



BANK OF ENGLAND

News release

Press Office

Threadneedle Street

London EC2R 8AH

T 020 7601 4411

F 020 7601 5460

press@bankofengland.co.uk

www.bankofengland.co.uk

1 July 2004

Keeping the Party under Control – Anniversary Comments on Monetary Policy - Speech by Rachel Lomax to the British Hospitality Association

Speaking to the British Hospitality Annual Luncheon in London, Rachel Lomax said "the UK emerged from the slowdown in the world economy with less slack than other economies. That is the key reason why we were the first to start raising interest rates". She argues that monetary policy makers should be "taking action at the first sign of trouble, and preferably before...if we delay taking action until inflation has taken off, it will be more difficult to bring it down again without causing the economy to slow sharply."

On the housing market, she says that "It is not the MPC's job to control house prices ...but just as we would not ignore the wider economic effects of a high exchange rate ...so we cannot ...ignore the influence of soaring house prices on consumer spending and hence on the overall pressure of demand."

Noting that in the past few years "spending and house prices do not seem to have moved together as closely as they have done in the past", she asks "Does that mean that consumers would shrug off a downturn in the housing market?" "Not necessarily", she argues. "...households have taken on a lot of debt, and higher interest rates will mean they have less money to spend on other things. While there are few signs of financial stress at current interest rates, given the strength of the current jobs market and the current housing market, this could change if several of these factors weakened at the same time".

She says that "uncertainty about how consumers might react to higher interest rates has been an important reason for tightening policy gradually. We have also avoided springing surprises. I think that's important... But we wouldn't be doing our job if we didn't constantly revise our views in the light of fresh information".

Rachel Lomax ends by saying that "Compared with a year ago... the international outlook is clearly stronger... the domestic economy is buoyant and inflation remains low. That's how we like it: and the lesson you should draw from our readiness to tighten policy over the past seven months is that we are on the case."

Key Resources

Keeping the Party under Control – Anniversary Comments on Monetary Policy

British Hospitality Association Annual Luncheon

<http://www.bankofengland.co.uk/archive/Documents/historicpubs/speeches/2004/speech223.pdf>