



BANK OF ENGLAND

News release

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News Release - Bank of England Quarterly Bulletin - Q2 2008

The Q2 2008 edition of the Bank of England *Quarterly Bulletin* is published today. It contains the following articles and reports:

- *Foreword* by Charles Bean, Chief Economist and Executive Director - Monetary Analysis and Statistics.
- *Markets and operations*. This regular quarterly commentary discusses recent developments in global capital markets and reviews the Bank's official operations over the period.
- *Public attitudes to inflation and interest rates*. Recent Bank/GfK NOP surveys of public attitudes to inflation indicate that households' perceptions of inflation over the past year, and their expectations for inflation over the next year, have both risen markedly. The rise in inflation expectations could be consistent with recent macroeconomic data and the resulting upward revisions to near-term inflation projections. But increases in households' perceptions of current inflation also appear to have played a role, particularly the rises in the prices of energy, petrol and food. The Monetary Policy Committee (MPC) has noted the risk that the present and prospective period of above-target inflation might lead to higher medium-term inflation expectations and inflationary pressure in the future.
- *Recent advances in extracting policy-relevant information from market interest rates*. Market interest rates contain information about market expectations of future policy rates as well as attitudes to, and perceptions of, risk. This article describes recent advances in the extraction of such information from the term structure of forward interest rates and how they can be used to shed light on the downward trend in long-term real forward interest rates and the upward trend in long-term inflation forward rates that have particularly attracted the attention of policy makers. The model results are broadly consistent with market intelligence, which suggests that to date long-term inflation expectations remain anchored.

- *How do mark-ups vary with demand?* In forming its view of the prospects for inflation, the MPC must judge the degree to which businesses are likely to pass on recent sharp cost increases into consumer prices. This article finds that past experience suggests that demand conditions impact on the extent to which businesses are able to pass on such cost increases, consistent with the MPC's assumption in the May *Inflation Report* that profit margins will contract as the amount of spare capacity increases.
- *On the sources of macroeconomic stability.* To foster an understanding of the sources of macroeconomic stability over the past 15 years - which can help policy makers and others assess the ability of economies to withstand recent and future shocks - the Bank hosted a conference on the topic in September 2007. This article summarises some of the explanations discussed. There is broad agreement that improvements in monetary policy making made some contribution by anchoring inflation expectations but that cannot be taken for granted. It depends on the continuing vigilance of central banks.
- *A review of the work of the London Foreign Exchange Joint Standing Committee in 2007.*

Note to Editors

The *Quarterly Bulletin* is available on

<http://www.bankofengland.co.uk/publications/Pages/quarterlybulletin/default.aspx>

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