from extremely weak levels and are still vulnerable. Spain's unemployment is at 17% and the likely referendum on Catalan independence in October could be politically and economically destabilising; Italy's unemployment rate is also in the double digits, with the Five Star Movement still strong in the run. Unemployment in Greece is around 22% with the debt problem yet unresolved. And adding to this backdrop, there are clear signs that the ECB might start its policy normalisation soon, which I fear might get in the way of the incipient recovery in the euro area's periphery. Moving East, the biggest concern is a Chinese hard landing, which carries a far from negligible probability. And for now I will stop in China, as I don't want to worry about North Korean missiles and a US response yet.

To sum up, from a UK perspective there is positive global growth momentum with some downside risks.

On the domestic front, growth has slowed down and is projected to be relatively weak in the near term. Durables spending, which is normally highly pro-cyclical, has weakened, as reflected in indicators of car purchases and housing market activity. The weakness in the car sector however might be due to the idiosyncrasies of car finance; on the other hand, the low levels of activity and weak prices in the housing market seem to be more a reflection of a general uncertainty and downbeat confidence in the UK economy.

Investment should have had a strong push from global factors, but it didn't pick up as much as expected, suggesting the domestic drag due to Brexit is exerting a heavy weight.

It was interesting to see that services fared better than manufacturing last quarter. The depreciation of sterling clearly was not enough to give a sustained boost to manufacturing, but overall, net exports did help somewhat in counterbalancing domestic demand weaknesses.

I found the mixed messages from surveys of confidence and business intentions as well as the disaggregated sectoral data harder to decode, which might have to do with measurement issues, or perhaps some more fundamental high-frequency volatility as news about what Brexit might or might not entail kept propping up.

The labour market looks robust based on all quantity indicators, with unemployment at a record low. This however stands in contrast with indicators of pay growth, which are all invariably disappointing. We have rehearsed many explanations for low pay growth, all more or less possible: a lower level of the natural rate of unemployment, low productivity growth, fiscal devaluation, the fall in bargaining power due to weaker unions, the rise of big firms with monopsony power, and so on. The equilibrium outcomes of all these forces is to lower real wages, but to move quantities so strongly we need a labour supply story and this is why the fall in the natural rate narrative is so appealing. It was instructive to ask why the natural rate fell with the financial crisis in all advanced economies, not just the UK – or why people are willing to work for less.

A narrative that I found fairly persuasive is that the crisis heightened a sense of uncertainty or risks that people were previously unaware of. The higher perceived uncertainty led to an increase in labour supply, as theories with precautionary motives would predict. It is conceivable that in the UK the uncertainty was further intensified by Brexit, once it became apparent that there was no clear Brexit path, leading to a two-step fall in the natural rate. Another possibility to entertain is a standard negative wealth effect. A question is whether this narrative can be reconciled with the surge in consumption right after the referendum? The answer I think is yes, given the scope for intertemporal substitution. The fall in sterling signalled future price increases (the pass-through is always gradual). This generated an incentive to frontload purchases before price increases kicked in. Eventually, prices picked up and with no real wage increase, demand began to wane. (Monetary policy surely also provided a boost.) Now, there is a lower bound to the natural rate, so real wages cannot keep falling for ever if employment keeps growing.

Turning to prices, again domestic and external forces are pushing in different directions, with the net result being above-target inflation. On the domestic side, virtually all measures of domestically generated inflation are below target-consistent levels. We can trace the pickup in inflation to the fall in sterling and we expect it to reverse once the pass-through is complete, which based on the projections, will take a few more months, conditional on inflation expectations being well behaved.

Now, ultimately, people care about inflation, whether domestically generated or not (and so does our remit) so the question is whether we should wait for a natural course of reversal or intervene. The answer depends on the other side of the trade-off and on inflation expectations. For now, expectations seem well anchored.

So let me address the remit. We have an outlook of above-target inflation and weak growth. As far as I can tell, the policy trade-off is at the most difficult point it's been in the past five years (my unsophisticated metric for difficulty is CPI inflation minus growth). Both inflation and weak growth can to different extents be attributed to the exceptional circumstances that Brexit has created, with the fall in sterling pushing up inflation, and uncertainty dragging demand. The exact size of the output gap is difficult to gauge given that potential output and aggregate demand are moving in the same direction. The gap is estimated to be on negative territory and the weakness in DGI is consistent with that. But the estimates also point to a relatively small size of the output gap. Which, if correct, with inflation above target, would justify starting policy normalisation before the end of the year, as markets predict. The issue becomes really a matter of timing.

Given the errors intrinsic in the measurement of the output gap, my inclination is to wait for signs that real wage growth is moving into positive zone – or a clearer indication of a closing output gap – before we start normalisation. The wait is of course conditional on inflation staying within current forecast parameters.

On the rationale for waiting, I have been influenced by US evidence showing that the transmission mechanism is stronger when tightening or increasing the Fed Funds rate than when loosening. If this asymmetry also applies to the UK, the risk of tightening today and then having to reverse if conditions deteriorate can be costly given the asymmetry. A raise and cut of equal size are not a wash.

Summing up: my intention is to vote for keeping the rate as is. I agree with the TFS drawdown plan and the proposal of asset purchases.

Governor Carney. Thank you very much. Ok. So, back in June we said that, I quote, "the key considerations in judging the appropriate stance of monetary policy would be the evolution of inflationary pressures, the persistence of weaker consumption, and the degree to which it is offset by other components of demand."

I further specified my interest in the extent to which wages begin to firm, and how the economy reacts to the prospect of tighter financial conditions and the reality of the Brexit negotiations.

Back in June, my view was that some reduction of monetary stimulus would likely become necessary if the trade-off that we face continues to lessen and the policy decision becomes more conventional. I felt this could be possibly as early as this meeting although more likely by the end of the year.

So the question I have been asking myself is what have we learned in recent months?

Well first, inflation pressures to my eye have not yet firmed. CPI inflation fell back to 2.6% in June, below our expectations in June, sorry in July rather, and in line with the May IR projection. Above target inflation continues to be entirely the product of last year's depreciation of sterling – a depreciation caused by market expectations of the material downgrade of the UK's medium-term prospects due to Brexit. Import price pass through may be close to peaking, and overall pass through appears broadly in line with expectations. Inflation expectations remain well anchored.

There are some early suggestions that the softness of wages is ending in both the surveys and in short-term private-sector measures, as Jan just detailed. But for now, I would continue to characterise wage growth as subdued despite unemployment being near its equilibrium level.

Weak productivity growth and residual spare capacity in the labour market can probably explain some but not all of this softness. It's possible that Brexit uncertainty has diminished workers' perceived bargaining powers or as Silvana's just argued, I hadn't thought of this, but a heightened precautionary motive for labour supply is also possible. There are just, this is just a question of lags.

But whatever the cause, given the serial disappointment, it's been reasonable to forecast a somewhat shallower recovery in wage growth. Recent data to me suggests we have a better chance of hitting it, which is a good thing since we haven't actually released our forecast yet. Our forecast inflation overshoot partially relies on a marked pro-cyclical build of consumer sector margins at a time when consumption growth is expected to remain soft. If that margin expansion doesn't materialise, inflation could be anywhere from at target, to almost half a percentage point below in years two and three of our forecast.

Secondly, to me, to my eye at least, there isn't yet evidence of the rotation of demand will be sufficient to close the remainder of the output gap.

Household spending growth appears to be slowing broadly as expected. Although retail sales did rise at a relatively healthy rate in the second quarter reversing their fall in Q1, that contribution to overall growth is likely to be largely offset by continued weakness in durables – not just the sharp continued fall in car registrations but also evidence that activity in the housing market has softened further.

Consumer confidence, which had been reasonably resilient, at least in our preferred measure, dropped sharply in June to below its historic average and remained there more or less in July.

In contrast, as everyone has noted, global growth has firmed in line with expectations its broad based across advanced and emerging economies. Global trade is growing at its strongest rate since 2011. And that recovery, globally, seems to be rotating towards investment, helping to both ensure its sustainability as well as on the margin raising r* and giving monetary policy more traction.

That stronger global backdrop provides the possibility that net trade and investment will act to support UK GDP during the period of subdued consumption growth. Now, where there's a question is the extent to which this rotation of demand will occur beyond stronger exports – and even on exports we are relying more on surveys than the hard data at this stage, but the surveys do seem broadly consistent.

Although output balances in business surveys have remained solid, with the important exceptions of the CBI, the expectations balances have fallen to below historic averages. The staff's PMI-based models for the third quarter are now tracking below potential. Now it's possible, of course, that this is a post-election blip and expectations will bounce back – although they haven't yet in July. And survey measures of investment intentions, which had picked up around the start of the year, now look to be stabilising rather than pointing to accelerating business investment. So there is a risk that UK companies may be less for turning than our projections suggest.

Big picture: despite the boosts from stronger world growth and fiscal policy, UK GDP grew sluggishly in the first half of 2017. And there is a realistic prospect of calendar year growth this year tracking around 1%, a performance that, timing aside, we wouldn't be far off our original post-Brexit forecast last August. The only difference being the Wily E Coyote momentum immediately following the referendum.

So, thus far, I'm not seeing the evidence that firms are brushing off the reality of the Brexit negotiations and, when combined with consumption indicators, downside risks from Brexit on demand appear to have increased in the last few months.

So what does this mean for policy for me? Just as backdrop; Ben's discussion, or our discussion, of advanced economy currency crises last week underscored just how exceptional Brexit is. Sterling's challenges do not stem from macroeconomic mismanagement or an unsustainable exchange rate peg. Our original view that Brexit represents a major negative supply shock is increasingly validated by asset prices, by survey evidence and by corporate activity.

Negotiations during the balance of this year could prove crucial to determining the timing and the degree of that shock. And expectations about the outcome of those negotiations will obviously affect demand, activity and inflationary pressures over the forecast horizon.

If our forecast assumption that agents expect a smooth Brexit proves to be correct, the current slowdown in recent months should be temporary, with growth picking up to rates at or above potential for the balance of the forecast. For the moment, the greater uncertainty injected by the election and the start of Brexit negotiations make me somewhat less confident that business investment and net trade will grow strongly enough to offset any weakness in household spending. But I certainly wouldn't throw in the towel on either that rotation or the possibility that household demand reaccelerates following a pause. Certainly, if Brexit prospects appear smooth, both of those scenarios are plausible.

For now, with the prospect of a modest inflation overshooting at the two-year horizon, one that's entirely caused by a fundamentally driven depreciation of sterling, with sluggish growth, and with some tightening of financial conditions in train through recent actions by the FPC and the PRC, I would not expect to favour the removal of any monetary policy stimulus at this meeting, apart from deciding to terminate the Term Funding Scheme in February. And I think we should note that our projection incorporates three marginal tightenings of policy.

To be clear, I believe that achieving a sustainable rate, sustainable return of inflation to the target, will require some additional tightening of policy if the economy behaves broadly consistent with our forecast, so I would hold open the possibility of a rate increase.

Specifically, if in the coming months growth prospects firm once again to above trend rates, despite the inevitable Brexit noise and somewhat tighter financial conditions, I would think it appropriate to withdraw some conventional monetary stimulus, while stressing that increases in Bank Rate would be at a gradual pace and to a limited extent, given the headwinds still facing the UK economy.

So with that, I just confirm my interpretation of the indicative votes. First, with respect to Bank Rate, I had six of us, myself included, voting to not change Bank Rate, or minded not to change Bank Rate at the policy meeting later this week. With Michael and Ian minded to increase Bank Rate by 25 basis points. All of us minded to maintain the stock of asset purchases both for corporate bonds and gilts. And all of us minded to terminate the Term Funding Scheme at the end of February. Okay. Great.

Ok with that I will close the recorded part of the meeting and then we will do some work on just finalising the forecast.

A meeting of the Monetary Policy Committee was held on Wednesday 2 August 2017. The following members of the Committee were present:

Mark Carney, Governor
Ben Broadbent, Deputy Governor, Monetary Policy
Jon Cunliffe, Deputy Governor, Financial Stability
Andrew Haldane, Chief Economist
Ian McCafferty, External Member
Gertjan Vlieghe, External Member
Michael Saunders, External Member
Silvana Tenreyro, External Member

Dave Ramsden was present as the Treasury representative

The following members of staff were present:

Gareth Ramsay, Director, Monetary Analysis
Alan Castle, MPC Secretariat
Simon Hayes, MPC Secretariat
Bob Hills, MPC Secretariat
Melissa Davey, Editor of Inflation Report

Transcript of the Monetary Policy Committee Meeting on Wednesday 2 August 2017

Governor Carney. Okay, afternoon everyone. So, before turning to the vote, I'd ask Ben first to give an update on market developments and then Andy to give an update on the recent macro data.

> **Ben Broadbent.** Thanks. There is very little on the markets side. I'll just give some numbers relative to the conditioning paths for the *Inflation Report*. Nothing much on interest rates, three year OIS rate is four basis points below the IR path. On the exchange rate, the index is 0.3% above it. Within that there's been quite a move up against the dollar, about 2%, but similarly down against the euro. The only significant move is in the price of oil which is up 6% in dollar terms and 4% in sterling. That's it.

Governor Carney. Okay, great. Andy.

> **Andrew Haldane.** Yes, internationally, we got the euro-area GDP numbers for the second quarter, which at 0.6 were a touch below, 0.1 percentage points below, what had been our nowcast and better than the August *Inflation Report*. And then domestically, let me mention one or two things. We had the announcement from British Gas about their increases in electricity and gas prices, which, despite causing a degree of consternation externally, were pretty much in line with our expectation as embedded in the STIF, so no real change to that from that announcement. We have had the decomposition of the PMIs for July, which shows manufacturing picking up a bit, especially on the export side. Construction down fairly sharply, services not yet announced, but by process of elimination it will be fairly flat I think. On the month, we had Nationwide house prices for July, which were up 0.3. They do now show some sign, I think, of stabilising albeit around fairly low levels. And last, but by no means least, actually it wasn't flagged in the data note, but we have advanced released of the REC for July, which shows a pretty rapid pick up in employment growth, in fact the fastest since early 2015, for both permanent and temporary hires. So I think there is some significance to that data given the conversations we have been having.

Governor Carney. Okay, good. Any questions? Okay. So we'll turn to the decision, and just to be clear, as you will have seen in the draft MPS, we will split this into four propositions. The first is that I am going to propose the following: that Bank Rate be maintained at 0.25%; secondly, that the Bank maintains the stock of sterling non-financial investment grade corporate bond purchases financed by the issuance of central bank reserves at £10 billion; thirdly, that the Bank maintains the stock of UK Government Bond purchases financed by the issuance of central bank reserves of £435 billion; and lastly, that the drawdown period for the Term Funding Scheme close on 28 February 2018 as originally envisaged. And with that, so if I could ask you to indicate for each of these four and I'll start with Ben.

> **Ben Broadbent.** I vote in favour of all four propositions.

Governor Carney. Okay. And next is Ian.

> **Ian McCafferty.** I vote in favour of propositions two, three and four, corporate bonds, Government Bonds and the closure of the TFS, against that for Bank Rate, preferring a rise of 25 basis points.

Governor Carney. Thank you. Andy?

> **Andrew Haldane.** I vote in favour of all four propositions.

Governor Carney. Okay. Michael?

> **Michael Saunders.** I vote in favour of the two propositions on asset purchases, also for the proposition on the TFS. I disagree with the proposal on Bank Rate and would prefer a hike of 25 basis points.

Governor Carney. Thank you. Jan?

> **Gertjan Vlieghe.** I vote in favour of all four propositions.

Governor Carney. Okay. Jon?

Jon Cunliffe. I vote in favour of all four propositions.

Governor Carney. Okay. Silvana?

Silvana Tenreyro. I vote in favour of all four.

Governor Carney. Okay. And I vote in favour of all four propositions. So, in terms of Bank Rate, we have 6 votes in favour of maintaining Bank Rate at 25 basis points, and 2 votes, Michael and Ian, for a 25 basis point increase in Bank Rate. And then we have 8-0 votes in favour of the other three propositions. Okay. Very good. So we're all content with that. Dutifully recorded, so we can close this meeting and turn off the tapes.