BANK OF ENGLAND

MEETINGS OF THE MONETARY POLICY COMMITTEE
November 2017

A meeting of the Monetary Policy Committee was held on Monday 30 October 2017. The following members of the Committee were present:

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

Clare Lombardelli was present as the Treasury representative

Anthony Habgood was present as an observer in his role as a member of Court

The following members of staff were present:

James Bell, 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 30 October 2017

Governor Carney. Alright, good morning everyone. We'll start with Andy to go through recent, the most recent data; we are fairly briefed up but a few things have come in I think, right?

> **Andrew Haldane.** Three very quick things Governor if I may. So last week we had US GDP growth for the third quarter. That came in at 0.7, that's in line with the projections we have in our draft forecast to be published and just a shade below what had been our nowcast immediately before the release.
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> Also last week we had CBI Distributive Trades for October. That was weak on both the reported and expected sales balances, with that weakness focused in retailing. Just one proviso, this is a fairly volatile series and comes off the back of a strong September so we might want to aim off a bit for that I think.
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> And finally we have the PMIs, an early sighter of, the PMIs for the UK for October. One point to note here is, it isn't released until Friday which is very unfortunate timing, given *Inflation Report* and all that, so what I am about to tell you forget when you speak on Thursday. Anyway both the output and expectations balances were up in October. That takes the output balance above its historical average, the expectation series remains a bit below. Just one more point on the expectations balance, at the moment that's just for manufacturing and services; no construction yet. I think that's all thank you.

Governor Carney. Ok, great. So I'll turn to you Ben to finish your biscuit and then start the proceedings with indicative indications.

> **Ben Broadbent.** So let me first summarise the main data on the global economy, activity in particular; it remains pretty positive. In the US, third-quarter GDP grew by 0.7%, marginally below our expectations immediately beforehand, but above the consensus forecast. Payroll growth dipped sharply in September to 33,000, but this number will have been severely affected by Hurricane Irma and we can expect a rebound through the remainder of the year.
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> We don't as yet have any official estimates of third-quarter growth in the euro area, but despite the slight fall in October in the flash releases, the PMI surveys continue to point to a strong rate of expansion. We have raised our forecast for Q3 GDP growth from 0.6 to 0.7. The Q4 projection has gone from 0.5% to 0.7%. As they have been all year, our forecasts for the euro area are slightly above consensus.
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> Despite similar rates of growth – indeed the euro area is probably growing faster than the US relative to their respective trends – monetary policies in the two economies are diverging somewhat. At its September meeting, the FOMC formally announced the start of balance sheet normalisation by capping rates of reinvestment. This was well trailed and there was little market reaction. The market expects another rise in the fed funds target rate in December.
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> As had also been well trailed, the ECB decided at its October meeting to reduce the rate of its asset purchases from the New Year, when the monthly rate will fall from 60bn euros a month to 30. In other respects the announcement was on the dovish side of expectations. No announced end-date: purchases will continue at least until September 2018 and, even once they end, the ECB said it would continue to reinvest maturing stock for an extended period of time. The euro fell in response, though it remains 6% higher in trade-weighted terms than at the start of the year.
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> Finally, Chinese GDP growth came in at 6.8% for Q3, compared with a target rate of 6½. 2017 is likely to be the first year since 2010 that calendar-year growth in China has not fallen.
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> In the UK, our expectations have been undemanding. But the news in the past three months has been consistently, if only slightly, stronger than those expectations. The magic number turns out to be a tenth of a percentage point. Third-quarter GDP growth was 0.4, compared with a central

projection in the August *Inflation Report* of 0.3%. Wage growth was 2.3 compared with 2.2, September inflation 3 rather than 2.9 and, using the claimant count as a guide to the last month of it, Q3 unemployment was 4.3, slightly lower than the 4.4% in the last *Inflation Report*. We still think there's some slack in the economy, but our top-down filter says the output gap has edged down to 0.3%.

These misses are small. But, even if the economic news develops relatively slowly, there is always a discrete point at which a change in interest rates becomes appropriate. Looking back, I think the cumulative news has probably been sufficient. Nine months ago, in the run-up to the February *Report*, unemployment was 4.8, the output gap – according to the latest run of the filter – was 0.6, and inflation was 1.6%. Inflation has risen, the degree of slack has fallen, and they've done so, certainly by enough on the basis of any simple feedback rule, to justify a 25 basis point rise in interest rates.

One advantage of such comparisons is, as I say, that it gives you some perspective as a defence against the "boiling frog" phenomenon. Another, more technical, advantage is that looking at changes in slack and inflation, rather than just levels, provides some robustness against uncertainty about the neutral level of interest rates. This is the Orphanides and Williams point. As it happens, there are global developments – notably the strength of investment and the decline in equity risk premia – that suggest that, if it's done anything at all, that neutral rate of interest may have risen slightly over the past year. But whatever the appropriate level of interest rates, that level is likely to have risen if spare capacity contracts and inflation goes up.

And finally, there's an additional point concerning the measurement of change in spare capacity. We have a top-down filter that puts quite a bit of weight on headline output growth. When growth slows, the filter allocates a part of that slowdown to supply, but quite a bit of it as well to a widening in the output gap. But when one's particularly uncertain about trend growth in productivity, it's appropriate to put somewhat more weight on the change in unemployment. Now output growth may have slowed, but if employment is still growing reasonably robustly, we must infer that underlying supply growth is weaker.

This, then, is the case for a rate rise. Despite slower output growth, unemployment has continued to decline and that has reduced the appropriate tolerance of above-target inflation.

There are, of course, caveats and risks to that view. Some are perfectly familiar to any monetary policymaker and would often be relevant, even in unexceptional times. We know that the main source of this inflation – last year's big depreciation in the exchange rate – is having its maximum effect right about now. We think it will last in the inflation rate for some time to come, but we also know it should soon start to fall back.

Employment typically lags demand through the cycle. So perhaps slower growth may yet result in a rise in unemployment even if it hasn't shown up so far. And if there's uncertainty not just about underlying productivity growth but about the level of U*, perhaps you'd need to see faster wage growth before being convinced that the decline in the rate of unemployment was actually genuinely inflationary.

On these points, I am reassured by a few things. It looks as though growth of average earnings was depressed earlier this year by negative compositional effects and, since the spring, the monthly AWE numbers have accelerated. As for employment, it's not just the official data that point to continued expansion. The surveys do so as well. Hiring intentions are above average, vacancies and skill shortages the more so. Our own Agents say firms expect somewhat higher wage growth next year. I have not given up on the Phillips curve.

Perhaps the more important risk, however, involves something entirely unfamiliar, until last year at least, namely Brexit. For my part, I think it's clear that, whatever these negotiations ultimately deliver, consumers are implicitly less pessimistic about the final outcome than the foreign exchange market. The severe decline in sterling's exchange rate is consistent with a marked drop in the UK's productivity and income, specifically in the traded sector, but therefore in aggregate as well. A forward-looking consumer who shared these expectations would surely spend less, relative to current income. But the saving rate hasn't risen a jot. These beliefs are starkly inconsistent. And if they were to be reconciled, by a rise either in the saving rate or in the currency, our inflation forecast would fall.

Can we count on such a reconciliation, however? There's been plenty of news about Brexit in the past year. Yet the discrepancy remains. What positive developments there have been have done little to shift the foreign exchange market's view of the eventual outcome. And if negotiations have progressed by less than some "Leave" politicians predicted, this too has apparently failed to have any impact on consumer spending. Indeed, the NMG survey suggests that even those who profess to be pessimistic about the eventual outcome as regards the general economy don't yet intend to change their spending habits in the meantime. So although one can clearly identify future events that might prompt a reassessment, including the EU summit in December, one can't be confident this reconciliation will necessarily follow.

And one has to consider the costs of inaction in the meantime. Our forecast implicitly assumes no reconciliation and, even after a rise in interest rates, it suggests we'll be facing above-target inflation for some time to come. With unemployment below our assessment of the natural rate, and set to decline a little further, I think the time is right to withdraw a little stimulus. I therefore envisage voting on Wednesday for a 25 basis point rise in Bank Rate. I do not expect to vote for any change in the stock of purchased assets.

Governor Carney. Thank you Ben. So I have Andy and then Jan please.

Andrew Haldane. Thank you Governor. There has been a lot of talk in recent weeks about how difficult this time's MPC decision is likely to be. My decision has not, as it turns out, been an especially difficult one. At our September meeting, I thought the case for raising rates versus sticking was evenly balanced. Provided our forecasts remained broadly on track, however, a November rate rise looked appropriate then. The evidence since then has, if anything, been just a touch stronger than contained in our forecasts. That is why I intend voting later this week to raise rates by 25 basis points, while leaving unchanged the stock of asset purchases. I would point to the following factors to support this decision.

First, the world economy, where we have revised up (once again) our forecast, putting it above (once again) most external forecasters. Given the pattern of recent revisions to world growth, being the high side of consensus feels right. Nonetheless, my sense is that there is still some risk we may be under-estimating momentum in the global economy. Our world growth forecasts peak around now, before beginning a slow descent. A number of forward-looking indicators of world demand have, however, continued to strengthen. Growth in the euro area, the US, Japan, and China has continued to surprise to the upside. Global equity markets are up a further 4% since the August *IR*, on the back of positive earnings surprises in the US and the euro area. Industrial metal prices are up 10% and oil prices 16% since August, with staff estimating that almost half of the oil price rise is demand-related. Measures of confidence among businesses and consumers across the G7 economies have been rising steadily for a year, reaching their highest levels since the financial crisis, around one standard deviation above their mean. All of this suggests, to me, that the up-tick in the world economy could have some distance still to travel.

Of course, one thing that could halt that momentum would be a combination of binding capacity constraints and accompanying tighter monetary policy. Indeed, those are the main reasons world growth dips in the second half of our forecast. But that picture would alter if you thought advanced economies had greater degrees of unused capacity than we are currently estimating – a lower U*. Or, more specifically, if you thought U* may in fact be endogenous, with labour demand helping create its own supply. I think this is plausible. As high unemployment can generate a discouraged worker effect, low unemployment may generate its opposite, as inactive workers are encouraged back into the labour market. This is hysteresis, but with the opposite end of the elastic being extended. It is certainly one (admittedly among many) of the explanations for the downwards adjustments to estimates of U* we and others have made in the UK, US and, most recently, the euro area. It carries the implication that world demand can be stronger for longer before it bumps up against any speed limits.

Second, turning domestically, we have seen UK unemployment again come in a little below expectations, relative to the August *Inflation Report*. Other things equal, this would imply a smaller degree of slack than we'd expected, reducing our already limited tolerance for inflation overshoots. Employment surveys provide few indications that this downwards trajectory in unemployment will reverse anytime soon. It strikes me as entirely plausible that U* in the UK could also be endogenous and lower than our current estimates of 4.5%. There are plenty of cities and regions across the UK with unemployment rates of 3 or even 2% but with weak wage growth. As we discussed last week, however, lower U* need not necessarily carry any implications for our estimates of the output gap, inflation and hence for policy. And, in any case, this issue is one we will return to in February.

Third, UK growth continues to be fairly resilient overall, if modest. For example, there are few signs so far that growth in H2 will be any slower than in H1. And, as Michael has pointed out, excluding oil and gas, the UK's growth profile has been fairly steady over most of the past two years.

Fourth, inflation news has been a touch to the upside since August, while nominal wage growth has been broadly in line with expectations. The latter may be of greater significance, as it comes off the back of a long sequence of negative wage equation residuals. Our forecast envisages a further build in nominal wage growth of course, but not an especially dramatic one. Whole economy nominal wage growth needs only to rise another percentage point or so between now and 2019. And looking into next year, it seems plausible to me to think we could begin to see some upwards drift, as wage settlements begin to factor in the combined effects of a materially higher cost of living, more pervasive recruitment difficulties, including those arising from the effects of lower migrant labour, and perhaps some further loosening of the public sector pay cap.

The last of those factors – the public sector pay cap – has I suspect had a more important bearing on private sector wage behaviour than our models might suggest, serving as a visible nominal benchmark for wage settlements. Were that cap to lift, I think we could see some re-anchoring of private sector wage settlements. Indeed, there may even be tentative signs of some upwards drift in wages in the most recent Agents' survey. To be clear, none of this is to suggest we are on the cusp of a wage earthquake; only that our wage forecasts seem to me more conservative than for some time, given the forces now at work.

If we do decide to raise rates, I, like others, favour some fairly short and simple messaging, based around the conjunction of above-target inflation and lower than expected, and small, remaining degrees of slack in the economy. There is a risk, inevitably, that some will seek to exaggerate the likely impact of a rate rise on stretched households and companies and/or question its timing given Brexit uncertainties. And while there is nothing in the balance sheet arithmetic to suggest that either households or companies will respond more than usual to a rate rise – indeed, the balance of evidence suggests the opposite – there is a greater chance of that happening if the accompanying media reporting over-emphasises the negatives, or underemphasises the positive reasons, justifying such a move.

For those reasons, I think an important part of our messaging is to clarify the likely modest impact of a rate rise on debt servicing costs, not least given its low starting point. And it is also I think important to emphasise the positive reasons which justify such a move – for example, UK growth having been resilient over the past 18 months, outperforming everyone's expectations, including ours. And the fact that, over the same period, unemployment has fallen to its lowest levels since the early 1970s, again beating just about everyone's expectations and eliminating almost all of the slack that had built-up in the immediate aftermath of the crisis.

We may well be living in an era of diminished growth expectations, alas. But I do not think the messaging this time need major on that fact when explaining the case for a rate rise now, not least to avoid reinforcing any diminution of those expectations. Thank you.

Governor Carney. Ok. Thank you Andy. So Jan and then Silvana please.

Gertjan Vlieghe. Thank you. Since the referendum, demand has held up better than I expected, and supply has been worse than I expected. This has been clear for a while, but the asymmetry of policy at the zero bound led me to wait longer before responding to this, to reduce the risk of hiking prematurely. I think I have waited long enough.

The result of more resilient demand and weaker supply has been that unemployment has continued to fall, rather than stabilising or rising, as I had been expecting. There is a great deal of uncertainty about the natural rate of unemployment. So there can be no automatic inference that downside surprises in unemployment mean there is less slack left than we thought. There is a levels and changes point here. There can be little doubt that the amount of slack continues to be reduced. But there remains significant uncertainty about the level of slack that remains.

Taking a broader perspective on the labour market and cost growth, beyond simply observing the headline unemployment rate, adds support to the conclusion that slack is indeed getting close to being used up.

First, I continue to take a broader view of labour market slack than just unemployment. Along with many others, I have argued that there is underemployment: those who work could, and would like to, work more. And this underemployment measure has a closer relationship to wages than headline unemployment. But underemployment has fallen too. And in the past couple of years it has fallen slightly faster than unemployment. It remains a little above its immediate pre-recession level, but on recent trends we are set to reach that level within a year.

Second, wage growth is not that weak anymore. For the past six months, wages have been growing at an above 3% rate. Survey-based indicators of pay pressure are flat or up, not down.

And that is just headline wage growth. What we really should care about is labour costs relative to productivity, ie, unit labour costs. ULC is a poor real-time guide to policy because it is so volatile and prone to revisions. That is why I tend to look at nominal wage growth, and deflate it by my own estimate of trend productivity growth. When constructing that estimate, I have refused to believe that underlying productivity growth could be as low as ½%. But for the past three years, ½% is all we have had. As an honest data analyst, I have to update my prior. The more observations at ½%, the bigger the weight on those observations, and the smaller the weight on my prior that underlying productivity growth was higher. At ½% productivity growth, full-employment wage growth should be around 2½%, absent any margin adjustments. 2½% is pretty much where we are now.

Another way of looking at this problem of extracting a noisy signal is to look at unit labour cost directly, and compensate for its high volatility by smoothing it more. As we know, the most recent year-on-year growth rate of ULC is 2.4%. But that is too volatile to put much weight on. The average year-on-year growth rate for the past two years, a much less volatile object, has also been 2.4%, up significantly from the 0.1% of the two years before that. And 2.4% is also the 20 year average, a period over which we have met our inflation target, on average.

This discussion of wages and low productivity leads me to the conclusion that wage growth is not that weak anymore. In turn, that is consistent with the notion that there is little slack left in the economy. And with little slack left, we should be less tolerant of an inflation overshoot over the forecast period. That is the reason I am minded to vote for a rise in Bank Rate at this meeting.

Such a decision is not without risks. Let me focus on just two of them, which I think are particularly important right now.

First, my analysis of wages and productivity is still subject to significant uncertainty. There could be more slack than I think, ie, U* could be even lower than the already reduced level that is implied by our current output gap estimate. I might be over-interpreting tentative signs of wage pickup, I might be too pessimistic on underlying productivity growth. But I think these risks are two-sided, so they are not a reason to take no action. They are a reason to move cautiously, and for monetary policy to be recalibrated to future signs that wage inflation is picking up either more, or less, than we expect, relative to productivity.

A second risk is that, with the end of the Article 50 negotiation period now potentially moving into firms' planning horizons, we might see a bigger investment cutback than we have seen so far. Along with that, we might also see consumers ramping up savings and cutting back spending. This risk has been with us since the referendum, and will continue to be with us until a successful deal is signed, sealed and delivered. As I outlined at our previous meeting, my preferred strategy for dealing with this risk is to respond to it when we see it in the data, given that it is impossible to anticipate. So far, signs of a more sudden spending slowdown have not materialised, but neither has the data been 100% reassuring. The CBI retail survey in October plunged sharply to its weakest level since the recession. The earlier signs of stabilisation or slight improvement in the housing market have faded, for example the RICS new buyer enquiries plunged in September and now points to falling transactions again. On the business side, the construction PMI for commercial and engineering activity has been weakening sharply in recent months, and the CBI investment intentions for manufacturing firms has also dropped. To be sure, other, more informative indicators have on balance held up better. And that is why these weaker indicators do not persuade me to wait longer before the first rate hike. If you wait for all the data to point in the right direction, you will always be too late. That is as true in financial markets as it is in central banking. But when considering further interest rate moves, I will continue to be highly sensitive to possible signals of a slowdown in the data.

Finally, let me turn to communications. The basic message should be that we are in a trade-off world: we have been tolerating an above-target inflation outlook because we thought that there was some slack in the economy, current and prospective. What has changed over the past several quarters is that slack has continued to be eroded despite weaker growth, which means we have a reduced tolerance for an above-target inflation outlook, even if that inflation is exchange-rate driven. It is persistent enough that we have a choice over how much of it to tolerate. A rate hike now will be a hard sell, and we have to be prepared for that. Many will say it is a mistake. I suspect that, even if our forecast is on track, it will be only next year, when nominal wage growth and inflation cross over, that the rationale for our hike will become better understood and accepted by a wider audience.

Meanwhile, I favour as little guidance as possible on future rate moves, other than limited and gradual. I would like to let the forecast speak: it is conditional on expectations of a smooth transition, and it is conditional on a market curve that implies two further hikes. That says enough. Thank you.

Governor Carney. Thank you Jan. So Silvana and then Jon Cunliffe.

Silvana Tenreyro. Thank you. Let me start by highlighting the factors that have most influenced my thinking in this round.

The international data over the past month suggest that the strong global growth momentum will persist. Data so far indicate that the euro area is on track to grow at 0.7% in both Q3 and Q4. Despite the hurricanes, the US grew at 0.7% in Q3, and is expected to post strong growth also in Q4. Even with the downward revision, Japan grew at its highest rate in two years in Q2, which is also reflected in recent strength in the Nikkei. Moving to emerging economies, China's GDP growth continues to be strong and staff have revised up forecasts for other EMEs, highlighting how broad-based the current global growth momentum is.

Further out, our central case forecast is now for UK trade-weighted global growth to remain robust over 2018, and only slow gradually over 2019 and 2020.

The risks to the forecast appear more balanced. On the upside, a renewed global appetite for investment, together with weak core inflation and signs of more spare capacity in Europe, could allow for even stronger growth.

On the downside, financial and geopolitical risks are still present. Chinese financial conditions remain loose, with the credit-to-GDP ratio continuing to grow. Political risk in Spain has spiked. So far the market impact has been largely limited to increases in Spanish risk premia, but it could spread more widely if, as it seems, the situation drags on. Although North Korea has remained relatively quiet in the past weeks, the threat of a sudden disruption should not be underestimated. NAFTA negotiations do not appear to be going well. And, last but not least, risks surrounding the UK future trading relations limit the extent to which the UK economy could benefit from this global growth momentum.

The aggregate demand news and latest data revisions have assuaged some of the worries I had in the September meeting. Revisions to the expenditure split in the first half of 2017 show a much higher contribution of private final demand to GDP growth. This is more in line with the Bank narrative: consumption growth fell steadily following the referendum, while investment and net trade made larger contributions to growth. Overall, GDP growth in Q3 was marginally better than expected and Q4 is forecast to deliver a growth rate of roughly the same magnitude.

The consumption outlook will remain subdued, mostly due to the squeeze in real incomes. House prices have picked up outside London, but with house price-to-income ratios nearly back to their high historical levels, I don't think there is much further stimulus the collateral channel of housing markets could safely provide to support faster consumption growth.

Investment is projected to grow at a modest rate – remarkably low when compared to global rates today. The main drag, again, can be largely attributed to the paralyzing uncertainty surrounding Brexit.

The labour market also looks marginally better than forecast in the August *Report*.

Labour market quantities have shown continued strength: the unemployment rate has fallen to 4.3%. Staff now expect the unemployment rate to fall further to 4.2% in Q4. On pay growth, the data since August have been more mixed, but broadly supportive of the decision to lower our forecast. Measures of regular pay growth have been roughly in line with the August *IR* forecast. The decile decomposition of hourly wage growth over the recent past from the ASHE data painted a stronger picture, though it was hard to reconcile with the subdued median weekly growth rate from the same survey. The REC survey of new recruits has signalled stronger growth, but surveys of all employees' wage growth are less positive. Many of the Agents' contacts have been reporting increasing pay pressures, particularly at the bottom end of the wage distribution (closer to the National Living Wage). In contrast, respondents to the Bank Decision Maker Panel of CFOs do not expect any material pickup in wage growth.

Taking the labour market data together with the other news since August, the output gap now looks nearly closed.

September's Blue Book revisions have increased the contrast between the strength in labour-market quantities and the weakness in GDP growth. If interpreted as a signal of structurally lower TFP growth, that would be a sign of an increase in domestic costs and inflation.

However, the timing of recent productivity weakness could equally fit with other interpretations. It could be temporary labour hoarding by some firms if they are postponing firing or restructuring decisions in the face of heightened uncertainty. In that case, productivity should rebound. Or it could relate to workers increasing their labour supply in response to uncertainty and to falls in the current and future real incomes, which would help explain weak wage growth. Either hypothesis would suggest lower domestic inflationary pressures.

Coming to inflation, the CPI index rose to 3% in September, 0.2pp above our August *IR* expectation. The effects of sterling's past depreciation can explain current above-target inflation, while the latest news is partly due to higher oil prices.

The impact of those external factors fade over our forecast, meaning underlying inflation depends increasingly on domestic factors. Inflation is expected to rise to 3.2% in October, partly due to the large rise in the oil price since the August *IR*. But staff expect inflation to fall back to 2.7% by December, with little persistent effect from higher oil prices.

As regards domestically generated inflation, although wage growth remains subdued, there has been an upward revision in estimates of non-wage labour costs, driven by pension contributions. On the other hand, these revisions relate to unit labour costs over the past; unit labour cost growth is forecast to slow in the coming quarters.

But this alone won't be enough to meet the remit.

To ensure that inflation returns back to target within the policy horizon, we would need to remove some of the monetary policy stimulus. The question is the timing. Or the timing is the question. There are some good arguments to increase the rate by 25 basis points now. In the very short term, output appears very close to estimates of potential. Credit availability and borrowing costs do not seem to be the main constraint to aggregate demand; and asset prices, including houses, are near record highs relative to earnings. A modest dose of stimulus removal now should not have a material effect on cash flows, or on overall consumption or investment via a wealth or collateral channel.

Given the guidance we have provided, and given that most indicators are marginally above that conditional path laid out in September, credibility considerations also militate in favour of a rate rise now.

Furthermore, an increase now would be relatively easy to communicate. With inflation above target, a letter likely to be written, strong employment, and output in line with its diminished potential, a removal of the stimulus seems justifiable.

The argument for delaying a hike is that some of the Brexit-related risks might crystallise in the coming months, removing some of the uncertainty drag. However, overall, I don't think the gain from waiting justifies the loss of credibility.

In communicating the decision, I would highlight the need to return inflation to target and the erosion of spare capacity in light of a diminished potential. I would emphasise that this is a small removal of stimulus and, contingent on data, monetary policy will remain supportive of demand, with any future changes in rates being gradual and limited. Given the uncertainty ahead, I would stay away from providing further guidance. To close, I intend to vote for a 25 basis point increase in the Bank Rate and no changes in our programme of QE.

Governor Carney. Ok. Thank you very much Silvana. So Jon and then Michael please.

Jon Cunliffe. Thank you very much.
In the MPC's last minutes, we said that for the majority of members, if the economy continued to follow a path that was, in essence, consistent with the August *Inflation Report* forecast, rates would need to rise in the coming months. I was not in that majority. I wanted to wait for our November forecast before I made a decision. So I will consider first what we have learnt since our August forecast and how that compares to our outlook now, and second what that means for my view of the appropriate path for policy at this point.

Data outturns for growth, inflation and the labour market since August have been broadly in line with our forecast. They have done little to move our collective outlook as embodied in the November forecast.

On growth, Q3 GDP came in a little stronger than we forecast in August – at 0.4%. The rest of the world – particularly the euro area – has had upside news in the data, and this has led us to revise up our outlook. Our Q4 outlook for UK GDP growth remains at 0.4%. There appears to be some downside risk that with a weak read in retail sales in October from the CBI's Distributive Trades survey and survey measures suggesting that expectations for the outlook are weaker than current output. But I think I need to look at that again in the light of the latest data, which Andy just mentioned. As in August, our forecast for quarterly GDP growth beyond this year is pretty monotonic at 0.4%.

In the labour market, wage growth has been marginally stronger than the August forecast, with whole economy regular pay growing at 2.1% in August, while unemployment has fallen further – now at 4.3%. Again, our forecast remains very similar to our August position; unemployment is now a little below our U* judgment throughout the forecast horizon while pay picks up sustainably to around the same 3.5% level in the medium term that we judged in August.

On inflation, we reached 3% in September – 0.2 percentage points higher than we forecast in August – and the forecast now is a little spikier; we expect inflation to rise above 3% in October but fall back towards target faster.

So overall, my assessment is that the data have come in pretty much in line with our expectation and our forecast remains essentially the same. We are still operating, in my view, in the exceptional circumstances area of the remit. So the questions for me are whether I have reached the limit of my tolerance for above target inflation, and what should inform my assessment of that tolerance?

Our inflation target applies 'at all times'. The rise in inflation since the Referendum has been entirely externally generated. We expect the impact of imported inflation to dissipate of its own accord. It is the evolution of domestically generated inflation that is important to me, subject to two caveats. First, that it does not lead to second round effects, and second, related to the first, that it does not lead to de-anchoring of inflation expectations. I see no evidence of either.

Our indicators of DGI – adjusted for sterling's depreciation – are all below their target-consistent rates. The consumer price indicators are only a little below those rates, but the aggregate price measures are well below. The most important DGI indicator, although the most volatile, given its significant role in inflation dynamics, are the wage indicators: unit labour and wage costs. These are clearly below target consistent values.

The issue for me therefore remains as it was in August. We have a forecast for inflation and activity, in particular consumption, that inevitably relies on our pay growth forecast. And having been serially disappointed by outturns, and having never, post-crisis, achieved the wage growth rates in the latter part of our forecasts, I want to see firm evidence of our current wage forecast coming to pass.

That evidence needs to be sustained; wage data are volatile and can mislead. For example, between 2014 and 2016, the three-month-on-three-month measure gave three, false positives – readings well above 3% growth that did not translate into sustained growth. And as Ben highlighted on Thursday, the annual data don't always give a clean read. We will need to be cautious in interpreting the outcomes that we will see in coming months given how they will be affected by base effects.

Composition effects appear to have had a fairly sizeable impact on the data. Perhaps an unwind of that will be part of what delivers our forecast wage profile, but we have been disappointed about that in the past and composition effects by themselves do not tell me that there is inflation pressure in the labour market.

Similarly, there are certainly indications of tightness in the labour market but I am cautious about relying too heavily on them. Job to job flows within a quarter are at 2.5%, which is what they averaged over 2005-2007 before falling down below 2% in 2009. This rose back to 2.5% by early 2016, but we have been around that level since without generating pressure. And although it had been slowly rising, the aggregate separation rate has dropped back somewhat in each of the last three quarters. So the data – and the mood I pick up on visits – doesn't suggest to me the return of confidence of employees in the labour market about their pricing power.

We have had a swathe of surveys all pointing to recruitment difficulties which again ought to point to pay pressure – either now, or imminently – but again, we have been there before in my time on the MPC. Indeed, the REC survey has indicated below-average staff availability since 2013 – and significantly so since mid-2014.

Our forecast depends crucially on an acceleration of pay growth to ensure that inflation is close to target when the effects of the exchange rate dissipate. Given our experience with understanding –

or not – the post-crisis dynamics of the UK labour market, I think there are risks in anticipating that acceleration too early.

This caution reflects for me a broader point. The trade-off framework that we regularly review doesn't take risk into account: it operates under certainty. It is a helpful starting point to think about policy. But as a policy-maker it is somewhat artificial for me – I don't operate under certainty.

There will always be data uncertainty of course, but I mean here the more fundamental uncertainty about whether the relationship between apparent labour market slack and wage growth has changed. We are in my view seeing some evidence that the Phillips curve may have shifted, may have tilted or both: that there may be a greater supply of labour than we had estimated or that the point at which that pressure becomes apparent is lower than before. Or that the curve itself is flatter than in the past.

All of those risks point in the same direction in the trade-off framework – that even without changing their preferences, the policymaker can tolerate more overshoot than before. I do not see the risks operating in the other direction here, suggesting that we need to act more aggressively.

Finally, Brexit. The prospect of Brexit is in the economy now. Though we may not be able to disentangle it, the range of expectations both positive and negative around Brexit are affecting consumption and investment. And by extension, the current range of expectations are inside our forecast, alongside the Brexit conditioning assumptions we have made.

This current range of expectations cannot of course come to pass. Over the forecast period, one type of Brexit and one path to it will emerge. We can neither anticipate with confidence what will emerge or how the paths of supply, demand and the exchange rate will adjust to it. The risks to inflation are therefore two sided. Though it is unsatisfactory, in my view the only way to deal with this uncertainty is to base our forecast and our policy as far as possible on what is in the economy now, and be ready to adjust policy rapidly in either direction as Brexit emerges.
As such, I vote provisionally for no change in Bank Rate and no change in the stock of purchased assets.

Governor Carney. Great. Thank you Jon. So Michael and then Dave please.

Michael Saunders. Thank you Governor. I am inclined to vote for a 25 basis point rate hike, and no change in the stock of asset purchases.

In the exceptional circumstances since the Brexit vote, our remit requires us to consider the appropriate trade-off between the speed with which we seek to return inflation to target and the prospects for spare capacity in the economy.

The trade-off that we face is beyond my limits of tolerance, with the prospect of an extended period of above-target inflation coupled with little or no output gap.

Inflation is well above target and likely to stay above target for some time. There are further signs, for example in output prices and surveys of firms' pricing, that we are near the peak in terms of the currency driven boost to CPI inflation. Hence, even though our near-term inflation forecast has again gone up, I do expect inflation will turn a little lower from late this year. Even so, past rises in import costs are likely to keep CPI inflation above target over the whole forecast period, even if domestic cost pressures do not pick up.

At the same time, spare capacity in the economy has fallen significantly over recent years and the output gap now is probably small – if not already closed. For example, the jobless rate has fallen faster than we and others have expected, to the lowest since 1975 – and below our estimate of equilibrium. Measures of under employment, including involuntary part-time workers and people that would like to work but are not counted in the workforce, also have fallen markedly in recent quarters. Surveys suggest that recruitment difficulties have risen and they're now high by historic norms. There is not really clear evidence of significant spare capacity in firms.
Consistent with this, domestic cost pressures have gradually picked up. In contrast to the subdued trends from 2009-15, CPI-based measures of DGI are now within the margins of error around the

target-consistent pace. Unit labour cost growth also has been around target-consistent pace over the last year or two, although this is a volatile series and I would not want to put too much emphasis on its behaviour from quarter to quarter.

To be sure, average earnings growth ex-bonuses has been fairly stable at just above 2% year to year in the last few quarters. But this seems to reflect a slight underlying pickup offset by unusually large downward composition effects. Such composition effects have tended to prove fairly temporary in the past and in any case do not imply significant downward pressure on unit labour costs. So to me, the recent pay data do not argue for a major reduction in our 4½% U* estimate, although I could easily accept that it is 4¼% or so. Either way, with the jobless rate at 4.3% now and likely to edge lower in coming months, this would imply limited slack.

Business surveys suggest that the economy will continue to grow steadily at 1½ to 2% year to year near term, similar to the recent trend. Such a pace of growth is somewhat below its historic norm. But the official GDP data do often get revised up a little over time. And the modest pace of GDP growth must be set against the relatively low pace of potential growth, which according to the average of the estimates of the OECD and IMF, has run at about 1½% per year in recent years. In practice, potential growth may now be even lower than this, with Brexit already hitting workforce growth via reduced inward migration. Over the last five years, all of the growth in the UK workforce has reflected inward migration. With inward migration from the EU slowing, workforce growth is down from 1.4% year to year a year ago, to just 0.3% now, the lowest for over five years. So far there has been no offsetting boost to potential growth from higher productivity growth.

Overall, surveys of firms' hiring intentions suggest that labour demand continues to run well ahead of labour supply. As a result, I suspect the labour market will tighten further, with the jobless rate falling a little below our forecast over the next few quarters, alongside further declines in under-employment.

As we heard from the agents, and consistent with other business surveys, the tightening labour market is likely to push up pay growth a bit in the year ahead. To me, risks around our 2018 forecast of roughly 3% average earnings growth are two sided, pay growth could well – for once – surprise on the upside if composition effects unwind and underlying pay growth picks up further.

There remain many risks and uncertainties, especially over the Brexit process. But, some downside risks to growth and inflation have receded a bit in my view. In particular, the revised ONS data show a clearer pickup in exports and investment as offsets to the consumer slowdown in recent quarters, whereas the prior version of the data suggested the economy was rotating from consumer spending to an unsustainable reliance on government spending. And global growth appears solid. At the same time, the likelihood that pay growth will pick up in coming quarters has risen, in my view, given the further tightening in the labour market and increased signs of recruitment difficulties.

So, to me, the prospect is for a further period of above target inflation coupled with a gradual further rise in domestic cost pressures as the output gap closes. A 25 basis point hike now would increase the prospect that tightening can be limited and gradual, with time to assess the effect of rising rates. Conversely, if we wait, risks would rise that we then face greater domestic cost and capacity pressures, so that the eventual tightening has to be rather less limited and gradual – hence producing a more abrupt and painful economic slowdown.

If we do hike rates at this meeting, our communication should in my view, aim to broadly validate current market expectations and not move the yield curve either way. I would prefer that we do provide some guidance over interest rate prospects, especially for households and businesses that probably do not follow the profile in market rates very closely. I would favour language that emphasises four points:

First, the stance of monetary policy remains supportive after this move, thereby continuing to help output and jobs. We are easing off the accelerator but not putting on the brakes.

Second, if the economy follows a path broadly similar with our central projection, then, consistent with current market expectations, monetary policy could need to be tightened further over time. That is not a promise but a conditional forecast.

Third, the Committee expects that any further monetary tightening is likely to be limited and gradual.

And fourth, policy is data dependent and will respond if needed to Brexit developments insofar as they affect the behaviour of households and businesses, and hence the outlook for the economy and inflation. If economic prospects change significantly, policy can respond either way as needed, consistent with our remit. Thank you.

Governor Carney. Good. Thank you Michael. So Dave and then Ian please.

Dave Ramsden. Thank you Governor. The MPC has used a consistent framework for setting monetary policy in the period since the referendum. There is a necessary real adjustment to the reality of Brexit that must take place, and monetary policy should be set on the basis of the Committee's assessment of how supply, demand and the exchange rate are evolving in response. Put another way, the MPC's strategy has consistently been to set policy on the basis of its assessment of the economy and the trade-offs Brexit has generated. This is an approach I fully sign up to, so today I'd like to set out my own assessment of how the economy has responded to Brexit so far and what this implies for my thinking on the current stance of monetary policy.

Let me start with a few comparisons to the alternative reality of how things might have turned out in the absence of Brexit. GDP growth in the year to 2017 Q2 was 0.8% weaker than the MPC's May 2016 forecast, within which investment growth was a full 5% lower. Despite the weakness in output, employment and hours have actually been stronger than expected, meaning productivity growth per hour has been 2% weaker. Nominal wage growth has been 1.5% weaker than in the pre-Brexit forecast, which, coupled with the effects of the depreciation on inflation, has seen real wage growth 2.6% weaker.

There are at least two potential explanations for the initial response of the economy to Brexit, and they are neither mutually exclusive nor exhaustive. The first is that since the referendum there has already been a material hit to the supply side of the economy, meaning that even though growth has been slower, spare capacity has continued to be eroded. The second is that since the referendum, workers have responded to the uncertainties about the outlook by showing even more flexibility than hitherto and, partly in response, firms have been more inclined to use labour input and less inclined to undertake major capital spending, leading to renewed labour hoarding.

Although I think supply growth has been eroded to some extent by the prospect of Brexit, I also attach some weight to the second explanation. Evidence in favour of workers showing further flexibility includes the weakness in real wage growth – which has been greater than would be justified by weakness in productivity alone – and the subdued level of flows from employment to unemployment or inactivity. And there is plenty of evidence to support capital expenditure having been held back by Brexit.

This means that, although I am very aware of the weakness of productivity growth, I am a little bit more optimistic about the current degree of spare capacity in the economy than the assessment embodied in our forecast. I find it plausible that there is at least as much spare capacity within firms as we've assumed. In addition to that, I suspect there is some room for average hours to grow rather than decline as is embodied in our forecast. Wage growth has failed to break decisively away from 2% in year-on-year growth terms, despite unemployment getting as low as 4.3%. This makes me think that either U* may be lower or the slope of the Phillips curve flatter than is currently assumed. But I recognise the myriad uncertainties and I will continue to review my assessment in the run-up to our supply stocktake.

My main concern on demand is about whether modest growth can be sustained if underpinned by firming investment growth. While our forecast is by no means strong in an absolute sense, even the modest recovery in investment growth it embodies is challenged by the latest Decision Maker Panel and by the findings of the Agents' survey on investment, which suggested that investment growth will slow beyond the next year. I also note, with some despair, that the Agents' survey suggests economic uncertainty is a greater drag on investment plans now than it was a year ago, which is probably a fair summary statistic of the progress which has been made in Brexit negotiations since the Referendum. To set against that consumption appears to be holding up and I am reassured on the likely transmission and impact of any interest rate rise on household cash flows and other balance sheets.

Turning to the nominal side, I remain cautious about the outlook for wage growth. Although earnings came in a little bit stronger than expected, year-on-year wage growth remains in the around 2% bracket that has characterised recent years. While some of that weakness is attributable to weakness in productivity, unit wage costs are still growing at a rate below those consistent with headline inflation at target even if unit labour costs have been temporarily boosted by non-wage costs, such as pensions. And while the three-month on three-month rate of wage growth has picked up, it is an inherently more volatile series and I would like to see this sustained before concluding that we have seen the turning point in domestic cost growth.

As for headline inflation, I am reassured that while having risen since the August *Inflation Report*, as the short-term forecast for inflation has rolled forward, it has taken on more of a pronounced 'peak' rather than plateau shape. The high of around 3.2% is set to be reached in October before falling back to around 2.5% next March, at least according to the current short-term forecast. And with a range of DGI measures remaining below levels consistent with headline inflation at target, this suggests to me that the current overshoot is not having material second round effects.

In terms of what all this means for policy, it has been a challenging first eight weeks for me as a monetary policy maker as opposed to the Treasury representative. I've learnt a lot both from the staff and from other MPC members. But significant uncertainties remain, and I expect to learn more as the economy evolves, in particular in two areas:

First, I will be monitoring the impact of, and uncertainties around, developments in the EU withdrawal negotiations. Were we to gain clarity about transitional arrangements, it could have material implications for the decisions of households and firms.

Second, the evolution of spare capacity, labour market dynamics, and wage growth. Should my judgement that there is more spare capacity or less wage resistance than currently assumed in the forecast prove incorrect, I would expect wage and domestic inflationary pressures to surprise me.

In terms of the immediate decision, my assessment of how the economy has evolved since the referendum leads me to put some weight on the idea we are witnessing a shift in the capital to labour ratio in response to Brexit as workers show flexibility in their real wage demands, and firms show reluctance to undertake capital spending. This makes me more optimistic on supply, and alert to the risks on demand. I am less confident about the outlook for stronger wage growth and somewhat reassured by the short-term profile for inflation.

If the economy follows a path broadly consistent with the November forecast, then I would envisage a tightening of monetary policy to a similar degree as is embodied in the yield curve over the forecast horizon. But my view is that there is insufficient evidence of a pick-up in underlying inflation pressure for me to reach the limits of my tolerance for higher inflation in these continued exceptional circumstances. Therefore I expect to vote for no withdrawal of monetary stimulus this month and specifically, I expect to vote for no change in Bank Rate on Wednesday.

Governor Carney. Good. Thank you Dave. Ian please.

Ian McCafferty. Given the Brexit uncertainties, and the febrility of the political climate, it is a testimony to the sangfroid of the British public that the economy has remained so stable over the course of 2017. This stability – not only of the numbers but also of our underlying narrative – has been reinforced by the Blue Book revisions, as well as Michael's observation that the recent modest slowdown in GDP growth can be attributed entirely to the oil sector; non-oil GDP has been running at a constant 1½% year-on-year for every quarter since the end of 2015.

The biggest change since February, I would argue, is that the downside risks we discussed then have diminished, at least for now. This is not to ignore Jon's concerns about Brexit and the possible impact on confidence and demand, but until things come to a head, the reaction of businesses and especially consumers remains relatively sanguine. This might be because, in times of high uncertainty, neither group is as forward looking as we might believe, so they may still adjust their behaviour abruptly once more is learnt, but it might also be that the complexities of Brexit make it hard for individuals to ascertain the impact on their personal wealth, income and job prospects, even while suspecting that the macro effect is likely to be negative, such that any adjustment comes through more slowly than our models would suggest.

But, so far, the key risks we identified earlier in the year have not been borne out.

- First, business and consumer confidence remain broadly stable. The GfK/EC composite measure is close to its long-term average, while indicators for personal situation and major purchases remain above average. Consumers seem to be "looking through" the uncertainty, and the saving ratio has not risen. As a result, while consumption growth has stepped down, as a result of the fall in real income growth, the risks of a more marked consumer retrenchment, starting in the car market, have diminished. Measures of business confidence are more varied, with the Deloitte survey improving but Lloyds ticking down, but Agents' reports suggest that although business investment is constrained by Brexit uncertainty, it is expected to continue to grow at a subdued pace.
- Second, unemployment continues to fall faster than our expectations. Combined with Ben's very helpful analysis of the continued existence of the Phillips curve, this leads me to believe that our forecast of a pickup in wage growth still looks realistic. Indeed, this might already be starting. While the annual rate of AWE growth remains depressed by the weakness of last winter, the current running rate, an annualised 3.7% for private sector basic pay, needs only to persist for our forecast to be realised. It is a volatile series, and the summer is a quiet time of the year for settlements, so the real proof will be in the data for Q1 2018, but already the Agents are reporting that firms are signalling that settlements will be higher next year than this.
  In practice, of course, the Phillips curve will operate more through the mechanism of job churn than simply the fall in unemployment towards U*, particularly as firms have become increasingly selective in where they offer higher pay. But, after a period of quiescence, the number of job-to-job moves has now returned to its pre-crisis average, once adjusted for shifts in self-employment, offering further reassurance of a pickup in wage growth over the forecast.
- And third, the diminution of these domestic risks has taken place at the same time as an improvement in our assessment of the international outlook. In the US, the impact of the shifts in Fed policy appears to have been small. In the euro zone, prospects are brightening considerably, and I am happy that this has now been incorporated into the forecast, particularly in light of last week's slightly dovish ECB announcement on the tapering of their bond purchase programme, and the flattening of the euro zone yield curves that resulted. Clearly, event risks such as difficulties in the Chinese financial system, or conflict in Korea remain, but I now believe that international risks are more balanced, and therefore support for UK growth somewhat firmer.

So overall, I am content with the new forecast, and the policy implications it contains.

In one sense, my policy decision this month is more straightforward than for some others, in that I have been voting for an increase in Bank Rate since June. For me, both the narrative and the numbers in the November forecast remain very similar to those in our previous forecasts. Inflation remains above target throughout, even as the horizon has rolled forward, and slack disappears. As such, it would be surprising if I were to change my policy stance at this stage.

But, relative to my earlier votes, I am further reassured, and my voting intention reinforced, by a couple of factors.

First, the movement in the yield curve, and the forward shift in the implied path for Bank Rate, mean I do not need to appeal to the upside risks to the forecast I have previously identified – on inflation and the effective level of slack – to justify an immediate modest tightening of policy. I should add, though, that I do not believe those upside risks have disappeared.

Second, the staff work on the current sensitivity of households to interest rate changes suggests that, as long as we get our comms right, the risk of a dramatic reaction to any rate rise is limited. Moreover, the success of our September guidance, and the resulting Markit household finance survey evidence that a majority of households now expect a rate rise in the near future, suggests that the element of surprise should be low.

But if the Committee is persuaded that a rate rise is appropriate this month, the message we send will be critical. I believe that we will need to send an explicit message not only to the markets, where my aim would be to move the market curve as little as possible from its current position, but also specifically to the wider public, to reassure both businesses and consumers.

In terms of the markets – if our forecast pans out – current market expectations feel about right to me, so we need to tread a middle path, avoiding the false dichotomy between one and done, and any notion that we are starting a process of normalisation through a series of rate moves.

For the wider public, largely unaware of our conditioning path for rates and its implications, the message needs to be simpler, along the following lines: the rise in Bank Rate will have only a modest impact on household finances; at 0.5%, monetary policy remains supportive of the economy; any future rate rises would be gradual and limited; and will, of course depend on the future performance of the economy, which we will continue to monitor closely.

So to sum up, I am minded to vote for a 25 basis point increase in Bank Rate, and no change in the level of asset purchases.

Governor Carney. Thank you very much Ian. So I'll start by taking a step back and stating a couple of obvious points for posterity. First is that the decision to leave the EU marks a regime change for the UK, fundamental change to the degree of openness and to the movements of goods, services, people and capital.

And at a time when you're having a series of economies experience and agents experience a series of fundamental changes, it's important that the Bank is a source of consistency, and that means that its policy committees act strictly to remit and within consistent frameworks. Now it is going to be an important four weeks in that regard. The FPC, as Jon and others know, at the start of next month is going to release its stress tests and that will be probably the most decisive thing that it does, its doing many things, but the most decisive thing it does to ensure that the core of the system is resilient for any potential Brexit eventuality, and so the decisions around that and the communication of those decisions will be extremely important.

Obviously for our purposes, we outlined well in advance of the referendum our framework for managing the trade-off under the exceptional circumstances of Brexit, and we've been applying it consistently since.

Last year we implemented a comprehensive package of easing measures to balance the trade-off between ensuring a sustainable return of inflation to target and supporting jobs and growth. That stimulus is working. Credit is widely available and financial conditions are highly supportive. Household confidence has held up relatively well despite the torrent of headlines and the squeeze on real incomes. The sangfroid of which Ian just spoke, and the marked strengthening in global growth and sterling's depreciation have provided significant support to net exports which has mercifully finally showed up in the official data, even though it seemed fairly obvious that it was happening, but it was kind of hard to argue until it showed up in the ONS. As a result of all of these factors, the economy has outperformed expectations and unemployment is at a 42 year low as you know.

At the same time, it's become increasingly evident that the pace at which the economy can grow without generating inflationary pressure has fallen relative to past norms, with Brexit effects now arguably reinforcing persistent weakness in productivity and a more limited availability of labour.

I was in the September majority that judged that, if the economy continued to follow a path consistent with a continued erosion of slack and a gradual rise in underlying inflationary pressures then, given the further lessening in the trade-off, some withdrawal of monetary stimulus would likely be appropriate.

Spare capacity is probably eroded a little more rapidly than we anticipated in August in my judgement, and the margin of slack now seems fairly limited. With wage growth at least in line with our expectations, if not a little firmer, with unit labour costs above our expectations and, at least on my read, more consistent with the 2% inflation target than others, and inflation projected to be above target throughout the forecast period, it seems appropriate to me to tighten policy at this meeting.

To be clear, even with a 25 basis point rise in Bank Rate, monetary policy would still provide considerable support to the economy, providing an offset to ongoing headwinds from fiscal policy and the uncertainties associated with Brexit. And I want to draw that out for a moment.

Rates on most mortgages would remain below their levels seen in summer of 2016, given the significant narrowing of the spreads between mortgage rates and Bank Rate since then, and due to strong competition and lower bank funding costs.

While the sheer novelty factor creates some uncertainty around the transmission of a Bank Rate increase, there are reasons to expect it to be no more than usual if not slightly less.

First, the proportion of mortgagors who've never experienced an increase in Bank Rate is around a fifth and almost half of those have had to pass an affordability test with a stressed interest rate of 7%, following the FPC's 2014 recommendations.

Secondly, the increased take up of fixed rate mortgages will slow the speed at which Bank Rate is passed through to mortgage rates.

Third, many of those who must re-mortgage will see falls in their mortgage rates: 35 basis points for those coming off a two-year fixed rate deal and an astonishing 200 basis points for those with an expiring five-year deal due to the flattening of the yield curve.

Household vulnerabilities are low, with the proportion with debt service ratios above 40% currently 1.4% compared to its immediate pre-crisis level of 2.7%. Mortgage rates would need to push up by more than 150 basis points to push the proportion of vulnerable households, at least as how we measure it not how the FCA measures it, to its longer run average of 2.0%.

In my view, the decision is pretty straightforward, with no slack in prospect, inflation likely to remain above target for the next three years, rather than the conventional 18-24 month policy horizon. And inflation will be significantly above target if we don't act. A reminder that on our constant rate forecast – which would be calculated, I believe, given the votes with a 50 basis point Bank Rate – inflation is 2½% at year three and excess demand is ½% so that's even with action at this meeting. With domestic financial conditions highly supportive and the global economy firing on most cylinders, it's appropriate to take our foot somewhat off the accelerator.

I would make a couple of final points. I think this is also a somewhat strategic decision.

Raising rates is entirely consistent with the framework we've adopted since before the referendum, and therefore provides important information about our reaction function and our commitment to the inflation target.

It may be serendipitous but it also is useful to have both loosened and tightened policy during the Brexit process. This demonstrates that our response to supply, demand and exchange rate shocks upon Brexit itself will not be automatic but rather consistent with the framework for balancing trade-offs under exceptional circumstances.

And finally acting makes more tangible the consequences of the negative shock to potential growth that this economy has experienced over several years.

I agree with others who suggest that we should aim to let our forecasts (including the constant rate one) do the talking about the future path of Bank Rate. And it would also be appropriate to remind people that we will adjust policy as needed, in either direction, to ensure we balance the speed at which inflation returns to target and the support monetary policy provides to jobs and growth.

And of course that meaningful resolution of uncertainty about the nature of, and transition to, the UK's future relationship would prompt a reassessment of the economic outlook, insofar as it affects the views of Agents, and potentially with that the stance of policy, although I would leave the latter part of that sentence out of official communications.

So, as I say, I am minded to vote for a 25 basis point increase in Bank Rate, but no change to the stock of asset purchases.

And so if I could summarise, by my addition, I have seven votes in favour of raising Bank Rate by 25 basis points, two – namely Dave and Jon – in favour of holding Bank Rate at 25 basis points, and nine votes to nil in favour of keeping the stock of asset purchases at their current levels. Ok. So if that's, we have no other official business, we will close this part of the meeting and then turn our attentions to finalising the forecast pack.

A meeting of the Monetary Policy Committee was held on Wednesday 1 November 2017. The following members of the Committee were present:

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

Clare Lombardelli was present as the Treasury representative

The following members of staff were present:

James Bell, 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 1 November 2017

Governor. Ok. Good afternoon everyone. Welcome to the meeting, I propose that we start. Dave Ramsden will give an update on recent market developments and then Andy just any recent macro data that's come in and then we'll turn to the decision. So Dave, please.

> **Dave Ramsden.** Thank you Governor. UK short rates remain close to where they ended up following the release of the GDP data last week. The market-implied probability of a rate rise today has remained around the 90% level and is currently 92%. The market profile continues to imply three rate rises priced in over the forecast horizon including any move today. And there is on balance a small net short position amongst speculative position takers. There was little initial reaction to the stronger than expected manufacturing PMI this morning. But subsequently rates have moved a few basis points higher.
>
> International rate markets in recent days have been driven by first a dovish interpretation of the ECB's tapering decision. Second mixed news flow around US tax reform, and third speculation around President Trump's nomination for Chair of the Fed. They have combined to see ten year core euro area yields 11 basis points lower and ten year US Treasury yields 4 basis points lower.
>
> Sterling has drifted higher with the sterling ERI up 1% since our Deliberation meeting last Friday. Some momentum from Thursday's GDP data was sustained by post-ECB euro weakness. Some participants also reportedly cutting short positions ahead of the MPC meeting. Headlines that EU Brexit negotiator Barnier is seeking to quote speed up Brexit negotiations have also provided some support. On the whole though, volumes in sterling remain low. The sterling ERI is 1.6% higher relative to the November *IR* 15 day average.
>
> And finally I note that oil prices have risen by 5.4% since the Deliberation meeting on the back of reports that the Saudi Arabian Crown Prince will back an extension of OPEC production cuts. The sterling price of oil is up 5.7% relative to the November *IR* 15-day average.

Governor Carney. Ok great. Thank you Dave. Andy.

> **Andrew Haldane.** Just briefly, internationally we had euro-area GDP for the third quarter that came in at 0.6 that is just a touch lower, 0.1 lower, than our own guess just ahead of time and also a touch lower than in Q2, although that number remains of course subject to some revision we think.
>
> And then domestically last time we had the composite PMIs, Dave mentioned that the manufacturing component of that was up a bit. Also domestically we had the GfK consumer confidence data for October. That nudged up a touch; that rise was pretty broadly based across the categories, although overall that index remains pretty close to its historical average.
>
> And we have had some advanced sight of the RICS housing market survey for October. This comes with larger than normal caveats, being based on only half the sample we think. Nonetheless bearing that caveat in mind, it does show us a somewhat weaker picture on both the demand and the prices side. One more thing to bear in mind, that is not released in its fullness until next Thursday, so not for mentioning ahead of our decision.

Governor Carney. Its fullness ok. We will partially mention it then. Very good. Thanks, any questions on any of that? Good.

Ok so I'll make three propositions, the first is that Bank Rate be increased by 25 basis points to 0.5%. Second that the Bank of England maintain the stock of sterling non-financial investment-grade corporate bonds, financed by the issuance of central bank reserves at £10 billion. And thirdly that the Bank of England maintain the stock of UK government bond purchases financed by the issuance of central bank reserves at £435 billion. And I'll go in the same order as our indicative discussion, starting with Ben.

Ben Broadbent. Thank you Governor. I confirm my vote in favour of all three propositions.

Governor Carney. Andy.

Andrew Haldane. I vote for all three propositions.

Governor Carney. Jan.

Gertjan Vlieghe. I vote for all three propositions.

Governor Carney. Silvana.

Silvana Tenreyro. I also vote for all three propositions.

Governor Carney. Jon

Jon Cunliffe. I vote for proposition three and I vote for proposition two. On proposition one, I vote for no change in Bank Rate.

Governor Carney. Thank you. Michael Saunders.

Michael Saunders. I support all three propositions.

Governor Carney. Thank you. Dave Ramsden.

Dave Ramsden. I vote against the first proposition that Bank Rate is increased to 0.5%. I vote in favour of the second and third propositions on asset purchases.

Governor Carney. Thank you. Ian

Ian McCafferty. I vote in favour of all three propositions.

Governor Carney. Great. Thank you. And I also vote in favour of all three propositions.

So, by my count that makes seven votes in favour of raising Bank Rate by 25 basis points to 0.5% and two votes in favour of maintaining it at 0.25%, namely Dave and Jon. And nine votes to nil for both the second and third asset purchase propositions. Correct? Ok very good.

So those are the results we have confirmed that and we can turn off the tapes and go downstairs.